



16

**Consolidated
Management Report**

Sustaining ambitions

The excellent results achieved, in particular with regard to customer growth, allow us to face the future with justified optimism despite the still challenging competitive environment.

Miguel Almeida
CEO



Message from the Chief Executive Officer

The year under review represents yet another step towards the implementation of the growth strategy we presented in 2014 and in which market-share growth and the strengthening of our competitive position in the Portuguese communications market were established as the main priorities.

By the end of 2016, we had already achieved our 2018 market share of revenues target of 30%, two years ahead of schedule. Total RGUs grew by 7.2% to more than 9 million by the end of 2016 and, when compared to the end of 2013, total RGUs grew by 25,6%, representing a gain in market share of more than 5pp.

Our leadership position in pay TV was also reinforced during 2016, with total number of subscribers exceeding 1.6 million. Convergence is still the main growth driver with the number of customers subscribing to fixed and mobile integrated offers already representing close to 43% of our Pay TV customers. We continue to register substantial growth in our mobile customer base, with an increase of 333 thousand SIM cards during the year, and by the end of 2016, total mobile subscribers were 4.45 million, representing a gain in market share of 9 pp when compared with 2013.

NOS has become a real alternative in the Business segment as a reference provider of integrated services. With our high standards and performance we have been able to attract some of the most important business accounts in Portugal, having grown total services provided by more than 10%.



This was again a year of extraordinarily good results for the cinema and audiovisual division, the best since 2010 in terms of viewers and revenue, driven by the success of movies shown and distributed, as well as the generally more positive environment in Portugal.

NOS's strong growth has been underpinned by significant investment, both in the development of technological assets, with the expansion and development of our telecom network and business-support systems, and in success based customer acquisition costs. By the end of 2016 we had reached our original network expansion goals, with nearly 3.8 million homes passed by our HFC/FttH network. The NOS integration plan is also now nearing completion, with major systems and logistical platform milestones achieved during the past year.

Our financial results mirror this operational and commercial success. Consolidated Revenues grew by 4.9% yoy, well ahead of our direct competitors and the market as a whole. Operating profit as measured by EBITDA, also showed a significant increase in 2016, up 4.4%, in step with revenue growth and despite the negative impact, as from the second half of 2016, of higher sports related content costs. Net income grew by 9.3%, despite the negative contribution during the year from associated companies.

The excellent results achieved, in particular with regard to customer growth, allow us to face the future with justified optimism despite the still challenging competitive environment. We now have an organisation that is better equipped to address the challenges of the future and I am confident we have the best team and assets to succeed in our ambition of being the best entertainment and telecommunications company in Portugal, continuing to increase the value generated for our customers, employees, shareholders and other stakeholders.

Miguel Almeida

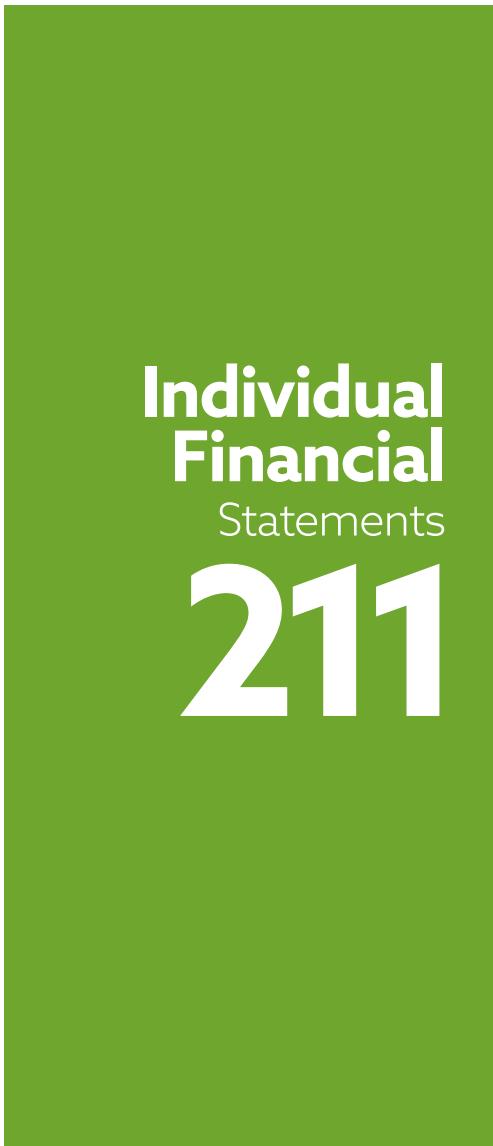


Management Report

09

Consolidated Financial Statements

110



Individual Financial Statements

211



Corporate Governance

Report

285



Management Report

Table of Contents

Management Report

1 Corporate Structure and Management Team 12

1.1 Corporate structure 13
1.2 NOS' Executive Committee 14

2 Strategic performance 16

3 Consolidating market share in the residential segment 19

4 Innovation and growth in the business segment 33

5 Strengthening the support base to strategic ambitions 38

5.1 Network expansion and technological strengthening underpinning growth ambitions and service delivery 39
5.2 Excellence of systems and processes driving the development and integration of operations 50
5.3 Implementing a single brand strategy throughout the chain ensuring better experience for customers 52
5.4 An efficient logistics platform to deliver an agile experience to customers 57
5.5 Excellence in customer service 58

6 Another extraordinary year in Audiovisuals and Cinemas 62

7 A sustainability culture 69

8 Sector Regulation 78

9 Analysis of the NOS operational and financial results in 2016 84

9.1 Macroeconomic and sector framework in 2016 85
9.2 NOS operational and financial results in 2016 88

10 More about NOS 102

10.1 Group companies 103
10.2 Highlights of 2016 107
10.3 Glossary of terms 109

Corporate Structure and Management Team

1

1.1

Corporate structure



NOS
Comunicações,
S.A.



NOS
Lusomundo
Audiovisuais, S.A.



NOS
Lusomundo
Cinemas, S.A.



NOS
LusomundoTV,
S.A.



NOS PUB
Publicidade e
Conteúdos, S.A.



NOS
Technology, S.A.



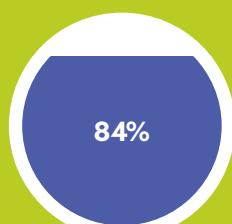
NOS
Towering, S.A.



NOS
Sistemas



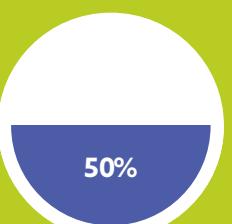
NOS
Inovação



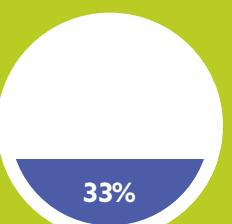
NOS
Açores
Comunicações, S.A.



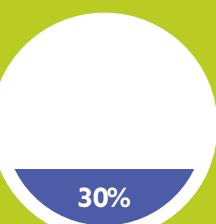
NOS
Madeira
Comunicações, S.A.



DREAMIA
S.A.



SPORT TV
S.A.



ZAP

1.2

NOS'Executive Committee



Miguel Almeida
NOS' 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

CEO of Optimus Comunicações, S.A.; Executive Director of Sonaecom SGPS, S.A.; Executive Board Member of Optimus Comunicações S.A. with responsibility for Marketing, Sales and Operations; 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 Director – 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 and Operations; President of APRITEL (Association of the Operators of Electronic Communications); Head of Marketing and Sales of the Personal Mobile Business Unit of Optimus; Head of Marketing and Communication of Optimus; Head of the Data Business Unit of Optimus; 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 Portugal Telecom; Head of Strategy and Business Development at Portugal Telecom and Head of Project at Portugal Telecom SGPS; Associate of The Boston Consulting Group.



Jorge Graça
Executive Board Member

Qualifications

BA cum laude in management by the Portuguese Catholic University and an MBA by the Kellogg Graduate School of Management, Beta Gamma Sigma Award.

Professional Experience

Board Member of NOS Comunicações, S.A. responsible for all residential segment areas, Pricing, CRM, Churn, Product Development and content negotiations; Member of the Editorial Board of Dreamia; Board Member of ZON TV Cabo responsible for all product areas (TV, Broadband, Fixed Voice and Mobile), Pricing, Marketing and Communication, CRM, Churn, Product Development, and content negotiation and led the conception of the technological roadmap and TV client-side platform evolution; Head of Product TV responsible for all marketing and content negotiation variables; Strategic Convergence and Distribution at Portugal Telecom; Planning and Control at Portugal Telecom; Project Leader at 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.

Professional Experience

Executive Board Member of Optimus – Comunicações, SA with responsibility over the Business and Operators areas; 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.

Strategic Performance

2

NOS presented its strategic plan for 2014 to 2018 in February 2014, having set clear growth and efficiency targets, in particular the 5 percentage-point increase of market share in revenue, the increase of the EBITDA margin and the maintenance of a sound capital structure, driving the sole basis of company's assets, operational efficiency, and making use of the operational synergies inherent in the merger of the two companies, ZON and OPTIMUS.

The strategic guidelines underlying the achievement of these goals and governing the operational effort of NOS are:

- . To strengthen market position in the residential and personal segment, looking to accelerate the penetration of convergent services, strengthen leadership in the pay-TV segment and differentiate the value proposition in the personal mobile segment;
- . To grow market share in the business segment through an integrated approach to the small and medium enterprises segment and to strengthen the competitive position in the large corporate companies segment;
- . To create the basic conditions to enable the strategic objectives to be met, in particular:
 - To enlarge the telecommunications network and unify and integrate platforms and systems to ensure technological leadership and maximum efficiency and competitiveness;
 - To implement a transverse strategy of Brand, of Commercial Channels and of Customer Experience, consistent with the growth targets;
 - To develop a common culture of success and ambition, in line with the proposed growth and leadership objectives.

- . To consolidate the leading position in the Audiovisual and Cinemas segment, making full use of the entertainment and brand-awareness synergies to leverage the NOS brand in the core telecommunications business;
- . To improve efficiency and consolidate the soundness of the balance sheet.

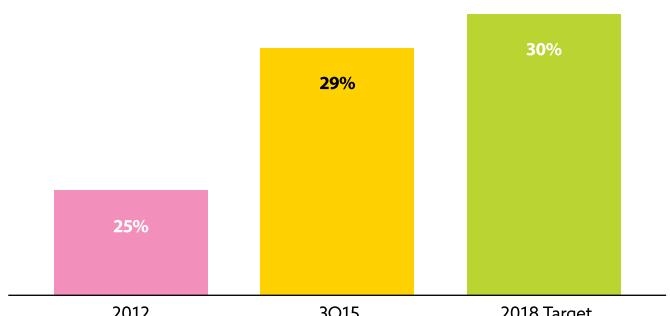
NOS conducts its telecommunications business in the Portuguese market, which is characterised by a high level of penetration of telecommunications services and by its technological sophistication, along with a very high level of investment in communications networks when compared with other international markets.

Regardless of the state of technological development and the degree of adoption of services, total market revenues have seen an average annual decrease of 5.3% over the last five years, mainly the result of the great competitiveness of the operators.

Given this market environment, NOS has been carrying out its market-share growth strategy more successfully than expected

Since the merger, NOS' revenue market share grew to around 29% in 3Q15, compared with the target originally set of 30% at the end of 2018. In the same period, it had an average growth of 1.4% whereas the market as a whole fell by about 4% per year, NOS having been the only operator to grow its revenues.

Revenue Market Share %



NOS achieved a growth of its RGU (Revenue Generating Units) base of 25.6% since the end of 2013, having grown 7.2% throughout 2016, standing above 9 million RGUs. This performance by NOS is linked to the success in implementing its strategic guidelines across all business segments. NOS achieved a fixed customer base penetration level with converged services of 45.8%, an increase of 42 percentage points over the past 3 years.

The company has been consolidating its leadership position in the Pay TV residential segment, having increased its customer base to 1.6 million at the end of 2016, supported by the best and widest next generation communications network in the country and in the best TV services in the market. Also in the mobile segment, NOS has been gaining market share, increasing its total mobile customer base to 4.123 million subscribers, representing a market share of 26.4% in 3Q16, an increase of 7.2pp than at the end of 2013.

In the business segment, NOS has made its mark as a truly integrated alternative, competitive and with high service standards for the very large companies and for the small and medium enterprises market, attracting some of the major Portuguese accounts and substantially growing the volume of services provided to this market sub-segment.

This report will deal in more detail with the various NOS operations throughout 2016 and with the work done in crucial support areas.

Consolidating market
share in the residential
segment

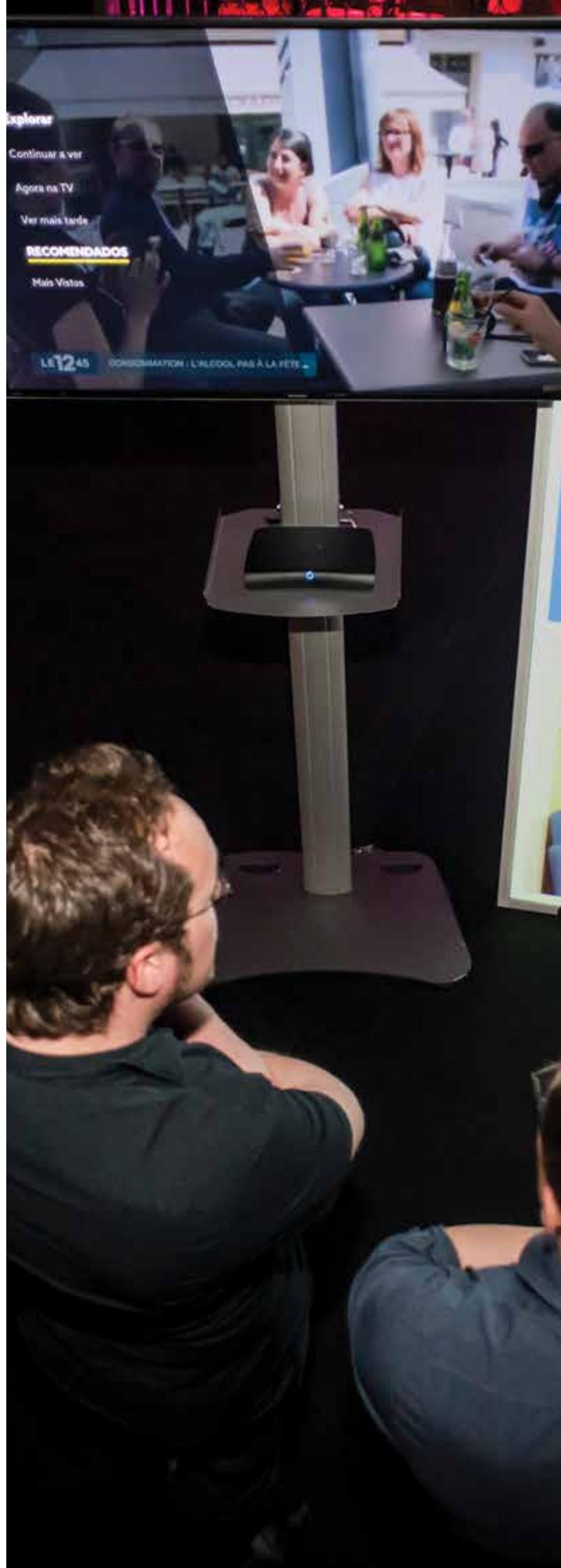
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It was a year of significant growth in TV, Internet and fixed phone, with positive net adds in all services supported by the growth of fixed network coverage, despite increased competitive pressure resulting from the enlargement of the network of the major competitors. Leadership continued in subscription-television product innovation with the launch of UMA TV, the new generation of television of NOS, and also through the launch of many new features such as the NOS TV to watch television away from home, NOS Share, enhancement of the N Play and the launch of relevant 4K contents during the EURO 2016.

During 2016, the competitive context continued to exert intense pressure as a result of the growth of the network of the major competitors and of a challenging price environment. Still, over the course of 2016, NOS managed to grow by 57,000 the number of pay-TV customers, as a result of the growth opportunities provided by the network expansion strategy, the improved customer-retention processes and the delivery of a product increasingly relevant to the customer.

The enlargement of the coverage of the NOS fixed network continues to be one of the strategic priorities. NOS extended its fibre-optic network to another 124 thousand homes throughout the country, with a major impact on attracting new customers, in that they are areas of the country with large appetite for next generation TV, NET and VOICE subscription services.

The penetration rate of advanced television services in the Pay TV customer base peaked once more, with 983 thousand IRIS customers at the end of the year, that is, 78% of NOS cable TV customers have access to advanced television services such as automatic recordings, recordings in the cloud, possibility to restart programmes, VideoClub or television away from home. These services, in which NOS was the pioneer, are already part





Launch of UMA TV June/16

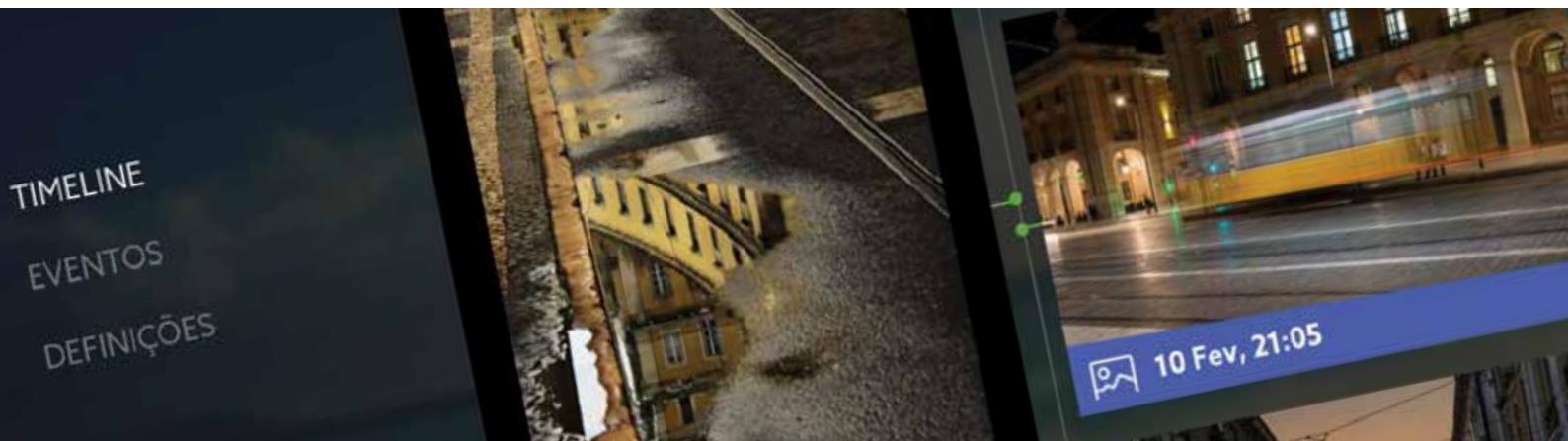
of the everyday life of Portuguese television consumers and constitute a relevant added value for NOS TV customers. At Internet and Fixed Phone level, 2016 was another year of increased penetration by these services in the customer base, raising the TV and VOICE penetrations of the TV customer base to 75% and 86%, respectively.

Convergent offers at the centre of the growth strategy

The year under review was marked by sustained growth in the convergent segment, the result of the strategic focus on the category through growing democratisation in access to mobile data and of the ongoing commitment to true convergence of services. The 4P packages are the type of telecommunications package most encountered in Portuguese homes: 34.6%, according to the Telecommunications Barometer for October 2016. Additionally, and in conjunction with other convergent types, particularly 5P, the segment now accounts for more than half of the packages market, while one in every two homes subscribes convergent services. The number of convergent customers at the end of 2016 stood at 680 thousand, involving 1,376 thousand phone cards.

Following the success achieved in this category, NOS became the only operator to gain market share in Mobile Voice in 2016, up by 2.9 p. p (ANACOM), achieving a 24.0% market share.

These results arise from a set of initiatives aiming to strengthen the value proposition for the convergent segment. In March, for the 4P and 5P, new packages were launched with 3GB per mobile card, demonstrating the NOS focus on leadership in mobile data. Allied to this movement, there was also the greater flexibility that NOS came to provide to its customers, enabling all mobile data assigned to be distributed to the various mobile phone



cards associated with the package, minimizing waste and adapting the product to various user profiles within the various households.

In June, with the launch of UMA, the convergent offering witnessed an evolution of the TV component, unique in the market, which has made it possible to deliver packages with the best features for the family. Subsequently, during 2016, the offer included other relevant releases, which enabled the delivery of real convergence between the fixed world and the mobile world, enriching the convergent ecosystem, in particular through the provision of free data traffic in some services, allowing customers to see what they like best anywhere and on any screen, such as the NOS TV App, which allows customers to experience UMA in mobility; the NOS Share App, which allows personal files to be stored in the cloud and can be shared/seen on multiple devices, including television itself; and the N Play App, which has simplified access to the NOS streaming content).

The improvement of service conditions and the campaigns focused on positively surprising the convergent customer base has been a focus throughout 2016, culminating with the Christmas campaign in which NOS delivered several offers to its customers. This work with current customers has allowed an increase in customer satisfaction and market recognition through the award of the 2016 Consumer Choice and 2016 Product of the Year, with the NOS 4 bundles.

Innovation

In 2016 NOS again took a giant step in terms of the TV product, distancing itself from its main competitors, through the launch of UMA and of NOS TV, while continuing to improve and evolve the Iris platform, having released a new version focused on the performance and speed of the interface.

In its innovation area NOS is dedicated to creating innovative new-generation reference products, both in the national and in the international market, in order to enrich the experience of the NOS Comunicações customers. It focuses on partnerships with enterprises and institutions of recognised merit in the matter of R&D, in order to establish the company as a reference in terms of innovation. It seeks to release proposals, together with national and international partners, within the framework of several national and international innovation incentives for innovation and to strengthen the presence of products developed by NOS Inovação in other markets.

Today it is working on tomorrow's technologies in order to get these innovations to the customers first-hand. NOS has been working to expand the number of platforms via which it provides the NOS TV application, having been the first TV operator with an OTT solution available for HoloLens, Microsoft's augmented reality device. NOS has thus become the first operator in Portugal to offer television contents in augmented reality and continues to take steps in the development of innovative services and in the delivery of increasingly-immersive experiences to its



customers. This new world of Virtual Reality and Augmented Reality has the potential to transform the way we interact with the content, allowing multiple perspectives of the same content and a plethora of additional information, all available in the visual field of the user.

2016, the UMA year

On June 7, 2016, NOS released UMA, the television that is beyond intelligent. Based on an entirely new platform, UMA offers the market's most advanced television experience.

With the IRIS platform entering a state of advanced maturity, the great goal of 2016 was to launch the new generation of television, the UMA. The interface is the market's most innovative, allowing faster navigation and more depth in the information on contents, with a main focus on films and series. The UMA interface also focuses on customisation: users can easily and intuitively create their own profile and, in this way, control and customise their television experience. The UMA equipment is differentiating: the offer includes a box fully equipped with 4K technology, which ensures a fully Ultra HD experience, and has no internal storage unit, since all recordings, definitions and information are stored in the cloud, allowing silent operation. UMA also offers on an exclusive basis the voice remote-control function, allowing customers to search contents, change channel, launch applications or alter their profile just by voice.

The launch of UMA solidified the NOS position at the forefront of the offer of subscription TV services and laid the foundations for the coming years of product development and innovation based on this new platform. Besides technological development, there was a considerable effort in the increase of the offer of content and services available on these platforms. From the customer's standpoint, UMA brought several new features:

Set top Box

The first European set top box that includes 4K, voice recognition and fast zapping. Through the profile creation it provides a unique experience tailored to each customer. Using UMA one can explore and discover top-rated content customised for the customers, based on their viewing habits and also on what they mark to view. This set top box has a new command with improved usability due to the introduction of specific buttons for the key content-interaction functions (zapping and trick modes) and, due to the RF4C technology, it no longer needs to be in line of sight with the box and has greater range.

200 Megas

To make the next generation offer even more competitive, the offer of 200 Megas of fixed Internet access has been massified for all customers of this segment.

NOS TV

Simultaneously with the launch of UMA, NOS also launched NOS TV, an App that allows for multi-device television experience, free of charge, at home and outside, which is clearly a differentiating product in the market. Natural extension of the UMA TV to mobile devices and other platforms, and it includes the same key features and the experience tailored to each customer. It was released in various Web browsers, as well as in Android and iOS, and it is also the NOS OTT solution that serves other NOS TV customers, such as the Iris and Satellite. It also allows interactivity with the STB, through the Send/Bring to TV functions, and it is, at all levels, an experience synchronised with customers having the NOS UMA TV service, including visualisation of the user's own recordings, based on the nPVR technology.

Via PC, tablet and smartphone customers can access direct broadcast in up to 100 channels, depending on the package subscribed, and have access to Restart TV, Automatic Recording and VideoClub functions.

For UMA customers, the App allows viewing of automatic recordings away from home too, as well as access to the customer's recordings in the cloud. Customisation is a distinguishing factor for UMA customers who can synchronise NOS TV with their television profile, optimising the experience of recommendations and exploration of contents through the automatic and intelligent interaction between the television and the equipment.

The release of NOS TV addresses the needs, increasingly present in the consumer market, of television content on screens other than usual one, both at home and outside, characterised also by being completely free. It materialises, similarly, advantages for NOS convergent customers who, by having their mobile service with NOS, have special conditions to access NOS TV when they are away from home.





Also in October 2016, NOS again innovated in the multi-device, anticipating future entertainment through the launch of NOS TV for the Microsoft HoloLens, becoming the first operator in Portugal to offer television contents in augmented reality. With NOS TV in HoloLens, users are able to project the content they are seeing on online television onto the environment where they are experiencing it. NOS provided this experience to all participants of the 2016 Web Summit in Lisbon.



NOS own store - Colombo Shopping Centre

NOS Share

Following the release of UMA, NOS continued to enrich the experience of its customers and to monitor market trends, with the launch of the NOS Share, an innovative cloud solution, which allows sharing of photos and videos across all equipment, with 16 GB storage and viewing in timeline format.

NOS Share makes its mark by being the only one that is truly multi-device that provides total experience, while also allowing the sharing of content directly to television for UMA customers. Besides storage and sharing, NOS Share enables the creation of direct events, with the possibility of direct livestream on television, and of saving it for later. Here too, there is a clear materialisation of benefits for convergent customers, with special conditions for access to the App when they are away from home.

The best content

During 2016 NOS strengthened its pioneering position in 4K contents with the offer of the RTP 4K channel, which broadcast eight of the Euro 2016 games in Ultra HD 4K, the most detailed and innovative TV format. Having been the leader in HD channels and then

having pioneered the launch of the most innovative television interfaces of the market and the 4DX cinema, NOS remains at the forefront of innovation at all times.

NOS continued to enrich its offer of channels, with the addition of CMTV, AMC HD, Crime + Investigation (exclusively), Fine Living HD channels, and the launch of several HD channels such as SIC HD, SIC Notícias HD, SIC Radical HD, SIC Caras HD, SIC Mulher HD and Porto Canal HD, which keep NOS in the leadership of the offering HD television channels.

N PLAY

Released in September 2015, N Play gives unlimited access to films, series and cartoons in High Definition, meeting recent trends in content consumption. In 2016 the evolution of the service involved strengthening the content catalogue, increase of the communication and improvement of customer experience, which resulted in an increase of the relevance of the product and an increase of subscribers.

Regarding contents, the offer was increased to more than 1,000 films, more than 60 series and more than 2,000 cartoons, with a focus on the première of an exclusive series in Portugal directly on N Play with an IMDB rating of 8.4, strengthening the Portuguese content

Salta da televisão para o tablet

3 meses grátis de N Play
na adesão ao Quatro

N PLAY

Velocidade Furiosa
6 Filmes

catalogue. The focus on communication involved campaigns in January and July and at Christmas time, with a significant generation of awareness of the product in the marketplace, especially among NOS customers.

With regard to customer experience, emphasis is given to the release of the NOS N Play App for PC, tablet and smartphone, providing customers with a transverse, continuous experience between platforms, with the possibility to access, via television, content interrupted in the middle or selected to be seen later through the App (UMA customers). Likewise, it is possible to start watching films and series via the App and to continue to view them via the box (Iris and UMA customers). The App is also intuitive, featuring direct access to Kids contents that allows the younger ones to select their favourite programmes directly. In 2016, N Play recorded over 3.8 million viewing hours, a clear success with customers.

Films for purchase

NOS focuses on business models also innovative in content, providing on an exclusive basis films that can be bought via the VideoClub. Customers buy once and can see the film as often as they like, on TV, PC, tablet or smartphone. This function is only available

to NOS customers and was the subject of the Christmas campaign in 2016, with surprising results, with over 1 million films on offer.

TV Apps

NOS is the leader in TV Apps, focusing on interactivity and differentiation from the competition. The launch of Apps associated with the NOS Primavera Sound and NOS Alive festivals, extending the experience from the venue to the customers' homes was a clear example of the capacity for innovation. The Apps allow access to the customised playlists of the festival bands, as well as access to relevant information about the events. To follow the biggest football event of the summer, NOS launched the Euro 2016 App, which gave access to rankings, results and information on all the competing teams. There was also a focus on exclusive releases in partnership with TVI, whose TVI Reality channel is exclusive to NOS. This partnership does not merely offer the live channel, but also includes thematic Apps that offer the possibility of customers accessing exclusive content, news and polls, among others.

NOS Card

The NOS card continues to be a unique product in the market, providing exclusive advantages for NOS customers. In addition to the offer of 2 tickets per 1 at NOS cinemas, customers have access to exclusive conditions for the purchase of tickets for NOS Primavera Sound and for children's events, such as the Panda Festival.

Focus on the Youth Segment

In the youth segment NOS continues to deliver excellent performance, reflected in a strong growth of customers and a sharp increase of the respective revenue. These results stem from the consistent implementation of the strategy defined for the target, based on innovative-product axes, advertising campaigns and strong relationship with the target segment.

In terms of innovation, NOS regularly introduces features highly relevant for consumers, as was the case of the pioneering inclusion of YouTube traffic in the higher-value price lists in July. The campaigns implement a strong promotional dynamic, reflected in frequent additional benefits for current customers, such as the offer of trips to European capitals and the creation of contextual opportunities upon subscription by new customers. The aim is to develop a strong relationship with the target segment, by developing a strong presence, with a strong component of brand activation in locations most relevant for youths, and appealing online contents, building a high engagement between the brand and consumers.

Personal Offer

The year under review was marked in mobile voice by the increase of the "Tudo" tariff plan, by maintenance of the focus on the without- commitment and ethnic segments and by simplification of Kanguru offer on the mobile Internet. In keeping with the increased penetration of smartphones in the market and the growing need for data for use in mobility, NOS reinforced the 'All' tariff plan, which focuses on the individual segment, ideal for those who want carefree use of mobile voice and data without waste, in that what customers do not spend in one month accumulates for the following months.

So, in March 2016, with a strong advertising campaign, the "Tudo" tariff plan were strengthened, providing 200MB, 1GB and 3GB data options, while maintaining the reference prices unchanged. It should be noted that "Tudo" was voted "Product of the Year" by consumers as the 2016 Innovation Grand Prize.

Besides the evolution of the "Tudo" tariff plan, in mobile voice, NOS maintained its focus on satisfaction of the customer base through recurring campaigns and promotions directed at the without-commitment customer base and at the ethnic segment.

In mobile broadband, 2016 was a year of revolution of the offering, with the simplification and strengthening of competitiveness. For NOS customers, the benefits were enlarged, ensuring the best Internet-access offer in mobility, complementing their fixed accesses. The launch of this new range and its suitability to the needs of the mobile broadband market meant that 2016 was a year of excellent results for the category, especially as regards the prepaid offer. This segment saw relevant growth, both in attracting custom and in revenue.

From the equipment standpoint, the emphasis is on the unlocked-phone movement. NOS came to market all cell phones unlocked, forever, in a movement that has revolutionized the mobile-terminals market in Portugal.

NOS now offers its customers a proposal of greater value, responding to consumers who value total flexibility in the use of their mobile equipment. In the matter of equipment distribution costs, NOS achieved a significant reduction through the implementation of more efficient management processes of the terminals portfolio.



The year was marked by some intense promotion of equipment in order to ensure competitiveness in the distribution of cell phones, to contribute to greater digitisation of the customer base and to promote the sale of other products and services under preferential conditions when buying smartphones.

Entrance at Festival NOS Alive

Customer Experience

During 2016 the consolidation of the NOS brand among its customers allowed the development of a consistent relational programme between all products and services intended to accompany customers throughout their life cycle, ensuring a close approach to them and contributing to the delivery of a richer customer experience in the various phases of the lifecycle and at the points of contact with NOS.

With regard to experience, a vast number of customer workshops were organised to improve current processes impacting directly on customer experience. The systematic generation of customer insight continued to be a strong focus in 2016, with a strengthening of initiatives and enlargement of their scope, in order to render development of offers, products and services more robust, as well as to identify and implement points of improvements in existing ones. In 2016, too, a new customer area and the NOS App were launched, yet another major in bringing the brand to customers, providing them with a simple, autonomous and free-of-charge way to manage their services.

Lastly, the various loyalty, retention and upsell actions must be underscored, both in the universe of the mobile service and in mobile

Internet, which contributed significantly to the support of the customer base. These actions also allowed the conditions of service of our customers to be updated and improved.

Residential sales channels

To achieve the business objectives of attracting and retaining customers in the consumer segment, the company uses the most appropriate channels in terms of profile but also taking into account customer-attraction costs, the creation of a more efficient organisation, the creation of a healthier "channel mix" and permanent analysis of the competitive environment, thus adding efficiency to the pure achievement of results. Each channel has its own characteristics, addressing new or current customers more specifically, proactively or reactively, face-to-face or remotely, and also exploiting the web channels indispensable to any product and sales strategy in today's telecommunications sector.

The sales area is divided between the retail area and the commercial area, the first of which includes all the exclusive NOS stores, its own or franchised, as well as retail stores and large multi-operator chains, while the latter includes the inbound and outbound phone channels and customer service in sales matters, sales consultants teams in the field,



Call centre - NOS America Building

web sales and, lastly, the loyalty area that always seeks, on a regular and dynamic basis, to find the best portfolio solutions for fixed and mobile customers.

The year under review was a year of major successes for the private retail sales area. The channel as a whole gained weight and importance in the company's total sales; being a channel of a more reactive nature, it also confirms the strength that the NOS brand has been gaining among Portuguese consumers. On the other hand, the very strong growth of the own-stores channel allowed the average customer-attraction cost to perform very well. This channel has undergone a real revolution in terms of processes, development of sales-support tools, customer service and consumer approach, culminating in a new concept of a truly differentiating store compared to what had existed till then in the telecommunications sector in Portugal. The first two stores were opened at the end of 2015 and served as a test of the concept that was successively improved and gave rise to another 9 stores opened in 2016, supported by the very positive results of the pilot stores.

Innovative concepts based on a better integration of products and services in the store space, facilitating their experimentation and interaction in the creation of new areas that follow consumer trends and, above all,

a new model of customer service side by side with the customers, breaking the barrier of the old "counter" and strengthening the proximity and trust between operator/brand and customer, were all instrumental to the success. An enormous effort was made at the franchised stores in the training and development of processes in order to allow customers to carry out exactly the same operations they would carry out at an own store, evolving into a full-servicing model. The results were also very positive not only in customer experience, but also by the very substantial growth of sales volume, which, combined with the complementary capillarity, causes this channel to be a strategic pillar of the NOS sales network. As in retail, the franchised stores played a decisive role in the success of the project for the expansion of the fibre network started in late 2014. In the retail channel and the great multi-operator chains, the main objective was to draw the attention of these channels to the bigger role they may have in the sale of stand-alone fixed and mobile convergent services over and above the traditional sale of equipment, very positive results having also been generated with an increase of the average amount billed by this channel, largely as a result of the convergent bundles.



The more reactive channels such as the web and the inbound had an extraordinary year in terms of progress. In particular the web, which, depending on the product family, had growths in the weight of NOS sales by as much as 40% over the previous year. Improvements in the commercial approaches, in the scripting, in the website and, above all, in bolder approaches in the web channel, the result of several partnerships that raised the platform to other sales levels and customer experience, made 2016 a very strong year for these channels. As mentioned earlier in relation to the own stores, the lower attracting cost of these channels makes this success even more relevant.

In the Outbound telephone channel there was an intentional and gradual perfection of the work on the present customer base, launching campaigns only where the understanding was that it would be possible to generate more value and revenue for the company. This criterion allowed a focus on more material opportunities, not forgetting also the very important role in attracting new customers.

The field team continues to be a pillar of the strategy, focusing almost entirely on attracting new customers. During the past two years it has played a critical role in taking advantage of the enlargement of the fibre network and it was one of the channels most relevant to the reversal of share in television and also, materially, in the gain of the convergent share. The role of this channel in the additional exploitation of satellite sales in areas without fibre coverage is crucial, having also had huge success in attracting new convergent customers.

The loyalty area has had a determinant role in the significant reduction of the company's churn levels, mainly by the continuous search for solutions that best serve the needs of customers, operating in an increasingly proactive manner. Improvement of processes and tools, and approaches based more on customer-relationship management have meant that, in many cases, the unmet needs of customer base can be anticipated. Ongoing modernisation in this area and the growing use of more-evolved analytical methods will certainly continue to impact on the future churn in the intended direction.

Lastly, 2016 was also the year of affirmation of the customer-service channel as sales channel. Having the customer on line is a unique opportunity to suggest beneficial product changes in keeping with the commercial slots in force, thus working the customer base and complementing, in this way, the role of the purely commercial channels.

Innovation and growth
in the business segment

4

Corporate

NOS continued its strong focus on the corporate market, with complete solutions especially designed for these segments, developing its technological assets based on its networks and state-of-the-art service platforms and, where appropriate, incorporating solutions arising from strong institutional partnerships.

Particularly in the Corporate segment, NOS has increased its capacity to be a full-service operator. The differentiating elements for this positioning were the ongoing focus on open innovation, continuous development of products and services and the ability to deliver complex, integrated solutions with information-technology services.

The digital transformation projects must also be underscored, which have leveraged the attraction and consolidation of important customers in strategic sectors such as banking and insurance, tourism and hospitality, health and public administration. In the wake of these projects, the convergence between fixed and mobile services, the supply of integrated ICT solutions, the provision of services based on Hosted/Cloud and M2M solutions and the development of innovative Internet of Things (IoT) solutions promise to continue to have highest demand rates and to be the main drivers of growth in the future.

Also relevant in 2016 was the growing importance of the articulation between companies and local authorities, which allowed the development of new platforms and processes that will promote citizens' quality of life and their relationship with the municipalities. These new platforms were reflected in technological experiences that will simplify mobility, security and energy efficiency of municipalities and their residents.

Thus, NOS contributed to the creation of several Smart Cities around the country, which will contribute to the promotion of a policy of a more innovative city, close to its citizens and relevant to local development.

In another area, Unified Communications recorded fast growth rates in the corporate market, in line with international trends. The IP Centrex integrated fixed/mobile services and the IP Centrex Contact Centre, based on the NOS cloud platforms, were a focus that was materialised through their consolidation and strong development towards greater levels of convergence and scope of services within the context of unified communications.

In response to the growing enterprise mobility requirements, and alongside the integration and convergence of fixed and mobile services, NOS continued to promote better experience in the use of mobile services by extending the mechanisms available for mobile data consumption and offering solutions that enable better customisation in keeping with the reality of each company.

Additionally, in 2016, NOS prolonged its investment and strategic development in Cloud and M2M solutions supported by its platforms, complemented by selected services and solutions of business partners. In 2016, this development allowed the offer to NOS customers of Cloud Computing solutions and services, IT Managed Services, centralised security solutions such as Firewall and Anti-DDoS, among others, on the basis of NOS platforms based on market-leading solutions.

Under the scope of open innovation, NOS promoted many initiatives relevant to the corporate sector, in particular giving the stage to the best national innovation projects and stimulating the discussion on themes for the structuring of digitisation. In this area, the Circle of Innovation project was outstanding, with the patronage of the Presidency of the Portuguese Republic. During six months

it mobilised 100 Portuguese managers to discuss and propose solutions for five major challenges: talent management, digitisation, value creation, consumer focus and networking.

In terms of entrepreneurship, NOS developed several programmes to generate ideas to find answers to challenges issued by Corporate customers in the sectors of Tourism, Hospitality and Healthcare. These sectors were also lent greater dynamism within the scope of the second edition of the NOS Innovation Award, through conferences that promoted the discussion and the sharing of success stories in Lisbon, Leiria, Braga and Porto. Through this initiative, NOS gave the stage to the best innovation projects in Portugal, playing a structural role in the innovation ecosystem.

In terms of brand positioning, NOS strengthened its presence in the corporate market, lending continuity to the multichannel advertising campaign under the motto "The best companies choose NOS". Within the scope of this campaign, many sectors provided information of how NOS communications and information technologies contributed to overcoming business challenges.

Business Segment

NOS Empresas is dedicated to the segment of large, medium and small enterprises, focusing its activity on the maintenance of its ability to attract customers and to increase the level of integration of services in the customer base, reversing revenue decrease in the SME segment, on strengthening initiatives leading to improved customer experience, both at product and service level and delivery models, and on the offer of services complemented with new IT and IoT solutions. As regards sales to small and medium-sized enterprises (SMEs), there has been a

search to implement new incentive models in the commercial channels with a focus on attracting new customers and on the sale of advanced offerings, on growing the average productivity of the agents and direct channels, on enhancing the focus on new digital media and on increasing own stores, while at the same time seeking to optimise the cost of attracting customers. The NOS ambition is to continue to grow in this segment, consistently and in a structured manner, ensuring that customers have the best experience with the use of NOS Empresas products and services, entrusting it the communications and digital services essential to the growth of their own businesses.

Despite a competitive framework that remains very competitive, the ability to develop the offer, customer experience and implementation processes and services was maintained, resulting in ongoing improvement of the performance of NOS in the segment. This dynamic is clearly demonstrated in the sharp increase of the number of services and the increased level of integration of services, which has resulted in a reversal of the revenue evolution.

In the business segment there was a greater focus on virtualisation solutions (Intelligent Centre) and on integration services (xPro), which enable companies to optimise costs and at the same time improve service quality. Additionally, the portfolio of complementary services was reviewed and the focus was on services having greater transversality and impact on the productivity the companies (Office 365). In terms of delivery and implementation of services, optimisation activities and the redesign of processes were increased, leading to greater fluidity and efficiency in implementing solutions.



Supervision and Convergence Centre

Relevance was also given to the response in terms of offer, service and delivery to SMEs seeking a more technologically evolved working model, which have consequently asked us for technologically more complex solutions and applications.

During 2016, in the commercial area the mix of contributor channels was optimised, both in attracting customers and in loyalty activities, making the operation more efficient and with a better value equation. Likewise, training plans were reshaped, with special focus on the sales managers and planning activities and, in the last quarter, e-learning was massified and the new performance model was implemented at the commercial structures.

In 2016, the focus of the development of the offer consisted of simplification and optimisation of the product range and the release of solutions that promote and take advantage of the virtualisation and integration of services. Operational improvements were made to the offer of tailor-made products, and the entire bundled (4P/3P) offering was overhauled to ensure competitiveness and differentiation in this market segment. Additionally, the portfolio of Cloud-based solutions was strengthened,

with emphasis on the renewal of the Office 365 offer and optimisation of the Web Presence services.

New processes were implemented in the virtual call-centre solution (Intelligent Centre), extending the use of an innovative digital sales platform to more commercial teams, and a new sales integration platform with activation of services was implemented.

NOS continued to strengthen its position and presence in the business market, both by strengthening digital-marketing initiatives and also initiatives targeting specific segments of the SME market, such as new companies.

Within the scope of several measures to stimulate the technological evolution of companies and recognition of the dynamics of Portuguese companies, emphasis is given to the NOS Innovation Award, which continues to provide information about and to promote the best of what is being done at Portuguese large enterprises, SMEs and start-ups, helping them to become increasingly competitive and to expand their business and consequently boost the country's economy.



For NOS, the Corporate Customer experience continues at the centre of the ambitions, as does the increasing ability to deliver solutions that enable corporate customers to focus on their business, in the certainty that in terms of communications and technology they have in NOS a reference partner. NOS is charged with presenting the best value-proposals of the market, becoming the technology partner that is the first choice of the Portuguese SMEs, strengthening its capabilities in systems and continually developing its offer.

Considering a very competitive external environment, it is clear that with regard to Telco, IT and IoT solutions, the real needs and requirements of Portuguese entrepreneurs and companies must continue to be identified, ensuring the evolution of several categories of the offer, from the bundled offer to more advanced solutions. As regards more technologically sophisticated solutions, products and applications for SMEs, NOS continues to develop its portfolio of Cloud solutions and the integration thereof with Telco services. The team continues to work on the relevant communication and information that it provides to its customers with dedicated and concrete actions that enhance customer case studies and critical information

for businesses that can contribute dynamically to increase productivity and digitisation of undertakings. At distribution level several optimisation measures are being implemented and channels are being orchestrated leading to significant gains in operational efficiency. Additionally, the entire training model for the sales personnel and respective managers is being reviewed, with a focus on the "challenger" model. Our ambition is to continue to grow in this segment, consistently and in a structured manner, ensuring that customers have the best experience with the use of the NOS Companies products and services, entrusting to us the communications and digital services essential to the growth of their own businesses.

Strengthening the
support base to
strategic ambitions

5

5.1

Network expansion and technological strengthening, underpinning growth ambitions and service delivery

Resulting from the merger of the two companies that gave rise to NOS, a start was made in 2014 to a programme for the transformation and convergence of their networks, ensuring a single more efficient, more resilient and technologically-advanced network.

At the same time there was a significant commitment to increasing the coverage of the fixed and mobile access networks, with emphasis on the programme for the enlargement of its fixed NGN access network by another 160 thousand homes, now totalling about 3.8 million homes passed. There was also a focus on the enlargement of the coverage of the point-to-point access network for the corporate business.

Taking advantage of the diversity of its technologies and products, as well as its leadership in the fixed-access network, NOS has seen ongoing commercial success, both in the residential segment and in the business segment.

Indeed, 2016 marks the close of a cycle, to the extent that the most important initiatives of the programme for the transformation and convergence of the previous two systems were finalised, and the programme for the enlargement by 450 thousand homes of the FTTH-technology initially decided was concluded.

At the same time, there was a substantial increase of the capacity of the networks – both in new areas of exploitation and also in existing areas – in response to the growth of traffic and users as a result of attracting new customers and of subscription of convergent products (upsell) and of the greater aggressiveness of the usage profile of existing customers.

Additionally, in line with its strategy for investment in a sustainable network, prepared for future challenges and opportunities – Gigabit Society, Massive Communications, Big Data, Virtual and Augmented Reality, among others – NOS started a number of measures that aim to ensure the sustainable evolution of the network in line with the needs of society and of the market on the horizon up until 2022.

Access Networks

NOS holds state-of-the-art FTTH and HFC Fixed Access Networks passing 3.8 million homes, over which it is able, in conjunction with its mobile network, to offer 4P and 5P services.

In the HFC network, lending continuity to its strategy of innovation and investment protection, NOS continued to install the latest-generation hardware, now compatible with DOCSIS 3.1 technology, and it now has a very relevant part of the network compatible with DOCSIS 3.1 – a technology that allows the evolution of HFC networks to speeds of around 10Gbit/s and 2Gbit/s, downstream and upstream respectively. An assessment was also made of the impact of the introduction of DOCSIS 3.1 in order to identify the main issues and solutions, so as to prepare in a timely manner the HFC (optical and coaxial) network for the introduction of new technologies under development. At the same time, a start was made to a spectrum restructuring and standardisation plan, which will free up space for the introduction of DOCSIS 3.1 technology.



In the Mobile network NOS strengthened its network in 43% of the parishes, particularly over 4G technology. This reinforcement was intended to ensure a better mobile data service for its customers both in areas of potential growth of subscriptions to 4P/5P convergent offers and in areas where there was a significant migration of 3G terminals to 4G and an explosion of data usage, leading to the enlargement of the 4G footprint and to the capacity increase of the current network by combining the 800/1800/2600 bands (including indoor environments, such as the Lisbon Web Summit where it was possible to reach 300Mbps by aggregating 1800/2600). 4G was also provided to the most remote regions without access to broadband services under the obligations associated with the use of spectrum in the 800Mhz band imposed by ANACOM (4G coverage obligation in 160 parishes, 80 of which in September 2016).

In the 2G/3G network a new generation of controllers was introduced, as was a set of features and enhancements that improve the quality of the experience, smartphones in particular, which is now the type of terminal of greater growth.

In 2016 a start was made to a HETNETS project specifically dedicated to the enrichment of the portfolio of solutions for indoor public or private spaces increasing requirements of high density, modularity and rapid implementation, including the various access technologies (2G/3G/4G/WiFi) and different backhauling options.

On the way to 5G, and anticipating the needs of the market and of society as regards IoT (Internet of Things), NOS made the world's first demonstration of the use of 4.5G NB-IOT technology applied to smart metering, in partnership with EDP, Huawei and ContarJanz within the scope of the Horizon 2020 Upgrid. This network is available for testing in the Parque das Nações area in Lisbon and a series of initiatives has already been scheduled ranging from a free pilot test with EDP customers to new applications of the technology.

Also during 2016 a start was made to the first studies on the evolution to 5G; services, spectrum, standards and technology were evaluated and the foundations were created for the definition of a plan for the introduction of 5G in the medium term.

Transport Networks

The transport network, designed in an articulated manner with the Core IP network, ensures not only connectivity and capacity, but also provides additional guarantees at network resilience and availability level, ensuring high performance standards in interconnection between the service platforms, contents and the fixed and mobile access networks.

The DWDM network is supported on fibre-optic rings and provides 10Gbps and 100Gbps interfaces, using, as the name suggests, the Dense Wavelength Division Multiplexing (DWDM) technology, which allows optimisation of the transmission capacity of each fibre.





During 2016 the project for the consolidation of the two DWDM networks, started in 2014, was finalised on the whole. This was a structuring project designed with a view to simplification and optimisation of costs, improved resilience and availability of the services, made possible by the redesign of the architecture and use of the complementarity of the two networks. In parallel, like other consolidation projects, the project also included replacement of old equipment by new-generation equipment, better suited to current requirements.

In line with the growth of traffic and customers and with the measures to reinforce the Mobile and Fixed Access components, investment continued in 2016 in the development of the DWDM network capacity, both for local calls and calls with the archipelagoes of the Azores and Madeira, and also for international calls.

Significant investments were made during 2016 in expansion of the coverage of the fibre-optic network that supports the networks referred to above and in the point-to-point connections to corporate customers, with the aim of progressively continuing to cement the autonomy in this type of infrastructure, with a view to increasing the quality and availability of the services provided and greater sustainability by reduction of the cost of traffic transported.

The more significant activities occurred in the increase of the capillarity of the backhauling to the mobile network, where the increase of the more capillary capacity needs is now more relevant. To this end, in 2016, NOS continued its focus on its own network for

backhauling mobile network base stations, having migrated to fibre-optic another 10% of the equipment.

The synchronism transport solution has also been a priority in 2016, in that is critical for the proper working of the network. NOS selected and certified a new solution that will be implemented in 2017, which will ensure greater resilience, scalability and security of its synchronism solution – diversity and multiple redundancy of sources of synchronism, with dedicated signal-transport layer – as well as adaptability to future mobile network needs, including processes for the co-ordination of the 4G, 4.5G and 5G mobile networks and the growing capillarity.

Regarding the IP/MPLS infrastructure, during 2016 the trend was confirmed of consumption of contents provided via the Internet, the outlook being that this situation will see continuity of the growth trend, now motivated by new video formats, particularly those related to virtual and augmented realities, subscription to the Cloud strategy by Companies and Big Data. This leads to the need to maintain the process of transformation and upgrading of the IP/MPLS network, which has resulted, in short, in the following set of measures:

. Replacement of equipment that supports the Core of the IP/MPLS network by state-of-the-art and high switching capacity (1Tbps/slot) units, a critical factor in this layer of architecture, while also allowing the introduction of 100Gbps technology at competitive costs;



- . Development of infrastructure, with the introduction of MPLS technology at approximately 80 new sites, which belong to the most capillary level of the aggregation network, with consequent benefits in terms of homogenisation in the offer of services and increased resilience and capacity;
- . Reinforcement of interconnection capacity with various content providers and respective CDN (Content Delivery Network) platforms, with particular emphasis on Google/YouTube, Facebook as well as that of the private peerings, especially Microsoft/Twitter and Amazon;
- . A 40% increase of the interconnection capacity with International IP transit operators and national ISPs, using 100Gbps technology for the purpose;
- . Promotion of pilot studies on platforms for the automation of service-delivery processes with a view to optimal mode of delivery thereof.

The portfolio of services for the corporate segment has been strengthened, retaining the commitment to innovation that NOS intends to ensure in the market as a reflection of the integration effort, together with Microsoft, with the various options of the Azure Cloud offering (ExpressRoute, private and public) with MPLS VPNs, the increase of the speeds of the Ethernet offerings provided over the DOCSIS access network, and improvements to the Disaster Recovery architectures.

In the IP/MPLS, too, 2016 saw the end of the EDGE network consolidation programme at its most central layer, with benefits of efficiency, simplification and renewal.

The information society, users and applications require a constant evolution of

the communications networks. The process of transformation of the Networks, derived from the merger of the two companies that gave rise to it, provided the benefit of allowing the construction of a consolidated NOS network, scalable and prepared for all developments on the horizon.

Service Platforms

As a result of the merger process, the project is at the finalisation stage for the consolidation of the control platforms of the voice service of the HFC/FTTH access network based on a latest-generation IP (IMS – IP Multimedia System). 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.

To strengthen the capacity and improve the support to enterprise voice service platform efficiency new SBC (Session Border Controllers) clusters were introduced to the IMS network dedicated to the SIP business voice traffic, to maximise efficiency, providing dedicated resources to companies that require specific services and configurations.

In the matter of the mobile voice platforms evolution, an architecture was implemented 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). Also concluded was the modernisation of the central platform that controls the voice service, introducing a new architecture that endows NOS with the ability to grow, introduce new features quickly and efficiently, and to have the ability to start the virtualisation of some components of the solution.

The strategy defined for the interconnection of voice traffic involves migration of all traffic to IP, aligned with best international practices and recommendations. This path allows efficiency gains and the ability to grow the business in a more optimised and faster manner. During 2016, the first phase of the project was completed, migrating the traffic of the more-relevant operators to a new, more resilient and scalable architecture. This move also enhanced the capacity and security of the interconnection with other operators.

The SMS and MMS message support systems were renovated in 2015 by means of projects for the total replacement of hardware and software upgrade, while its physical capacity for message processing was also enlarged.

A start was made to the process for the total renovation of the VoiceMail system, evolving

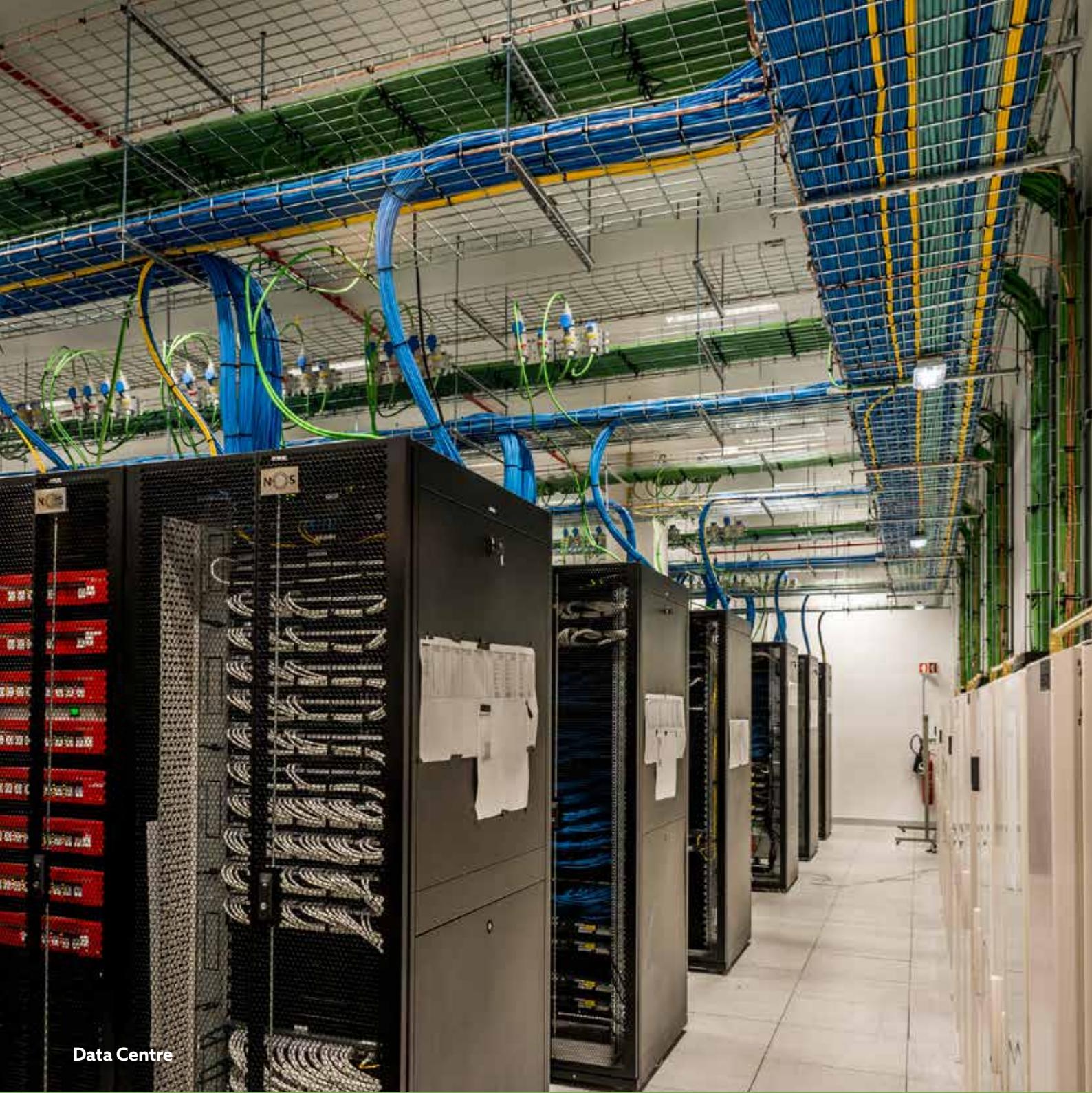
into a solution fully supported on virtual systems. This new solution allows a reduction of costs, simplification of management and operation, as well as recovery of the service, if necessary resorting to disaster-recovery system and, at the same time, it allows for speed in such expansions as may be necessary. At the level of the SMS service, NOS now has more than twice the capacity to cope with the growth of use and to increase the service level through speed of delivery of messages in situations of peak usage.

The AS (Application Server) architecture of the IMS network was renewed in 2015 with the upgrade of software and replacement of hardware, with enlargement of the number of servers, with geographic redundancy, reflected in the fivefold multiplication of the capacity of the architecture.

Lending continuity to the work carried out in 2015, a complete transformation was made of the functional perimeter of the IMS Application Servers, providing them with the capacity to support future unified communications offerings directed primarily at the corporate market. With this transformation, it has become possible to market communication solutions that add video, presence and collaboration to the latest-generation of voice offerings already marketed by NOS.

Besides being integrated and complete, this offering will also benefit from an integrated user experience, regardless of type of terminal and type of access-technology used.





Work continued on the development of the real-time charging system and control platform, modernising the components responsible for the interface with the supply, reloads and billing systems, increasing the previous capacity more than fourfold. At the same time, these components were migrated to new geographic locations, reducing their operating costs and rendering the operation of the platform more robust and resilient.

In terms of the evolution of the data platforms, several projects dedicated to the corporate segment have been implemented. The MSSP offering was strengthened through the introduction of ADC (Application Delivery Control) and WAF (Web Application Firewall) components. Introduction of new features to the FWaaS (Firewall as a Service) component and enlargement of the existing platforms in order to accommodate growth.

A high-performance Anti-DDoS platform was introduced for prevention against cyberattacks, with advanced mitigation features, providing protection of the entire NOS infrastructure, complementing the corporate offering against attacks via the Internet. The architecture was redesigned of the platform that enables the offer of corporate Wi-Fi services using a centralised multitenant Wi-Fi solution with a personalised customer to customer management access portal. This new solution allows centralisation of functions hitherto performed by the access equipment, making it agnostic to the manufacturer thereof, and providing greater scalability, resilience and security. The information was also standardised in order to feed Big Data systems.

With regard to the application of Virtualisation Models for the MME and SGSN components of the Mobile Network, a start was made to the transformation of the MME and SGSN components of the mobile network, following the virtualisation policies supported at the data centre.

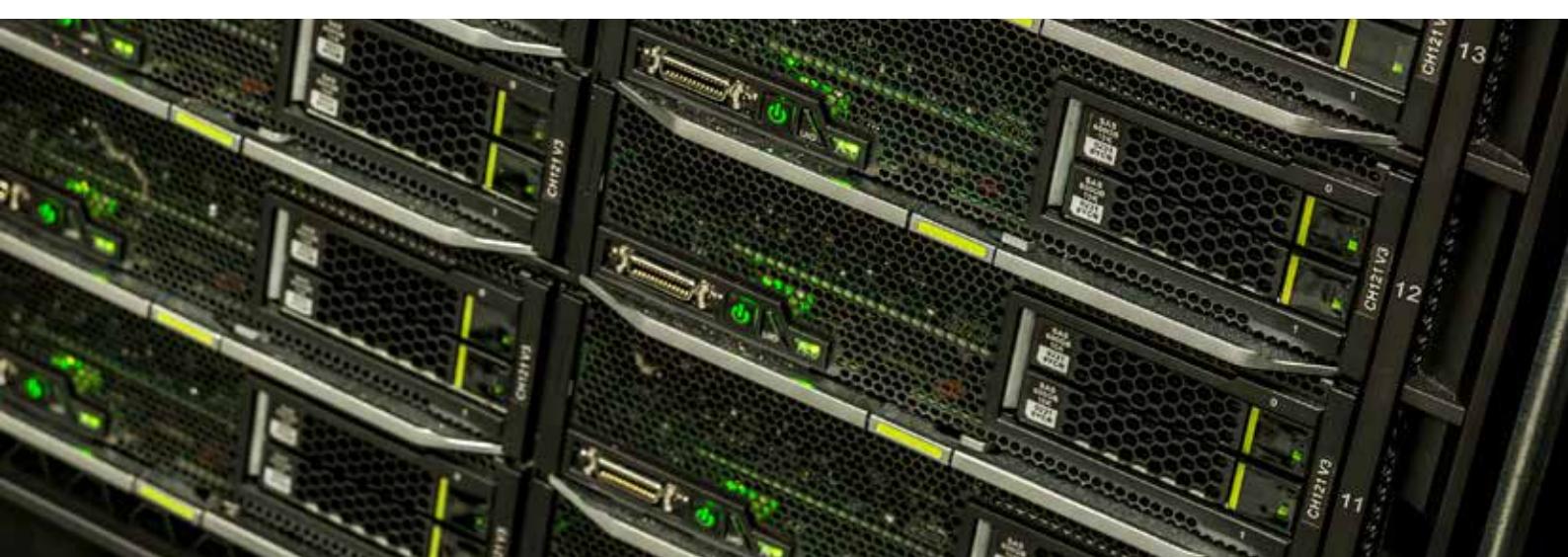
Currently the MME and SGSN functions are provided by dedicated equipment. The use of virtualisation models, based on COTS (Custom Off the Shelf) hardware increases the operational efficiency and scalability of these functions.

A start was made to the implementation of Corporate Gateways dedicated to the mobile network in keeping with virtualised models. This model increases operational efficiency and scalability. The fact that it is based on dedicated platforms strengthens the resilience of the solution and ensures greater flexibility in response to the requirements of the business.

The EPC (Evolved Packet Core) architecture was transformed from combined to single node based on the separate implementation of the components of the mobile network (SGSN / MME / SGW / GGSN / PGW). This evolution brings about operational benefits allowing each component to evolve separately and providing greater independence between nodes, thus increasing service availability.

The introduction of the control of consumption for OTT (Over The Top) services enables implementation of limits on the offerings for this type of traffic. Examples are the YouTube and Spotify Apps in the WTF offering. NOS therefore continues to lead the market in offerings with OTT traffic bundles.

To develop a new traffic-management platform, a call for tenders was issued for the analysis and selection of a latest-generation traffic-management solution allowing maximisation of the customers' usage



experience and optimisation of the efficiency of the resources of the cable and mobile access networks. This platform is a relevant tool in the management of the resources of the access and core network, allowing optimisation of the investment.

This solution allows improved visibility of the data traffic in each cell, the mobile network (Cell Awareness) and in the cable network (CMTS Awareness), providing transverse indicators to the various NOS areas. The business units will have access to multidimensional information relevant to the business, contributing to the definition of the offering. In turn, the Engineering areas have an ancillary tool for the planning, dimensioning and in-depth analysis of the behaviour and use of the network. With video traffic undergoing exponential growth, both by number of customers and in the diversity of platforms used, this solution allows monitoring and optimisation, and ensures the best user experience by avoiding exhaustion of the network resources.

In compliance with the strategy defined for the consolidation of the call centre, NOS had already installed a new technical call-centre infrastructure. In 2016 a start was made to the migration of the attendance groups of the Call Centre to the new infrastructure, allowing consolidation of the operations, reduction of operating costs and standardisation of processes and operations.

NOS also has an advanced multiplatform and multi-device video distribution network able to support a growing number of channels and innovative services. In 2016, the linear offer of TV via digital cable occupied 24 Transport Streams corresponding to more than 1Gbit/s of SD, HD and ULTRA HD channels.

The main football events of 2016, the European Championship and the final of the Champions League, were broadcast for the first time in ULTRA HD via the NOS network.

In 2016, as in 2015, there was 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 21,800 unique carriers for on-demand services, an annual increase of 12%; Due to the sharp growth of nPVR, and RestartTV VoD services, the NOS network supports a total of over 520Gbps of on-demand TV Traffic, in more than 115,000 streams simultaneously, served by a CDN with 21 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 archive nPVR in operation 24 hours a day, 7 days a week in a state-of-the art cloud architecture;
- . More than 2.015 million playout requests per day were achieved during Christmas 2016, an increase of almost 15% compared to the 2015 figures.

The provision of Live and OnDemand contents on OTT devices is ensured by a latest -generation CDN, based on SDS (Software

Defined Storage) platforms and access points that ensure a user experience of quality and performance regardless of the network used by the end-user.

Another project of great complexity was the creation of the new NOS Master HE, implemented at the Impolis Data Centre. It was designed to ensure expansion capacity, operational efficiency and cost reduction. A project with a duration of 14 months that was completed in May 2016. The migration of services was planned and carried out with maximum rigour so as to prevent any service interruptions, the complexity of the operation notwithstanding.

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

Next Generation Data Centre

The Data Processing Centre (DPC), also known as Data Centre (DC), is where the date processing equipment and storage of a company or organisation are located, and its activity is increasingly linked to the efficiency of the information technology (IT) areas, playing a crucial role in systems exploitation services and applications in production.

Besides accommodating and managing the sundry platforms and applications that support its Operational and Business activities, during 2016 NOS consolidated in its DCs a variety of Enterprise Customer services, such as Cloud Computing, Housing, Hosting, Storage, Backups, Security, Disaster Recovery, Business Continuity and IT managed services.

Additionally, backup (Backup as a Service) and storage (Storage as a Service) shared services were provided, complementing the Cloud Computing offerings and enabling high flexibility of supply and greater operating efficiency. These services were architected for multi-customer use, NOS itself being a customer of these solutions.



During this year and for implementation of the NOS DCs strategy, there was a 24% growth of in-house computing and of 46% of the Corporate business. At the level of the DC infrastructures, too, there was need for planning and designing housing expansions from north to south.

This implied the need for response to a wide range of requests and alterations, in an infrastructure that is intended to be stable, reliable and efficient.

On the other hand, the adoption of new (OpenStack) automation technologies and management of the functions of the telecommunications networks (SDN – Software Defined Networks and NFV – Network Functions Virtualisation), has been widely tested and is expected to be further developed throughout 2017.

There are, therefore, major challenges for the coming year, including ensuring adequate Capacity Management in all service components, ensuring the highest levels of efficiency and productivity of the infrastructures with good consolidation and automation processes.

The flexibility and ease of access and use of ICT (Information and Communication Technologies) will tend to become a fundamental added value in the operational performance of NOS, and its DC strategy must contemplate fundamental principles of effectiveness, reliability and performance as the key base of competitiveness in the marketplace.

Operation and Supervision

The network and platforms are among the main assets of NOS. The strengthening of the competitive position of NOS raises, in the network areas, the greatest challenge to grow the network and to ensure the availability, quality and efficiency of the operation, with a guarantee of control of operating costs.

The year under review was marked by a review and optimisation of all the operational processes, which had a direct impact on the quality of the operation, improving the success in the planning and implementation of the strategic network growth projects, as well as in the ability to prevent incidents and to provide customer support. Also highlighted are some of the more structural projects in the various network platforms:

- . In the transport and access network, attention is drawn to the modernisation of the DWDM network, migration to the new IP NGN network and the modernisation of the fixed-access network, etc.
- . Of the services we would underscore the launch of the new UMA services, the convergence of the NOS TV platform, the new geo-redundancy solutions for the TV and IRIS service, the migration of fixed-voice customers to IMS, etc.

Several network capacity and resilience projects are ongoing or in preparation, with emphasis on the following:

- . In the transport network, with the strengthening of redundancy for the Azores and Madeira inter-island and in the backbone of Mainland Portugal, migration of legacy solutions to the new IP-MPLS network, among others;
- . In power supply, with anti-vandalism and autonomies reinforcements;
- . In data, with new geo-redundancy solutions;

. In television, with new redundancy solutions and new disaster recovery sites;

. In security, with new solutions and strengthening of current anti-DDoS solutions and of the Security Operation Centre;

and automation and self-configuration measures and improvement of the operational frameworks with the aim of improving efficiency and time-to-market:

- . Enlargement of the Dev Ops strategy so as to shorten the development and production cycle with a strategy of minor developments of lesser complexity;
- . New Configuration Portals and automation in processes of configuration and deployment of new software solutions, allowing integrated and transparent action in the complex technological ecosystem under management (routers, servers, equams, cloud, windows, Linux, ...);
- . Implementation of Service Oriented architectures that enable agility, exposure and reuse of services for internal and external consumption;
- . Unique consolidate of a framework of processes supported by a unified tool.

5.2

Excellence of systems and processes driving the development and integration of operations

The NOS information systems area is a strategic asset in the overall growth of the company, contributing to the launch of new, innovative products and services, as well as ensuring the increase of effectiveness and quality in the execution of business and operational processes. It also plays also a role of paramount importance in the Digital context and acts as a transformational agent as a result of the challenge created by the merger, unification and integration of systems, while the component of unification of the CRM ecosystem, a programme of very high coverage and complexity, is still ongoing.

Following the successful partnership between the Information Systems and the Business and Operational Units, the Strategic Business Plan for 2016 was established and its execution led to striking developments for the growth of NOS, in the launch of new products and services in all segments, opening new shared networks, optimisation and automation of many processes, with direct impacts on revenue and operating costs, respectively.

Within the context of the Systems Transformation and Integration, and as outlined in the Systems Master Plan, the year saw a focus on the creation of the new CRM ("WAVE CRM"), which provided a better digital experience to customers, allied to greater operational effectiveness. To achieve these

goals in an efficient manner, a redesign of the entire customer experience was carried out throughout the respective workshops, an action that peaked with more than 200 employees of the most diverse areas of NOS. In parallel, there has been the construction of many of the parts basic to the creation of this great ecosystem, such as the attendance model, which among other blocks, defines the entire usability of the front ends and the processes for the management of customer interactions and incidents.

In the application and technological and operational support component most of the goals were achieved, with very significant developments in continuous improvement; proactive monitoring and end-2-end monitoring of the processes, in the matter of the evolution and technological renovation of the main platforms and of the total commitment to the security policies. All this made it possible to reduce the number of incidents caused to customers for reasons originating in the Information Systems by about 25% and to improve performance in critical business processes.

Lastly, but of extreme importance, employees are one of the main high-value assets along the entire delivery chain, which made it possible to fulfil the strategy set for 2016, and for that, their motivation and training, the degree of involvement in decision-making processes, the framing of their gains in the various functions in the Information Systems area are strategies that will continue to be put into practice, always from a standpoint of ongoing improvement.

An ambition of the systems area is to continue to deliver, with high quality standards, all the business and operational processes that are supported throughout the various information systems in operation, ensuring at all times the

respective technological updates, ongoing improvements and evolution in the control and monitoring of the execution.

The development and delivery of the new CRM (WAVE CRM), begun in mid-2015 is in progress and the ultimate goal is a vast transformation programme, with objectives in two vectors: providing perfect customer experience across all channels and optimising, speeding up and enhancing the collaboration of the operation.

The systems area is a strategic part in the company's Digital path, creating the technological enablers, including those resulting from Research & Development activity, as well as the definition and implementation of functional roadmaps to ensure speedy evolution of the self-service and proactive customer-support areas.

NOS intends to create and to be a reference in Advanced Analytics, allowing the achievement of a new threshold of depth in the use and even monetisation of the giant volume of data generated in the company and, in parallel, to establish an Enterprise Data Governance methodology.



5.3

Implementing a single brand strategy throughout the chain ensuring better experience for customers

The NOS Brand - A year of considerable growth and consolidation

A brand with a substantial strategic progress in 2016

In the second year of existence, NOS is a strong brand, among the most recalled of the entire Portuguese market, with a fixed spot at the top of advertising recall, week after week.

The year under review was one of remarkable progress, with considerable evolution in consumer presence, recall and preference of the NOS brand.

Product and communication innovation, in every segment, together with relevant presence in fields of passion make NOS stand out clearly for the leading role it plays in the lives of people and in the country, more so in the lives of the customers and as the leader among its peers.



NOS is the telecommunications brand most prized by the Portuguese

Having as its mission to be best in class in image and preference, in 2016 NOS won the consumer choice, historically awarded the top spot in the award of prizes.

NOS is the Telco brand trusted by the Portuguese (2016 Trusted Brand 2016 – telco and media operator category), with the most relevant products (2016 Product of the Year Award – 4P, TV experience, mobile, N Play, NOS Card), Consumer Choice (4P, mobile, NOS cinemas) and has the most satisfied television customers (ECSI – European Customer Satisfaction Index).

Innovative and effective communication

Throughout the year NOS launched more than 20 high-impact and effectiveness campaigns, asserting a new line of communication that, with its strong and consistent identifiability, brought about solid results.

The brand narrative evolved interestingly, with the creation of recognisable, proprietary environments, stories and characters. In this evolution the brand counted on the internationally award-winning actor Nuno Lopes.

The communication of the new television interface – UMA – marked the year. The campaign delivered a best-in-class experience of considerable notoriety. Under the claim: "your television can only be UMA", NOS presented to the market the most intelligent and personalised TV solution. Supported, among other features, by a customised experience, voice command, recommendation of content and 4K image definition.

UMA consolidated the NOS leadership in the TV category, where the brand, year by year, is increasingly the preference of the Portuguese, as proved by the ECSI study.



A strong brand in all the media

The communication strategy included an innovative enlargement of the media spectrum.

For the campaigns paid media was called upon (Television, Radio, Press, Digital), the own media were amplified (Stores, Social Networks) and the gain media (driven by consumer sharing and participation) was stimulated. With this enlargement NOS accompanied the habits and interests of consumers, in all their spaces and moments, with high pertinence and storytelling, as only a telecommunications and entertainment brand can do.

In digital, NOS created communities around its themes, creating a major presence in and relationship with the various media (Facebook, Instagram, YouTube, Snapchat). In online communication, micro segmentation became a tool of great relevance, and, in 2016, ensured systematic leadership in the engagement-with-the-Portuguese indicators.

During 2016, having customers as the focal point, NOS launched the NOS Customer App, allowing all their services to be managed digitally and conveniently. It also launched the NOS Forum, an online forum of joint participation of the brand and of consumers, which fulfils the purpose of listening and aligning to ensure permanent improvement of the value proposition.





Innovation Circle event

A brand with a strong focus on the business segment

During 2016, the presence of the brand is a renewed, winning strategy that innovates in the formats and in the partnerships, and ensures relevance beyond the commercial relationship.

The business segment plays a strategic role as forerunner of innovation.

The NOS Innovation Award, a partnership with TSF radio station and the Dinheiro Vivo newspaper, promoted innovation in the country rewarding new business areas and innovative projects of Portuguese companies and public institutions.

The NOS Innovation Circle, in partnership with SIC Notícias and with the Expresso newspaper, opened a discussion on topics of importance to companies – from talent management to networking. In 2016 it involved 100 managers and CEOs of the leading Portuguese companies, making its mark as an important space for thought and networking.

Music, Football and Cinema – strategic relationship and distinguishing assets

NOS is the only Portuguese brand (and telecommunications brand) with a superior and distinctive position in major areas of passion of the Portuguese: Football, Music and Cinema.

This was the year of consolidation of the positioning of the brand in the NOS League. A new strategy of occupation of the territory brought about for the brand a very significant increase of awareness, and leadership through its relevant presence in key moments of the Championship, growth of the football content consumption platforms (liganos.pt site and Instagram NOS League) and the offer of tickets through original engagement mechanics.

In music, NOS is able to grow in its association with the territory in the three main assets of the brand:

- . In NOS Alive – the first edition of which took place 10 years ago and is strengthened year after year as the national reference event, with the best playbill ever;
- . In NOS Primavera Sound – which has made its mark as one of the major cult-music festivals, delivering a unique and increasingly amplified experience;

. In NOS em D'Bandada – an innovative and pioneering concept in Portugal. The only proprietary free music event of a brand in Portugal, the 6th edition of which opened the doors to music in unusual locations of the city of Porto to more than 200 thousand people.

In Cinema, the brand organised relevant actions, including: "On the way to the OSCARS", a unique event that takes place in NOS Cinemas, celebrating the most famous festival of world cinema, and sponsorship of the LEFFEST festival, an event that increasingly makes its mark in Europe and stands out in Portugal as the most international of the events of the Seventh Art.

Performance indicators

The year under review was one of significant gain of efficiency and returns. The major indicators of the brand and its communication progressed: considerable growth in brand awareness – permanently at the top of brands with the country's most-recalled advertising; proven recall leadership in the sector; and an evolution of brand image to an increasingly distinctive and relevant space.

The year turned NOS into a brand that is very present in the life of the Portuguese. In existence for just two years, the NOS brand is very close to leadership.



NOS Primavera Sound Festival

5.4

An efficient logistics platform to deliver an agile experience to customers

During 2016, the rhythm was set in optimisation and process engineering in direct and reverse logistics. A year after the construction and integration of the new logistics centre of about 13,500 m², with the implementation of the new SAP-based integrated information system, processes were optimised and integrated.

An example of this was the launch of the new model of reverse logistics based on internal repair, new flexible test platforms for different products and technologies. This project has enabled a reduction of logistics costs, resulting in a more agile and effective structure in product experience and delivery.

Also designed was the new model for the management and supply of fixed equipment, which came to allow integrated management of all products using simple, automatic and efficient tools.

These projects prepare the company for the new challenges of the future, in particular the increasing digitisation of channels and customers.

As a result of the implementation thereof, NOS obtained a significant reduction of unit logistic costs, a reduction of the value of stock in the warehouse and channels, increased agility and control of the model of transport to about 700 thousand delivery points, and a significant increase of the volume of reinjected equipment.



5.5

Excellence in customer service

Customers increasingly seek more mobility and autonomy in access to information and in the use of its services. To answer this need, in 2016 there was a clear focus on the evolution of the digital channels through the launch of the new Customer area and of the NOS Customer App.

To be closer to the customers, the main communication media supports were rewritten in order to increase clarity and empathy. For the fourth time NOS was considered as having the "World's Best Customer Service" by the Contact Centre World, and the Portuguese Contact Centres Association recognized NOS as the best operator in the Telecommunications category. These awards reinforce the goal of being a leader in customer experience and satisfaction through the continuous focus on service quality.

Digital as a pillar of the restructuring of the service experience and overhaul has been transforming the service experience, not only because it allows greater customer autonomy, but also because it challenges organisations to simplify their processes so that the number of actions or clicks to access information or to respond to requests is reduced to a minimum.

With this orientation in 2016, the new customer area and the NOS Customer App Client were launched, in which, through a single login, customers can manage all their services in an integrated manner. The new area and the NOS Customer App has significant improvements in providing information, navigation and usability. Since its launch in June, the customer area has over 1.2 million users and the Customer App had tens of thousands downloads, rising to the top of the Google Play and iTunes application stores in Portugal.

In the Customer Support area the presentation of information on equipment was overhauled. The new page highlights the most-viewed equipment and brands, simplifies the search and above all provides equipment specifications and tutorials for use in a more simple and intuitive way.

Additionally, the help area of the nos.pt site was reformulated in order to guide customers to the most appropriate channel to address their issues. The aim of this new page is to help online customers to find answers with minimal effort and better results.





Customers increasingly seek recommendations from other customers to choose the best entertainment content and advice on equipment and new technologies and help in overcoming difficulties in the use of the service. In this connection, the NOS Forum was released in December to create a digital ecosystem to respond to this need. The launch was a subscription and use success and, throughout 2017, it will be a fundamental pillar of the service strategy.

NOS own store - Colombo Shopping Centre

Communication as a vehicle for building trust relationships

NOS believes that the form of communication has a significant impact on the dialogue established with customers, and that it is the basis for building relationships of trust. To this end, work was carried out on the construction of a communication manual incorporating a set of guidelines that are simpler, clearer and more empathetic in the various interactions. Based on these new guidelines, the different communication media (letters, e-mails and sms) were reviewed so as to ensure a simple, close and consistent message throughout the customer's life cycle.

Orientation to ongoing improvement of operations

Investment continues in the restructuring of operational infrastructure through process simplification and automation to simplify assisted customer service. During 2016 the processes for technical checking for FTTH were reformulated, which has greatly increased the ability to respond to customers at the moment of contact and meets customer expectations.

To meet ANACOM's regulatory guidelines for the phone numbers of the telecommunications operators' helplines, the telephony infrastructure was restructured. From now on, customers of the stand-alone mobile phone service are dealt with through number 16993.

Customer experience is a responsibility of all and, in particular, the contact managers in their daily interaction with customers play a key role in identifying opportunities for improvement. Accordingly, a structured process has been implemented to collect and manage the voice of the contact manager. Nowadays, ongoing-improvement teams, using a single platform, analyse and prioritise suggestions collected by the assistants to trigger or reinforce actions to improve operations.



Recognition of service excellence worldwide

NOS seeks to play an important role in the industry, and therefore continues to play an active role in national and international conferences in order to share best practices and to collect experiences of similar organisations inside and outside the sector of activity, to jointly seek to address the challenges of customer service areas in the best possible manner.

Internationally, at the Contact Centre World conference, NOS was not only recognised as having the "Best Customer Service" for its focus on the restructuring of the service experience, but also won the other two categories in which it competed, including "Best Support in Social Networks" and "Best Sales Campaign in Inbound".

Nationally, in May 2016 NOS was also awarded prizes by APCC (Portuguese Contact Centre Association) for the 1st and 2nd places in the Telecommunications category for the service quality of the 16100 line (business segment) and the 1693 line (personal segment).

In the customer-service area, every daily effort is directed at providing a service of excellence. To this end, recognition by the study of the European Customer Satisfaction Index (ECSI) was particularly gratifying, in which NOS was considered the leader in customer satisfaction in fixed voice and pay TV.



NOS' Building in Parque das Nações, Lisbon

Another extraordinary
year in Audiovisuals
and Cinemas

6

Audiovisuals

The year under review was the best year for Cinema of the past five years, with continuing growth of the film distribution market in Portugal compared to 2015, which had itself been an excellent year (20% growth in 2015 vs. 2014). In 2016, box-office gross revenues stood at 76.6 million euros, 2.2% higher than in 2015, and a 2.2% increase in the number of spectators yoy, to stand at 14.8 million spectators.

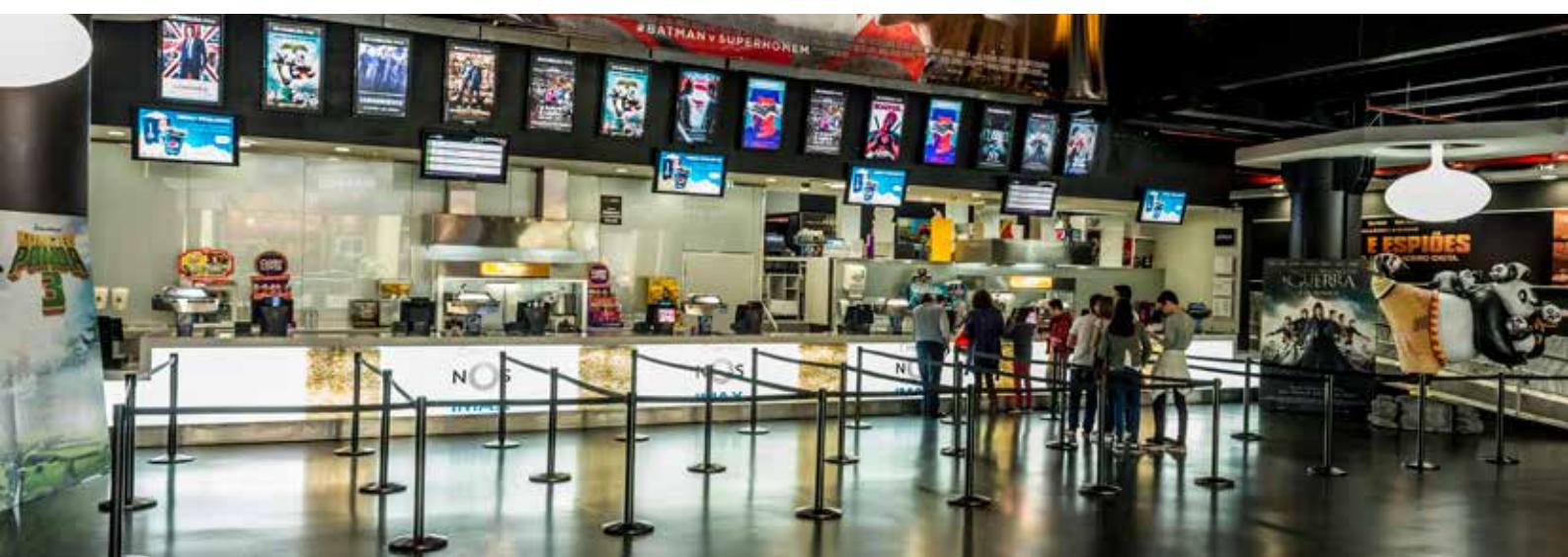
NOS Audiovisuais strengthened its leadership in the film distribution business in 2016, with a market share of 65% by revenue and 64% by spectators. According to ICA data, NOS Audiovisuais distributed 6 of the Top 10 films by gross national revenue, having released 151 films. The following films are highlighted: "The Secret Life of Our Animals" (622 thousand viewers and gross revenues of 3.1 million euros), "Suicide Squad" (477 thousand viewers and gross revenues of 2.7 million euros), "Finding Dory" (433 thousand viewers and gross revenues of 2.1 million euros) and "Zootropolis" (400 thousand viewers and gross revenues of 2.0 million euros).

In 2016, NOS Audiovisuais consolidated the representation and distribution of the leading Hollywood Majors, such as Warner,

Disney, Universal, Paramount and MGM, and continued to focus on the release of independent films, especially distribution of films such as "London under Attack", "Masters of Illusion 2", "Mechanic: Contract Killer" or "Hacksaw Ridge", and with a focus on continuity of launching national projects, particularly with the films "A Canção de Lisboa" and "O Amor é lindo porque sim".

According to GfK studies, market revenues of Home Video distribution business fell once again in keeping with the global trend, this time by 28% yoy, due in part to the growth of the provision of contents and the growth of the digital platforms, changing consumer habits and piracy. In terms of market share, NOS Audiovisuais maintains its leadership, and even grew its market share by volume (54.1% vs. 51.4%) and maintained it by value (59.2%), which is also a reflection of the good results obtained by the cinemas.

With regard to the management of rights and television, the company has remained focused on the production and marketing of the TVCine&Series premium film and series channels, while continuing to develop the market for digital on-demand services, including, notably, TVOD (Transactional Video On Demand), SVOD (Subscription Video On Demand) and EST (Electronic Sell Through).



In particular the EST format, with which, in 2016, an agreement was entered into with all the majors, was promoted in an unprecedented manner, in partnership with the majors, in order to stimulate the market and homevideo digital consumption in Portugal. In 2016, the TVCine&Series channels maintained the first display window, on an exclusive basis, of all films in television, and the TVSeries channel, in partnership with HBO, through which the channels guaranteed the exclusive of the programmes of the American premium channel, and provided the first episode of five new series for the entire market (Vice Principals, the Night of, Westworld, Divorce and Insecure). In terms of Subscribers, the TVCine&Series channels experienced significant growth both in the domestic market and in the Portuguese-speaking African countries.

Emphasis is also given to the growing capacity of the Multimedia Production Centre (CPM) which currently produces thirteen leading TV channels and offers localised content for Portugal and Portuguese-speaking countries for use in OTT services and film exhibition. During 2016, the CPM was the target of a series of investments and operational improvements that allowed it to continue to be a benchmark of good practices in the Audiovisual Industry in Portugal.

Dreamia – Serviços de Televisão, SA, jointly with AMC Networks International – Iberia, is a strategic partnership for the production of children's channels, series and films for the Portuguese and Portuguese-speaking African markets. As regards the Dreamia channels, for 2016 the continued leadership must be underscored as the most viewed channels of cable television, with a total share of 6.2% (all the Hollywood, Panda Biggs and MOV channels), a growth of 1.1 pp (21.5%) over the previous year. In the year of its 20th anniversary, the Hollywood channel consolidated its position as the most-viewed of all subscription channels (source MMW/Mediamonitor/GfK) with a share of 2.9%.

Far more than a TV channel, the Panda channel is an essential reference for Portuguese children, and it sought to get even closer to its audience by focusing on national productions and, since its inception, it has had more than 20 formats specifically designed to meet the preferences of its market.





On commemorating its 20th anniversary the channel ended the year with a flourish, through the launch of its first "Panda Code" contest, consolidating its position with 0.9 pp growth over the previous year. Another highlight is the Biggs channel with a +0.2 pp variation, this, too, a reference in the segment in which it operates. A major contribution to this was the focus on diversity and on quality content.

The Blast channel, an exclusive channel for Angola and Mozambique, commemorated its 1st anniversary as leader in popularity and audience of the film channels in these countries.

Cinemas

NOS Cinemas has strengthened its position as leader in the film-exhibition market in Portugal, achieving a market share of 62% in 2016, in terms of gross revenue and 61% by number of spectators, with 9.096 million tickets sold, an absolute record in the company's history.

Innovation and the ability to always be at the cutting edge of technology have contributed to the NOS Cinemas success and to its leadership of the cinema market in Portugal.

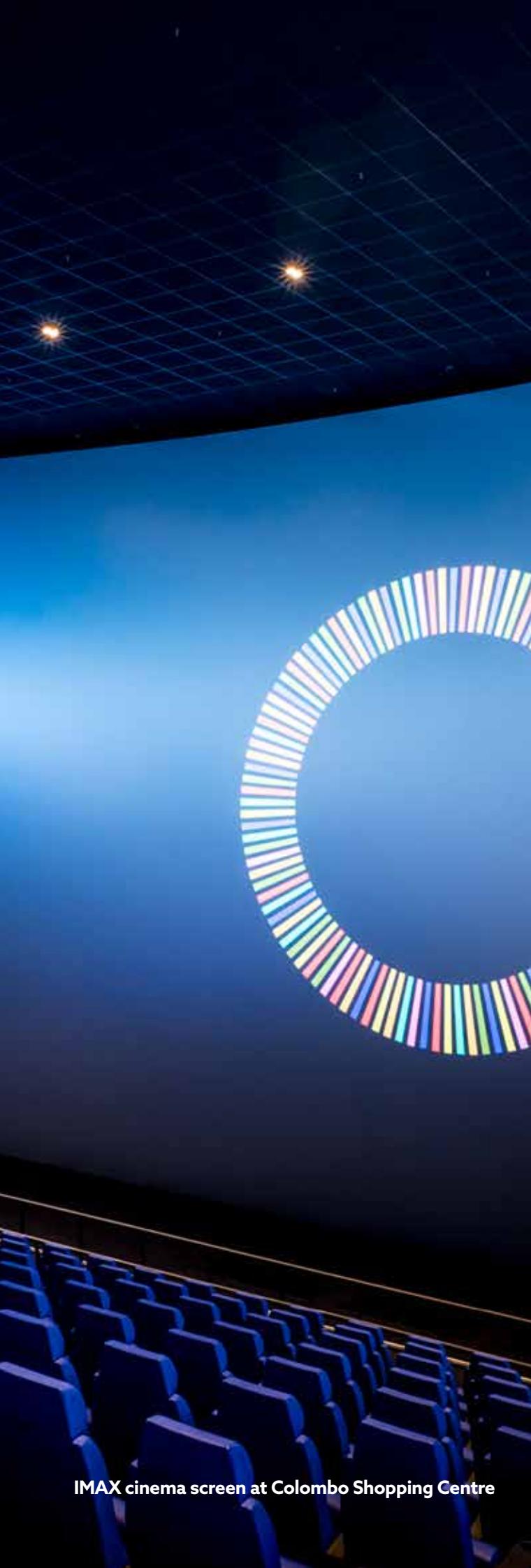
All NOS Cinemas are equipped with digital projection and sound in keeping with DCI (Digital Cinema Initiatives) specifications with the maximum resolution of the 2K and 4K standard. In addition to the commercial showing of films, it also exhibits alternative sports, music and dance content, live or recorded in 2D or 3D.

About 40% of NOS Cinemas are equipped with digital 3D REAL D projection. In March and April 2016 the company opened two cinemas with 4DX technology, the first in Portugal, at Gaia Shopping and Almada Forum, offering once again a unique experience to customers in the Greater Porto and Greater Lisbon areas.

4DX is a unique, immersive experience of cinema, a "concept" of completely innovative and distinctive cinema, which provides customers with a new experience at the cinema, with effects and sensations synchronised with the film, including sudden movements and vibrations of the seats, winds, aroma, lights and other special effects.

The year under review also marks the continuation of the installation of the latest-generation DOLBY ATMOS digital sound systems at selected cinemas. In some of its cinemas there is also the ability to display films produced using HFR technology (High Frame Rate), which provides more immersive, sharper and more realistic images by





IMAX cinema screen at Colombo Shopping Centre

increasing the number of frames per second (from 24 to 48), ensuring an exceptional cinema experience and greater customer satisfaction.

With 30 "multiplex" complexes and 215 cinemas, NOS Cinemas geographically covers the entire country from north to south, turning the stores in shopping centres into real anchors, with a very powerful image both inside and out.

In technological terms NOS Cinemas has also been developing numerous platforms and services that ensure better service and customer experience:

. Kiosks that allow ticket booking, purchases and collection, and provide bar products, using debit or credit cards;



. Focus on the MTicket mobile App (application for mobile devices that allows tickets to be bought, crossing and selling promotions with the respective terminals at the cinemas);

- . Presence on the NOS Television service Platform and on the NOS corporate website, which, besides the possibility of ticket purchase, it also provides information on films lineup, trailer viewing, check schedules and seating arrangements at each cinema.

At international level NOS Lusomundo Cinemas is present in Mozambique through Lusomundo Moçambique, a local film exhibition company that has been in operation in this market for several years. It now has two complexes in Mozambique totalling five cinemas, two at the Maputo Shopping Mall and three in the city of Matola, at the Parque dos Poetas Shopping Mall, an operation now consolidated despite the economic and social instability.

Highlights of the operation in 2016 (Portugal):

- . 30 multiplex complexes
- . A total of 215 cinemas
- . 2 IMAX cinemas
- . 2 4DX cinemas (opening of Portugal's first 4DX cinemas – in Gaia and Almada)
- . Opening of Portugal's first cinema with laser projection, Braga
- . 204 cinemas with Dolby 7.1 sound
- . 84 3D cinemas
- . 82 HFR (high frame rate) cinemas
- . Continuation of the deployment of cinemas equipped with Dolby Atmos (currently 10 cinemas)
- . Development of the VIP concept, involving cinemas with special chairs, of the chaise-longue type
- . About 39,300 seats
- . 55 sales kiosks
- . 9,096,886 tickets sold / year
- . 327 films exhibited / year

- . About 350,000 cinema sessions / year
- . About 400 tons of domestic corn for popcorn
- . About 450 employees (full time and part time)

Advertising

The core business of NOS Publicidade is the sale of advertising space both in thematic channels and in the major cinema chains. In 2016 it also enlarged its portfolio of products for the sale of space on Internet sites, making its offering far more integrated for the end customer.

The advertising market in 2016 recorded a slight increase, largely the result of the existence of special events that are not repeated each year (with emphasis on the European Football Championship and Rock in Rio), although an increase of competitive pressure was also felt as a result of new market operators and of the use of the price factor as a competitive weapon to attract revenue in the free-access channel segment.

This turned out to be reflected in the positioning of NOS Publicidade itself, increasing its focus on specific niches in which it operates without, however, failing to boost and foster the creation of other opportunities that may generate higher revenues in the future. This strategy eventually bore fruit, and NOS Publicidade, as in 2015, recorded a growth of over 10% of revenue generated, much higher than that recorded in the advertising market as a whole.

A sustainability culture

7

Information and communication technologies are a tool essential to the implementation of a model of sustainable development: they increase productivity and reduce the environmental impact in many sectors of the economy; open up new inclusion opportunities to traditionally disadvantaged groups; and improve the quality of life.

NOS' commitment is to contribute to the implementation of this potential, through marketing innovative, accessible products and services, while at the same time we act in the marketplace, together with our sundry stakeholders, in a responsible and ethical manner.

Sustainability management

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.

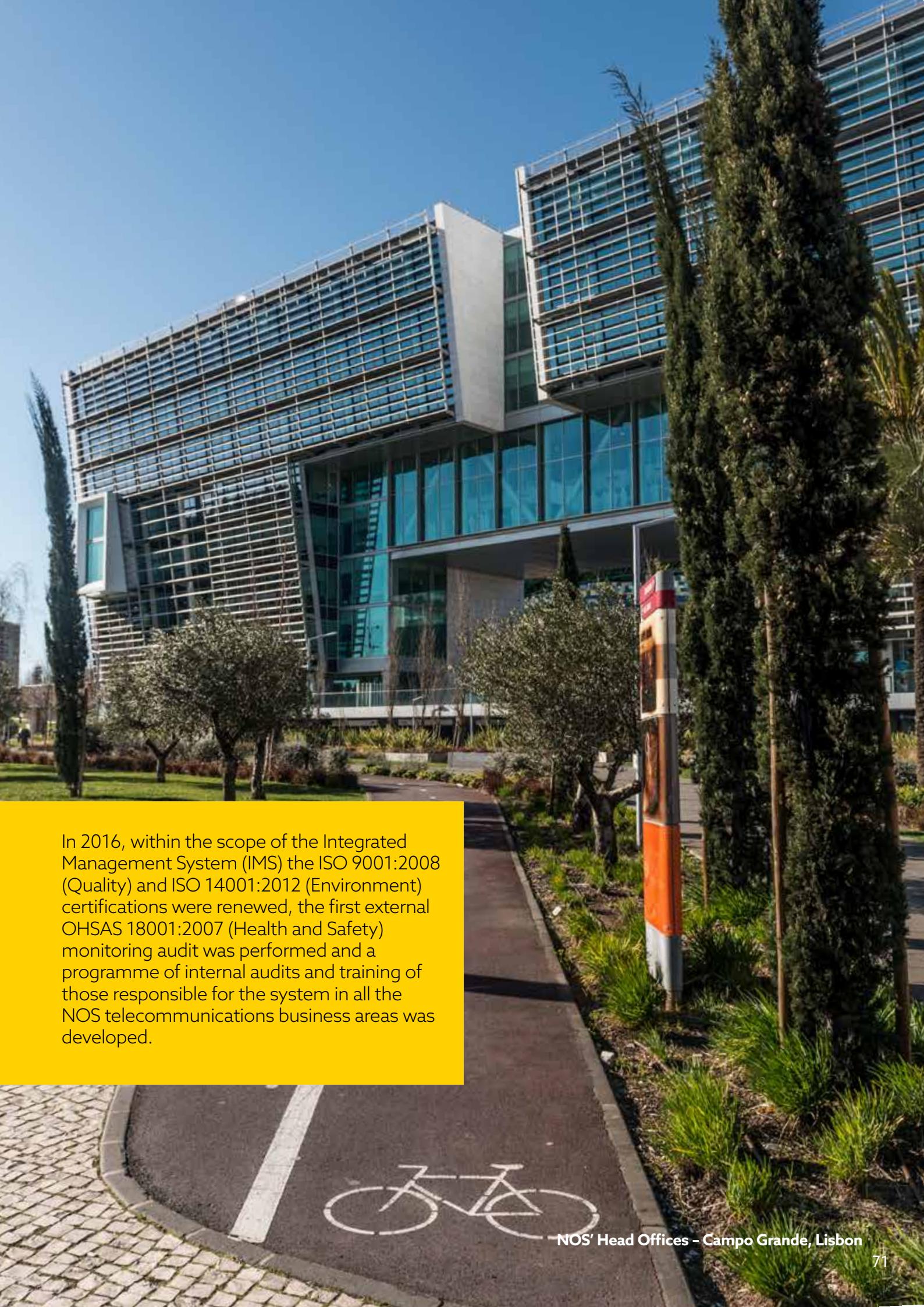
The first NOS strategic cycle began with the performance of an extensive sectoral benchmarking exercise that allowed the most relevant sustainability issues for the telecommunications sector to be mapped. In 2016, continuity was lent to the process, crossing the items identified with the results of an analysis of the external environment (international and national agenda for sustainable development, global risks, legal and regulatory framework) and internal environment (NOS business strategy and risk matrix, matrix of environmental impacts and mapping of stakeholders). Though not yet concluded, this process resulted in the preliminary identification of two guiding lines of action comprising 35 potentially material

issues. These issues will be evaluated in 2017 through a process of consultation of internal and external stakeholders, thus concluding the strategic cycle.

Operational management is based on performance monitoring, carried out through a system of sustainability indicators. This monitoring is the basis for the design of improvement actions implemented annually to ensure compliance with the objectives and targets set.

In 2016, continuity was lent to the process of defining and implementing indicators, based on the guidelines of the Global Reporting Initiative (GRI), already finalised for all priority indicators, and the transition to the GRI Standard was prepared and adopted in September. An annual report was also published containing relevant information on the NOS commitment to the 10 Principles of the United Nations Global Compact, of which NOS is a signatory.





In 2016, within the scope of the Integrated Management System (IMS) the ISO 9001:2008 (Quality) and ISO 14001:2012 (Environment) certifications were renewed, the first external OHSAS 18001:2007 (Health and Safety) monitoring audit was performed and a programme of internal audits and training of those responsible for the system in all the NOS telecommunications business areas was developed.

Ethics

NOS perceives ethics as a basic principle in all internal and external relations, becoming a strategic dimension for the organisation. In this sense, the business and the performance in the marketplace and in society are governed by a set of ethical values and principles that should be reflected in the actions of our employees, suppliers and any other person or entity providing services to NOS on a lasting or temporary basis.

In this connection, and in order to ensure that partners and suppliers, and their employees know and include in the activities they undertake the principles and rules of the NOS Code of Ethics in 2016, and the more relevant ethical risks associated with activities carried out on behalf of NOS were identified. Based on this information a document was drafted explaining the NOS Code of Ethics for NOS Partners and Suppliers. This document was sent to all NOS suppliers and partners, who, together with their people, undertook to comply with it. For all to know the principles and rules described in the NOS Code of Ethics, training sessions were also organised for all those involved in the activities provided to NOS. It should also be said that, in 2016, for the nature of the business and the specifics of their duties, further specific training sessions were organised also for all employees of the NOS Cinemas.

Supply chain

NOS suppliers and partners are essential not only for the quality of goods and services, but also for the sustainability performance of the value chain of the business.

During 2016, the Sustainability Requirements for NOS Suppliers and Partners were reviewed. This document reflects the essence of the NOS position, commitment and activity – in terms of ethics, information security, energy, emissions and waste, and health and safety at work – the entities with which NOS relates being obliged to comply with it. The sustainability requirements are communicated to all suppliers and are also publicly available on the NOS website.





Every year, a process takes place of evaluating suppliers in the matter of quality of products and services provided. In 2016, 10% of suppliers that interact with the NOS Procurement Department were evaluated. The evaluation in the matter of ethical, environmental and social performance was tested in 2015, involving more than a hundred large and small suppliers. However, given the low response rate, it was decided to review the methodology, a process that is still ongoing.

Energy and carbon

Energy consumption and associated emissions of greenhouse gases (GHG or carbon) are the main environmental impact of the NOS operation itself. As the business grows and the data services gain importance in portfolio, the energy requirements of the technical network also grow, which has entailed an increase of consumption in absolute terms.

In 2016, continuity was lent to the implementation of a plan of energy-efficiency measures, with special attention to the key installations of the technical network. Investment was also made in the access network, reducing the energy needs of mobile telecommunications antennae. These measures have limited the rate of growth of total energy consumption.

Quantification continued of the carbon footprint associated with the activities, in keeping with the GHG Protocol methodology. In 2016, a poll of employees provided a characterisation of the commuting pattern (home work home journeys), produced associated indicators and quantified the respective GHG emissions. The NOS carbon footprint in 2016 now includes this source of emissions under 3 – indirect emissions.





Human Resources

NOS is an organisation with a powerful ambition to develop people and to focus on talent.

An integral part of NOS is conduct that makes us the professionals we are. There is in us a tireless will to do better, to go further, to aim for perfection, to surprise and to leave our mark wherever we pass.

We focus on tools that help us grow as a whole. Not only do we invest continuously in consolidating models and policies that allow us, today, to enhance the engagement, trust, performance and growth of our professionals, because our success IS US; but also we strive to be recognised as a reference in the world of talent, and thus make the NOS brand more attractive in an increasingly global and competitive market.

Aware that the success of the investment depends on its alignment with the cultural values of the organisation, in 2016 we sought to consolidate principles such as transparency and impartiality, and the consequent differentiation.

The various achievements of 2016 include externally:

- . Great Place to Work** Distinction as one of 5 best large companies to work for in Portugal;
- . Spark Agency** Distinction in the ranking of Portugal's 20 most attractive companies for young talent.

and internally:

- . HR Analytics** • Development of a multidimensional analytical platform of HR indicators. The focus on this tool is the result of the strategy for the development of an ecosystem to support analytical decision-making in human

capital management, in order to optimise the results of people-management practices, as well as to promote employee empowerment.

. Organisation Involvement in the review of the organisational structure with a view to optimising both the management of the units and the response to business needs;

Study of the results of the Great Place to Work survey and drafting of a plan to strengthen the engagement and motivation of our employees;

Bringing the organisation closer to its employees through implementation of presentation workshops and alignment of the various policies, models and tools created for their professional development; introduction of "open door" sessions to clear any doubts of a professional or organisational nature; and a new approach in the 360° onboarding of new employees.

. NOS Campus Strengthening the offering of the corporate university, with the provision of a new online platform (with access anywhere, anytime), for a more complete learning experience. The new platform appears as a complement to classroom training and boosts self-development.

. Performance and Development

Consolidation of the employee performance model, through promotion of a feedback culture, with introduction of a moment of intermediate evaluation;

Encouragement of new experiences and mobility between the various business areas, in order to boost the professional and personal development of employees.

. NOS Alfa Based on the success of the first edition but above all on the unique learning opportunity that it promoted, the second year of NOS Alpha was seen as a critical moment of conceptual consolidation and operational optimisation of the trainee programme – and consequently of promotion of the awareness of the brand in the job market.

We are aware of the demographic and technological revolution, with natural consequences for the world of work, of which we would underscore:

- . The affirmation of the millennials and of their work expectations and perspectives within organisations;
- . The technological disruption, the new business and organisational dynamics models that have emerged therefrom and the accelerated pace of change;



- . The challenge of global recruitment and the scarcity of talent resulting from globalisation of the world of work.

And aware of the importance to our business of customer orientation, but also for employees, in 2017 we shall rethink the end-to-end quest of the employees (from arrival to post-departure experience). Because optimal experience of employees leverages an excellent customer experience.

We therefore hope to ensure the construction of a strong culture of success and ambition.

To this end we shall continue to invest in the development of new tools, practices and experiences, on the one hand to keep pace with the fast rate of change, opening up the way to alignment with the business and the performance of our people, and ensure their empowerment within the organisation; and on the other, to gain a competitive advantage in today's job market, anticipating today tomorrow's market

Health and wellbeing

NOS focuses on well-being as driver of performance and, to this end and as a result of the regular means of diagnosis, the main occupational hazards were identified for our

employees, broken down into three hazard categories: Psycho-social, Ergonomic and Travel in service.

To minimise these hazards, the company has developed an annual programme consisting of various initiatives aimed at contributing to a healthier life and work environment. For each of these hazards, we have developed a plan comprising the following topics:

- . Psycho-social:** Anti-stress, physical exercise and healthy eating
- . Ergonomic:** Body posture and relaxation at the workplace
- . Travel in service:** Safe driving

The programme was implemented in several stages, the first goal involving and disclosing the initiatives in order to encourage employees to take part and, lastly, that they incorporate the behaviour in their daily routines.

The message of the initiatives was "Little big gestures that do good". The overall programme featured workshops, works gymnastics, driving-attention test, among others. The intranet provided educational tips and videos for healthy behaviour and its impact on minimising the hazards. This programme involved active participation of 35% of employees and over 8,500 viewings of the content published on the Intranet.

In 2017, we will conclude the first NOS strategic sustainability cycle, which will provide guidelines enabling us to define the goals and targets for the next three years. This will also be the basis for the definition of our sponsorship and community intervention policy. On our website we shall disclose the key NOS performance indicators in the management of the ethical, environmental and social issues more relevant to the business.

Sector Regulation

8

At national level, 2016 was marked by regulatory decisions that introduce significant improvements to market competition conditions, in both the short and the medium term.

At the same time, and at international level, the proposal of the Commission for the regulatory framework to come into force as from 2020 and the plan for the implementation of 5G in 2020 are events that stood out and, in the next few years, will determine the development of the Portuguese electronic communications market.

Wholesale termination rates

Wholesale termination rates remain a concern for their impact on the company operating efficiency. Throughout 2015 there were developments in the main rates associated with this service:

. SMS In the wake of a negotiating process triggered by NOS in April 2016, the new prices applicable to SMS wholesale termination came into force, which initially led to a significant reduction from 1.27 eurocents per minute to 0.83 eurocents per minute.

. Fixed termination In December the sectoral regulator approved the final decision that reduced fixed-termination wholesale prices by 42%, setting them at 0.0644 eurocents for calls originating in the European Economic Area (EEA).

Thus, the price for calls outside the EEA was liberalised, allowing a reduction of the existing imbalance in geographical areas where there is no price regulation or it is much less demanding than the European.

. Mobile termination In July there was a further reduction of mobile termination rates, in line with the regulator's 2015 decision, now standing at 81 eurocents per minute.

Spectrum

. Extension of the right to use 2100 MHz frequencies. In February ANACOM determined the extension of the right to use frequencies in the 2100 MHz band - "UMTS Licence" - at zero cost until June 2018 and its renewal was guaranteed over an additional period of 15 years from that date (until June 2033). This decision created for NOS obligations for the coverage of 196 parishes tendentially without mobile broadband coverage, which must be fulfilled by June 4, 2019.

. ANACOM gave notice of the end of the restrictions in the 800 MHz band, with effect from March 11, 2016, with impacts on the coverage obligations and on the end of the discount associated with this band. Following this notice, a start was made to the reckoning of the deadlines for fulfilment by NOS of the coverage obligations of 160 parishes associated with this frequency band, where a 4 Mbps access speed must be ensured, while at the same time the 50% discount was eliminated applicable to the rate for use of the spectrum in the 800 MHz band. It should also be said that, with this notification, a start was made to the reckoning of the deadlines associated with obligations for the negotiation of the network access under the terms laid down in the Multiband Auction Regulation.

Roaming

The new wholesale costs associated with the provision of roaming services in the EEA were approved on December 2. The prices now approved are lower by 33% than current prices for voice, by 50% insofar as SMS are concerned, and by 80% in Internet traffic (June 2017) which, following a phased reduction between 2017 and 2020, will amount to 90% in June 2020.

Proposal for an Electronic Communications Services Regulatory Framework

On September 16 the European Commission presented a proposal for the redefinition of the regulatory framework for electronic communications services that is based on the pillars of Access and Connectivity, Spectrum, Universal Service, OTT/Consumer Protection and Governance.

Access and Connectivity: puts the regulatory emphasis on competition by infrastructures, with lesser regulatory pressure in investment-sharing situations. At the same time, it strengthens geographical segmentation as a tool of regulatory approach.

Spectrum: encourages the sharing of infrastructure and, at the same time, encourages the grant of frequency-use rights for periods of 25 years. It also establishes 2020 as a date for the provision of 5G in Europe, even as it defends the availability of spectrum in the 700 MHz with coverage obligations with a minimum rate of 30 Mbps.

Universal Service: while eliminating the public posts component, information services and public telephone directories, it proposes the inclusion of broadband within the scope of this service. It also contends that the funding should be exclusively through public funds.

OTT/Consumer Protection: aims to ensure harmonisation of consumer protection rules between the electronic communications sector and the others, at the same time presenting a set of (timid) proposals aiming to ensure that OTT be subject to the same rules as traditional electronic communications providers, where the services compete with each other.

Governance: proposes a strengthening of powers at European level, with the intervention of BEREC and the European Commission, conferring greater ability to block market-analysis decisions by the national regulators. BEREC's powers at the level of the spectrum, termination rates and issue of authorisations are also strengthened.

High-capacity market

In the wake of the market analysis carried out by the regulator on the so-called high-capacity market, the final decision was published which touched on themes that constitute concerns for NOS. In concrete:

- . The revision of conditions attached to the CAM and inter-islands circuits was achieved, which implies a reduction additional to that seen in 2015 of the prices of the invoice associated with these 130k/year circuits (down 34%);
- . ANACOM has determined for MEO the obligation to give access to its submarine-cable stations under a co-installation regime, guaranteeing its intervention in the event of failure to agree the conditions;
- . An asymmetric optic-fibre offering was imposed on MEO in the wake of the requests by NOS for the provision of conditions for effective competition in the domestic companies market.





Input equivalence within the scope of the ORAC and ORAP offerings

In the context of its analysis of the wholesale local-access markets at a physical location and of central wholesale access at a fixed location of large consumption, ANACOM has imposed the principle of equivalence of inputs in the MEO ORAC and ORAP offerings, which constitutes a milestone in the approach to regulated offerings, ensuring a more level playing field between MEO and NOS. Specifically, and if properly implemented, it will ensure that the current competitive advantage that MEO enjoys in the construction of networks will be eliminated, to the extent that the procedures that its internal areas will have to employ will be identical to those faced by the other operators.

Net Neutrality

Following the publication of Regulation (EU) 2015/2120, of the European Parliament and of the Council, on the introduction of net neutrality in Europe, which entered into force on April 30, 2016, obligations were introduced for Internet service access providers to treat all traffic equitably, without discrimination, restriction or interference, regardless of originator and receiver, content, applications or terminal.

However, implementation of traffic management policies is permitted provided that they are transparent, non-discriminatory, proportionate and independent of any commercial considerations.

Additionally, the provision is allowed of content services, applications or services side-by-side with the Internet access service, with the dedicated capacities required to meet the quality of service requirements. These services shall be considered as add-on to the Internet access service and shall not, under any circumstance, condition their QoS (quality of service). At the same time measures were introduced with the aim of increasing transparency, before consumers, of the traffic-management measures and their consequences for the service provided, as well as the obligation to provide a specific contact point for the reception of complaints by customers relating to network neutrality issues.

Although the Regulation is of direct applicability in the national standard, it requires additional regulations. To this end, a set of BEREC guidelines were published at the end of August that will serve for national regulators to define the detail of implementation of the obligations imposed by the Regulation.

Universal Service

As a party responsible – appointed following a call for tenders – for the provision of the universal service for connection to a public communications network at a fixed location, NOS received the remuneration corresponding to 1st year/fraction of that provision, to wit, that part of 2014 that was ensured by it. Since the amount of the said remuneration (€1125k) is higher than the amount of the contribution for the financing of the Universal Service that was entrusted to it (€779k), NOS asked that this contribution be waived and that it be paid by way of remuneration that amount less its contribution (€346k), which was accepted by ANACOM.

With regard to financing of the Universal Service during the period prior to the appointment of the service provider, more specifically with regard to 2010 and 2011, NOS continued to dispute the contribution, challenging it, not paying it, but offering a guarantee.

Sports Rights

In May 2016, NOS and Vodafone agreed on reciprocal provision, for several seasons, of sports content (national and international) held by the companies, the aim being to ensure that both companies be provided with broadcasting rights of the home games of the clubs, as well as the rights to broadcast and distribute sports channels and club channels,

the rights of which are held by each party from time to time. The agreement came into effect as from the 16/17 sports season, ensuring that NOS and Vodafone customers are able to access the Benfica channel and the games of Benfica at home, regardless of the channel where these games are broadcast. Taking into account that the agreement provided for its extension to other operators, in July 2016 MEO and Cabovisão subscribed to it, putting an end to the lack of provision of the Porto Channel on the NOS programme schedule and ensuring that all pay-TV customers in Portugal can access all relevant sports content regardless of the telecom operator they use. In August 2016, an agreement was reached the objective of which was that the shareholder structure of Sport TV would come to be held in equal parts by NOS, Meo, Vodafone and Olivedesportos

Analysis of the NOS operational and financial results in 2016

9

9.1

Macroeconomic and sector framework in 2016

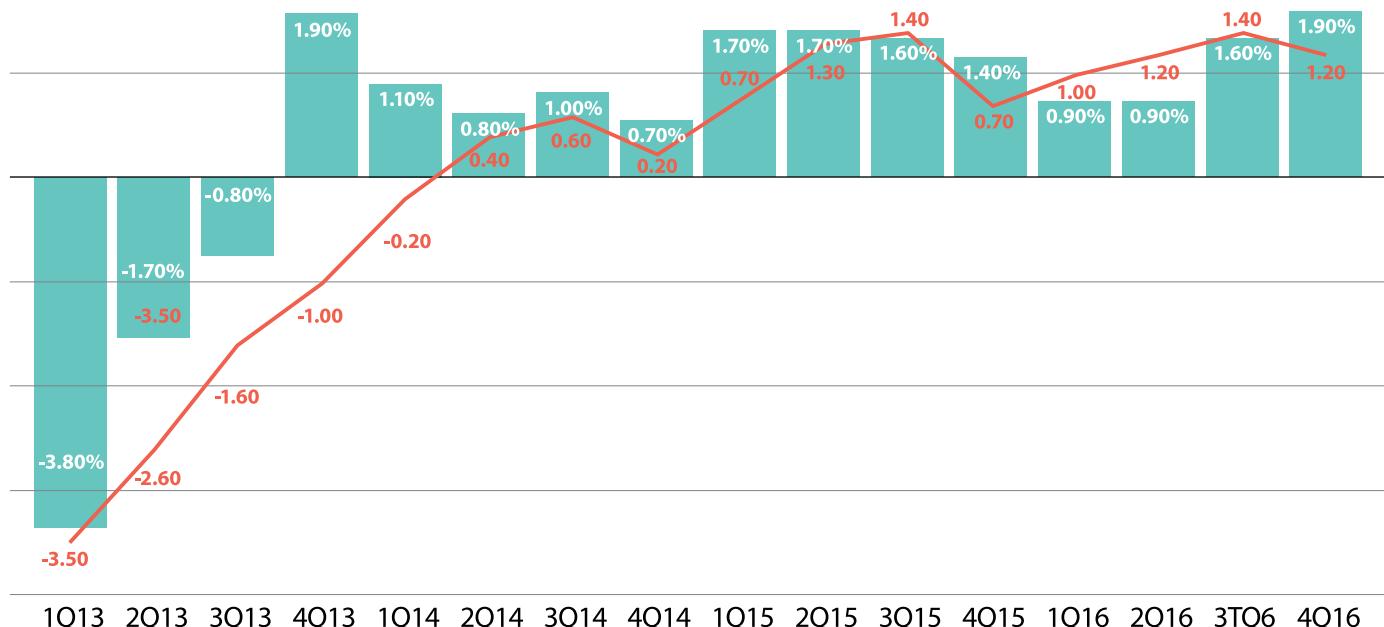
The year 2016 was marked by a slowdown in the pace of growth of economic activity in Portugal, with a Gross Domestic Product (GDP) growth of 1.4% in comparison with 2015, when the GDP had grown 1.6%.

2016 witnessed a less dynamic domestic demand and exports. This slowdown in domestic demand is linked to a lower level of investment vis a vis 2015. Still, with the decline of the unemployment rate and subsequent improvement of disposable income, the Economic Climate Indicator published by the National Institute For Statistics (INE) remained

throughout the year above the levels shown in the last quarter of 2015. In turn, public consumption remained practically unchanged year-on-year.

Exports of goods and services have also slowed down in comparison to 2015, especially in the first half of the year, namely with regard to energy and services excluding tourism, which in 2016 kept up the dynamic performance it had been posting throughout the previous periods.

GDP and Economic Climate Indicator, 2013 - 2016



Source: INE

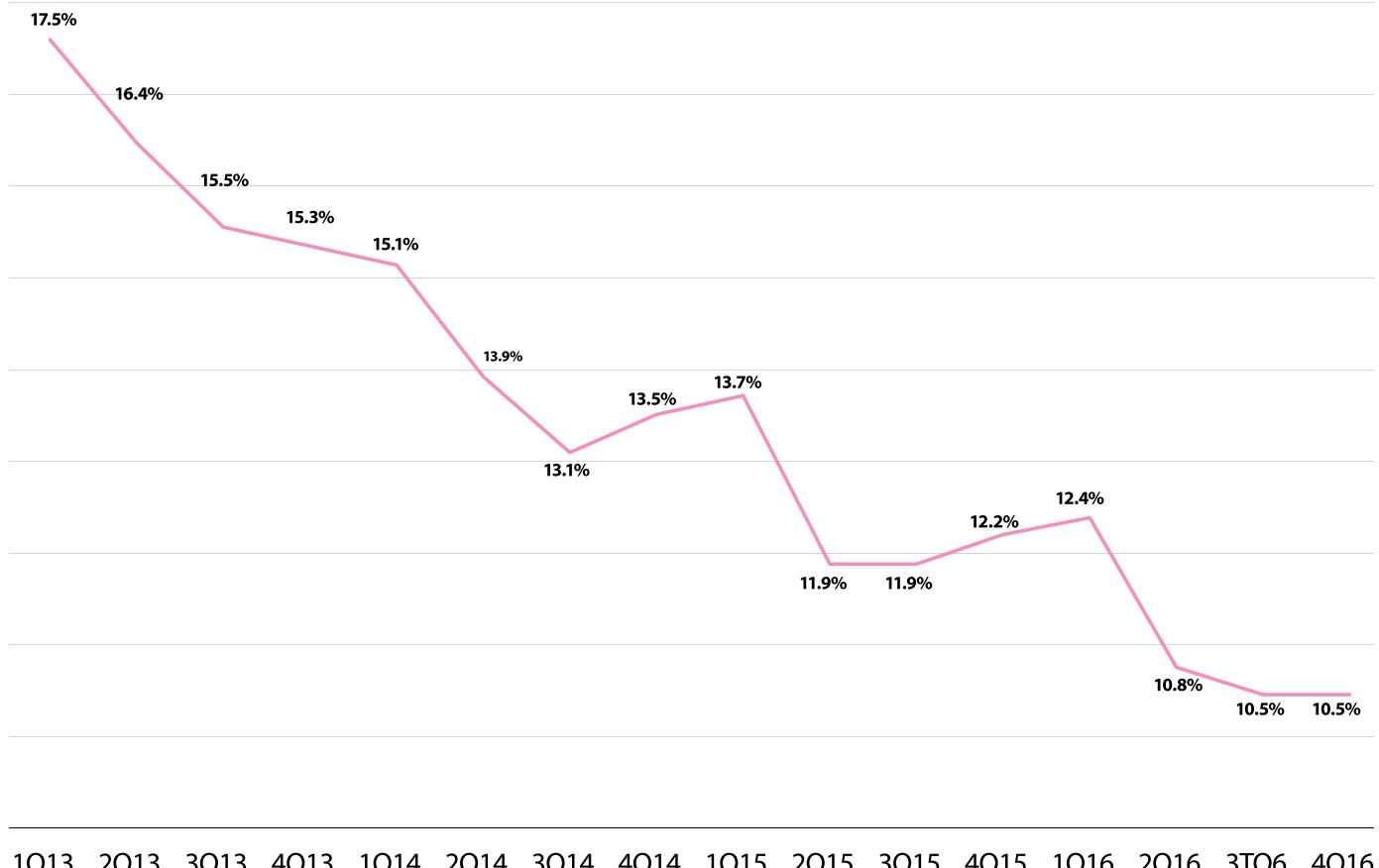
For 2017, the Bank of Portugal, in its Economic Bulletin of December 2016, estimated GDP growth of 1.4%. GDP growth in 2017 will be connected to the growth of external demand and to a recovery of investment, while exports will continue to play a key role in contributing to economic growth. It is likely that public consumption remains at the same level as 2016.

For 2018, the Bank of Portugal estimates a slight acceleration of GDP growth to 1.5%, resulting from the combination of a slight acceleration of private and public consumption with the continuing growth of exports at a relevant pace.

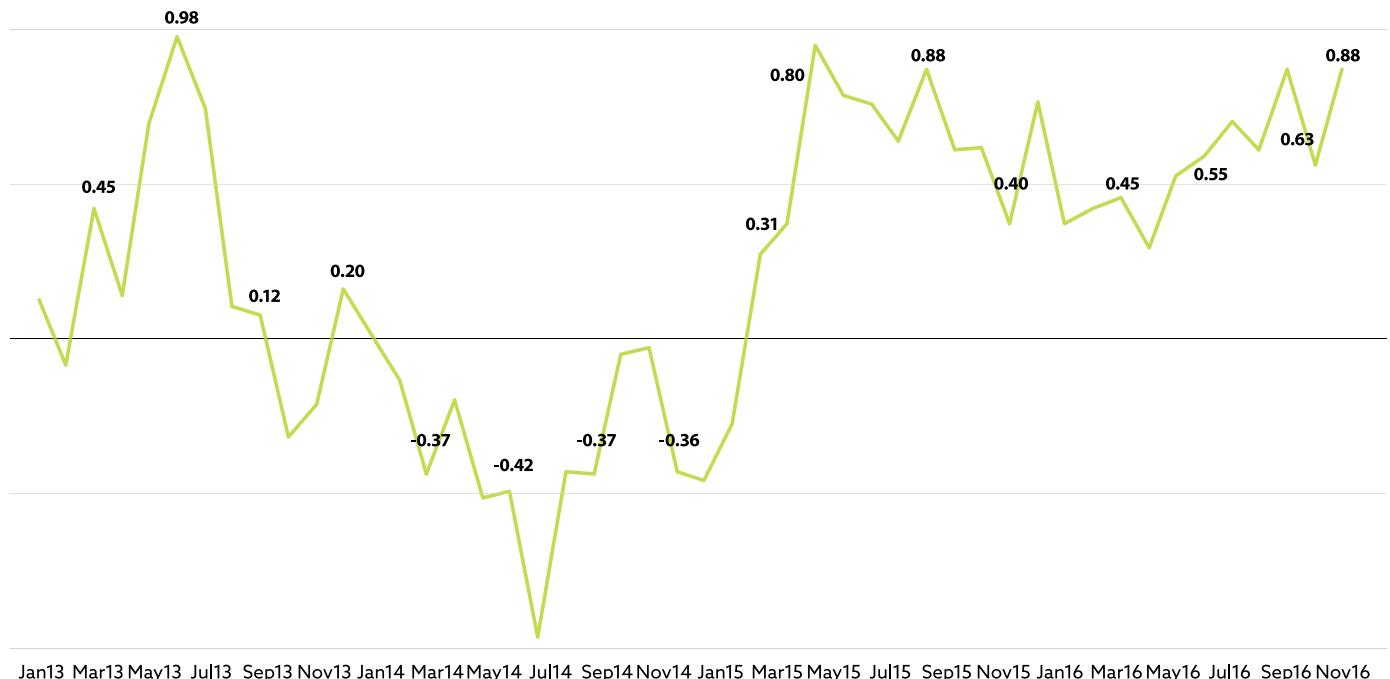
Exports will therefore continue to post growth in 2017 and 2018, which the Bank of Portugal estimates at 4.8% and 4.6%, respectively. This represents a slowdown in comparison to the 6.1% of 2015, but an acceleration in view of the 3.7% expected for 2016.

According to data from INE, in 2016 inflation was 0.6%, which compares with 0.5% in 2015. For the next two years, it is expected that the inflationary pressures will intensify. As such, the Bank of Portugal's estimate for the inflation rate is progressively higher, at 1.4% in 2017 and 1.5% in 2018 and 2019, based on a gradual recovery of the domestic and international economy, as well as of the labour market.

Unemployment Rate 2013 - 2016 (%)



Consumer Price Index 2013 - 2016 (Δ%)



As in 2015, the unemployment rate in 2015 reached its highest point at the end of the first quarter, when it was 12.4%. In the following quarters, the unemployment rate declined, reaching 10.8% at the end of 2Q16 and 10.5% at the end of 3Q16, the same figure as at the end of 4Q16 (11.1% was the rate for the whole of 2016), representing a clear recovery, of almost 1.7pp in comparison to 12.2% at the end of 4Q15.

In summary, the macroeconomic environment remains challenging and marked by uncertainty with regard to the desirable reduction of the level of indebtedness of both the public and private sectors and to the continuing inefficiencies in the labour and

product markets, despite the clear positive signs such as the gradual improvement in the unemployment rate and budget deficit.

In this context, NOS has shown strong resilience, which stems from the nature of the services it provides its customers – relatively inexpensive forms of entertainment and communications and access to information services, increasingly essential from a professional, educational or leisure standpoint, and which therefore form an increasingly high priority in the household budget of Portuguese families.

9.2

NOS operational and financial results in 2016

2016 Consolidated Results

Continued strong growth in RGUs led by additional coverage, growth in convergent bundles and in B2B accounts

Another year of solid growth across all services with total RGUs up by 611.9 thousand to 9.077 million services. Higher yoy levels of service penetration are naturally leading to progressively lower net adds yoy however NOS is still proving successful in growing its overall subscriber base primarily as a result of the network expansion of recent years, together with marginal growth in its legacy footprint.

Total Pay TV subscribers grew by a further 56.8 thousand in FY16, with 50.3 thousand net adds over fixed access networks. Pay TV is a key indicator of total RGU performance given that all other services in the residential segment are sold on top of Pay TV offers. Fixed broadband and voice RGUs increased by 119.9 thousand and 101.4 thousand in FY16 respectively, leading growth in penetration over the fixed base to 75% and 86% respectively.





NOS' NorteShopping Building in Matosinhos

42.5% of NOS' total subscriber base now take convergent bundles representing 680.2 thousand convergent subscribers, up by 89.3 thousand in FY16. Households are on average subscribing to close to 5 RGUs, representing a total of 3.39 million RGUs within convergent bundles. Convergent bundle penetration over the fixed access network stood at 45.8%, up by 3.9 pp over year end 2015. The volume of mobile RGUs continues to increase at a healthy pace led by the continued take up of convergent bundles and net adds in FY16 reached 332.6 thousand. The proportion of our active mobile customers with smartphones increased to 70% at the end of 2016, compared with just 62% at the end of 2015 and of these, 48% are 4G enabled. Monthly average data usage on smartphones in 2016 has grown by 133% to 1,016 MB and by 109% to 1,315 MB for 4G enabled devices, clear indication of the importance consumers attribute to mobile data.

According to the most recent market share data posted by Anacom for the end of 3Q16 shows that NOS continues to sustain its leadership position in Pay TV with a share of 43.5% of subscribers and is still growing share in Broadband and Fixed voice which have increased yoy by 1.2pp to 37.2% and 1.5pp to 37.5% respectively. Market share growth in mobile is the most significant having increased a further 2.9pp yoy to 24.0%. A measure of the success of NOS' strategic focus on convergence, NOS' market share in 3, 4 and 5P bundles at the end of 3Q16 reached 39.8%, representing yoy growth of 1.3pp.

To be at the forefront of innovation in the market is an important strategic directive for NOS and the launch of the UMA TV interface during 2016 is proving an important differentiating factor. NOS has positioned UMA convergent bundles at a premium versus the now mainstream IRIS platform and is gradually and opportunistically upgrading higher ARPU subscribers. Distinctive features of the UMA platform are that it can be accessed over

Operating Indicators ('000)	2015	2016	2016/2015
Telco (1)			
Aggregate Indicators			
Homes Passed	3,600.1	3,763.9	4.6%
Total RGUs	8,464.8	9,076.8	7.2%
Mobile	4,123.1	4,455.7	8.1%
Pre-Paid	2,075.5	2,071.3	(0.2%)
Post-Paid	2,047.5	2,384.4	16.5%
ARPU / Mobile Subscriber (Euros)	8.9	8.6	(3.6%)
Pay TV	1,543.8	1,600.6	3.7%
Fixed Access (2)	1,215.3	1,265.6	4.1%
DTH	328.5	335.0	2.0%
Fixed Voice	1,623.3	1,724.7	6.2%
Broadband	1,144.7	1,264.6	10.5%
Others and Data	29.9	31.2	4.2%
3,4&5P Subscribers (Fixed Access)	968.4	1,061.8	9.6%
% 3,4&5P (Fixed Access)	79.7%	83.9%	4.2pp
Convergent RGUs	2,853.7	3,387.2	18.7%
Convergent Customers	590.8	680.2	15.1%
Fixed Convergent Customers as % of Fixed Access Customers	41.9%	45.8%	3.9pp
% Convergent Customers	38.3%	42.5%	4.2pp
IRIS & UMA Subscribers	865.0	982.6	13.6%
IRIS & UMA as % of 3,4&5P Subscribers (Fixed Access)	89.3%	92.5%	3.2pp
Net Adds			
Homes Passed	274.4	163.8	(40.3%)
Total RGUs	839.3	611.9	(27.1%)
Mobile	479.9	332.6	(30.7%)
Pre-Paid	14.3	(4.3)	(129.8%)
Post-Paid	465.5	336.9	(27.6%)
Pay TV	67.1	56.8	(15.3%)
Fixed Access (2)	48.8	50.3	3.1%
DTH	18.3	6.5	(64.3%)
Fixed Voice	130.6	101.4	(22.4%)
Broadband	151.8	119.9	(21.0%)
Others and Data	9.9	1.3	(87.3%)
3,4&5P Subscribers (Fixed Access)	116.8	93.4	(20.0%)
Convergent RGUs	1,000.4	533.5	(46.7%)
Convergent Customers	206.2	89.3	(56.7%)
IRIS & UMA Subscribers	171.5	117.6	(31.4%)

(1) Portuguese Operations

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

Operating Indicators ('000)	2015	2016	2016/2015
Telco (1)			
Indicators per Segment			
Consumer			
Total RGUs	7,180.5	7,658.9	6.7%
Pay TV	1,435.6	1,478.3	3.0%
Fixed Access	1,134.3	1,172.0	3.3%
DTH	301.2	306.3	1.7%
IRIS & UMA Subscribers	828.4	933.3	12.7%
Broadband	1,039.2	1,143.5	10.0%
Fixed Voice	1,336.9	1,393.3	4.2%
Mobile	3,368.9	3,643.8	8.2%
% 1P (Fixed Access)	7.6%	5.4%	(2.2pp)
% 2P (Fixed Access)	13.4%	11.2%	(2.3pp)
% 3,4&5P (Fixed Access)	79.0%	83.5%	4.5pp
ARPU / Unique Subscriber With Fixed Access (Euros)	42.0	43.3	3.1%
Net Adds			
Total RGUs	634.5	478.4	(24.6%)
Pay TV	44.2	42.7	(3.4%)
Fixed Access	31.8	37.6	18.5%
DTH	12.5	5.1	(59.1%)
IRIS & UMA Subscribers	160.1	104.9	(34.5%)
Broadband	135.4	104.4	(22.9%)
Fixed Voice	60.3	56.4	(6.4%)
Mobile	394.6	274.9	(30.4%)
Business			
Total RGUs	1,284.3	1,417.9	10.4%
Pay TV	108.2	122.3	13.0%
IRIS & UMA Subscribers	36.6	49.2	34.6%
Broadband	135.5	152.3	12.4%
Fixed Voice	286.4	331.4	15.7%
Mobile	754.1	811.9	7.7%
ARPU per RGU (Euros)	17.8	16.2	(8.6%)
Net Adds			
Total RGUs	204.7	133.5	(34.7%)
Pay TV	22.8	14.1	(38.4%)
IRIS & UMA Subscribers	11.4	12.7	11.3%
Broadband	26.3	16.8	(36.3%)
Fixed Voice	70.3	45.0	(36.0%)
Mobile	85.2	57.8	(32.2%)

(1) Portuguese Operations

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

Cinemas and Audiovisuals

Operating Indicators ('000)	2015	2016	2016/2015
Cinema (1)			
Revenue per Ticket (Euros)	4.7	4.7	1.4%
Tickets Sold	8,852.3	9,096.9	2.8%
Screens (units)	215	215	0.0%

(1) Portuguese Operations

NOS' Cinema ticket sales posted a yoy increase of 2.8% to 9.097 million tickets in FY16, ahead of the performance of the market as a whole, which improved by 2.2%.

The most successful films exhibited in 2016 were "The Secret Life of Pets", "Suicide Squad", "Finding Dory", "Zootopia" and "Deadpool".

Average revenue per ticket posted a yoy improvement of 1.4% to 4.7 euros in FY16.

NOS' gross box-office revenues improved by 3.2% in FY16, which compares with an increase of 2.2% for the market as a whole, as NOS continues to maintain its leading market position, with a market share of 62.8% in terms of gross revenues in FY16. For FY16, NOS' total Cinema Exhibition revenues increased by 2.9% to 60.2 million euros.

Revenues in the Audiovisuals division improved marginally by 0.5% yoy to 71.6 million euros in FY16. This improvement in revenues was driven primarily by the performance in VoD and in the rights and television management areas, partially offset by declines in the Cinema Distribution and Homevideo businesses. Of the top 10 cinema box-office hits in FY16, NOS distributed 8, "The Secret Life of Pets", "Suicide Squad", "Finding Dory", "Zootopia", "Fantastic Beasts and Where To Find Them", "Sing", "Batman v Superman: Dawn of Justice", and "Moana", therefore maintaining its leading position, albeit with a smaller market share yoy.

Consolidated Financial Statements

Consolidated Income Statement

Profit and Loss Statement (Millions of Euros)	2015	2016	2016/2015
Operating Revenues	1,444.3	1,515.0	4.9%
Telco	1,372.3	1,442.5	5.1%
Consumer Revenues	855.5	894.4	4.5%
Business and Wholesale Revenues	402.7	414.5	2.9%
Equipment Sales	48.0	53.7	11.8%
Others and Eliminations	66.0	79.8	20.9%
Audiovisuals	71.3	71.6	0.5%
Cinema (1)	58.4	60.2	2.9%
Others and Eliminations	(57.7)	(59.3)	2.7%
Operating Costs Excluding D&A	(911.2)	(958.2)	5.2%
W&S	(89.1)	(93.1)	4.5%
Direct Costs	(436.7)	(457.8)	4.8%
Commercial Costs (2)	(98.1)	(104.6)	6.6%
Other Operating Costs	(287.2)	(302.7)	5.4%
EBITDA	533.1	556.7	4.4%
EBITDA Margin	36.9%	36.7%	(0.2pp)
Telco	485.5	506.7	4.4%
EBITDA Margin	35.4%	35.1%	(0.3pp)
Cinema Exhibition and Audiovisuals	47.6	50.1	5.3%
EBITDA Margin	41.5%	42.6%	1.1pp
Depreciation and Amortization	(366.4)	(391.6)	6.9%
(Other Expenses) / Income	(19.9)	(22.4)	12.5%
Operating Profit (EBIT) (3)	146.8	142.8	(2.7%)
Share of results of associates and joint ventures	3.6	(5.9)	(265.9%)
(Financial Expenses) / Income	(35.7)	(24.6)	(31.1%)
Income Before Income Taxes	114.6	112.2	(2.1%)
Income Taxes	(32.1)	(22.2)	(30.8%)
Net Income Before Associates & Non-Controlling Interests	78.9	95.9	21.6%
Income From Continued Operations	82.5	90.0	9.1%
o.w. Attributable to Non-Controlling Interests	0.2	0.4	68.9%
Net Income	82.7	90.4	9.3%

(1) Includes operations in Mozambique.

(2) Commercial costs include commissions, marketing and publicity expenses and costs of equipment sold.

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

Operating Revenues

Consolidated Operating Revenues grew by 4.9% yoy in FY16. Core Telco revenues increased by 5.1% in the same period. Excluding the impact of regulated MTR cuts, Telco Revenues would have grown by 6.2% yoy in 2016.

Within Telco Revenues, the Consumer segment grew yoy by 4.5%, which resulted from a pace of growth in the residential segment of 6.5% in FY16 and of a material improvement in the pace of decline of stand-alone personal revenues, from 15.1% in FY15 to just 5.5% in FY16. Convergent customer revenues are the main driver of growth in the Consumer segment having grown by 24.3% yoy, and representing already more than 52% of residential customer revenues. Total Consumer revenues adjusted for the impact of MTR cuts on Operator revenues would have grown by 6.0% yoy.

Business and Wholesale Revenues grew by 2.9% yoy in FY16, with Corporate customer revenues up by 6.6% yoy and Mass Business revenues up by 2.1% in the same period. Wholesale Revenues recorded another positive yoy growth of 1.0% despite to the continued decline, of 32.4% yoy, of low margin mass calling services. Adjusting for the impact of MTR cuts on Operator Revenues within the segment, Business and Wholesale revenues would have grown by 3.6% yoy.

Equipment sales were higher yoy by 11.8% in FY16.

The audiovisuals and cinema division continues to deliver very sound revenue performance yoy, up by 0.5% and 2.9% respectively, reflecting a very good quarter in terms of box office hits and share of distribution at NOS. Improving levels of consumer confidence are also helping to sustain the higher levels of movie going.

EBITDA

Consolidated EBITDA posted yoy growth of 4.4% yoy in FY16 to 556.7 million euros and core Telco EBITDA also grew at a yoy rate of 4.4% to 506.7 million euros. Consolidated EBITDA margin was 36.7% and Telco EBITDA margin was 35.1%. Audiovisuals and Cinemas posted a yoy improvement in EBITDA of 5.3% to 50.1 million euros in FY16, representing an EBITDA margin of 42.6%.

Consolidated Operating Costs Excluding D&A

Consolidated Operating Costs increased by 5.2% yoy to 958.2 million euros in FY16.

Wages and Salaries in FY16 were 93.1 million euros, posting an increase of 4.5% yoy. The average number of employees of the NOS Group in FY16 increased by 1.0% yoy, which together with a yearly salary increase and costs related with employee share plans, explain the overall rise in wage and salary costs.

Direct Costs grew by 4.8% yoy to 457.8 million euros in FY16. The main driver of the yoy increase is additional costs with programming resulting from the competitive bidding process for premium sports content that occurred in the last weeks of 2015 and into early 2016. In an effort to ensure that all consumers were able to access all relevant sports content whichever operator platform they subscribe, all operators in the Portuguese market reached a sports content reciprocal sharing agreement for sports events broadcasting rights and distribution and broadcasting rights of sports and club channels with proportionate sharing of costs associated with this content. NOS' programming costs increased by 14.3% yoy in FY16 due to the new club contracts that came into effect with the start of the 2016/2017 football season and due to the change in the

cost structure of the Sport TV distribution model for all operators in the market that resulted from the need to introduce a more financially sustainable model.

Reduction in other relevant items in Direct Costs helped offset some of the increase in content costs, namely interconnection costs which fell by 1.9% in FY16 primarily a result of the regulated cuts in termination rates. The net impact of the MTR cuts is positive for NOS given that NOS is a net payer (revenues minus costs) of interconnection to the other operators in the market because of its lower market share. Although the yearly net interconnection payment is still significant, around 11.1 million euros in FY16, it is significantly less than if the MTR cuts had not been implemented. In addition, as a result of NOS' significant mobile market share growth of the past couple of years, the mobile traffic imbalance between outgoing and incoming traffic has reduced. In FY16, NOS terminated only 35% more traffic on other networks than it was receiving compared with 56% in FY15 and 69% in FY14. Additional cost reduction was recorded due to the lower volume of mass calling services. Capacity costs also posted a material yoy decline of 3.2% yoy as a result of lower rental costs.

Commercial Costs increased 6.6% yoy to 104.6 million euros primarily led by the higher level of marketing and publicity costs due to reinforced investment in ongoing brand advertising and awareness and by an increase in COGS. This increase was partially offset by a decrease in non-customer acquisition related commissions.

Other Operating Costs increased 5.4% yoy to 302.7 million euros due to a higher level of provisions and supplies and external services.

Net Income

Net Income increased by 9.3% yoy to 90.4 million euros.

Depreciation and Amortization increased by 6.9% million euros in FY16 to 391.6 million euros due to the large investments made over the past quarters in network assets and customer acquisition costs.

NOS' Share of Associates and Joint Ventures was negative by 5.9 million euros compared to positive 3.6 million euros in FY15. The unfavourable evolution of this aggregate is essentially due to the contribution to net results of ZAP which was negative 3.5 million euros in FY16, compared to positive 8.3



million euros in FY15, partially offset by the improved economic situation of Sport TV due to the change in distribution model and shareholder structure. NOS' stake in Sport TV reduced to 25% with the entrance of Portugal Telecom in the share capital in 1Q17. Sport TV's contribution to Net Results in FY16 was negative 3.2 million euros, compared with negative 5.2 million euros in FY15.

Other Expenses* of 22.4 million euros in FY16 relate to non-recurrent costs.

Net Financial Expenses continued to deliver savings, having declined by 31.1% yoy to 24.6 million euros, reflecting the significantly improved average cost of debt after a number of facilities were refinanced over the course of 2015 and 2016. The section on Capital Structure ahead provides more detail of financial costs.

Income Tax provision amounted to 22.2 million euros in FY16 compared with 32.1 million euros in FY15, representing 19.8% as a percentage of Income Before Taxes, which compares with 28.0% in FY15.

* 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.

CAPEX and Cash Flow

CAPEX (Millions of Euros)	2015	2016	2016/2015
Telco	368.6	356.3	(3.4%)
Baseline Telco	123.2	120.8	(1.9%)
Customer Related	195.6	184.7	(5.6%)
Network Expansion / Substitution and Integration Projects and Others	49.8	50.8	1.9%
Audiovisuals and Cinema Exhibition	39.6	36.4	(8.2%)
Total Group	408.3	392.7	(3.8%)

Total Group CAPEX declined by 3.8% yoy to 392.7 million euros in FY16, representing 25.9% of Consolidated Revenues.

Telco CAPEX was 356.3 million euros in FY16, 3.4% down on the previous year and representing 24.7% of Telco revenues whereas Baseline Telco CAPEX reduced by 1.9% yoy to 120.8 million euros, 8.4% of Telco revenues. The level of Network Expansion and Substitution CAPEX was relatively stable yoy with marginal growth of 1.9% to 50.8 million euros, whereas the investment in Customer Related CAPEX decreased by 5.6% yoy to

184.7 million euros in FY16.

Operating Cash Flow amounted to 122.0 million euros in FY16, up by 24.4% in comparison with FY15. EBITDA - CAPEX grew by 39.3 million euros to 164.1 million euros, however this was partially offset by higher investment in working capital yoy of 42.1 million euros compared with 26.8 million euros in FY15. Working Capital items compare less favourably yoy in FY16 due to frontloaded payments made in 2H16 for premium sports content deals signed, in particular the new



distribution contract of Sport TV. Cash payment in this contract is higher in the first half of the football season which started in July and is then compensated in the latter half of the season and as such creates a phasing differential between cash and economic costs during the football season and the financial year.

Total FCF before dividends, financial investments and own shares acquisitions

was 54.1 million euros, up 30.5% yoy due to the aforementioned increase in EBITDA - CAPEX. On one hand, Cash Restructuring Payments and Interest Paid had a positive impact on FCF in 2016 in comparison with 2015. However, this effect was more than offset by the fact that in 2015 a cash inflow of 6.5 million euros was recorded, related to the end of the "e-escolas" programme and subsequent closure of the Foundation for Mobile Communications and that cash taxes amounted to 21.1 million euros in FY16 compared with 4.2 million euros in FY15.

This change is explained by higher advance tax payments made in 2016 based on 2015 taxable income and by the fact that taxable income in 2015 was higher than advance payments made in 2015.

Total Free Cash Flow amounted to negative 48.7 million euros, a yoy decline of 25.5%, due to the acquisition of own shares in the amount of 20.7 million euros and to the dividend payment in 2Q16 of 82.1 million euros.

Cash Flow (Millions of Euros)	2015	2016	2016/2015
EBITDA	533.1	556.7	4.4%
Total CAPEX	(408.3)	(392.7)	(3.8%)
Non-Cash Items Included in EBITDA - CAPEX and Change in Working Capital	(26.8)	(42.1)	57.1%
Operating Cash Flow	98.0	122.0	24.4%
Long Term Contracts	(17.9)	(17.1)	(4.4%)
Cash Restructuring Payments	(20.7)	(15.8)	(23.3%)
Interest Paid	(24.2)	(18.9)	(21.9%)
Income Taxes Paid	(4.2)	(21.1)	399.7%
Disposals	3.9	5.0	27.6%
FCM Receivables	6.5	0.0	(100.0%)
Other Cash Movements	(0.1)	0.0	(141.4%)
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	41.5	54.1	30.5%
Acquisition of Own Shares	(8.1)	(20.7)	156.8%
Foreign Currency Debt Exchange Effect	(0.0)	0.0	(100.0%)
Dividends	(72.2)	(82.1)	13.7%
Free Cash Flow	(38.8)	(48.7)	25.5%
Debt Variation Through Financial Leasing, Accruals & Deferrals & Others	(24.0)	(15.2)	(36.7%)
Change in Net Financial Debt	(62.9)	(63.9)	1.7%

Consolidated Balance Sheet

Balance Sheet (Millions of Euros)	2015	2016
Non-current Assets	2,510.1	2,453.0
Current Assets	466.4	529.6
Total Assets	2,976.5	2,982.6
Total Shareholders' Equity	1,063.5	1,053.1
Non-current Liabilities	1,150.7	1,168.7
Current Liabilities	762.2	760.8
Total Liabilities	1,913.0	1,929.5
Total Liabilities and Shareholders' Equity	2,976.5	2,982.6

Capital Structure

At the end of FY16, Net Financial Debt stood at 1,112.3 million euros.

Total financial debt was 1,114.6 million euros, which was offset with a cash and short-term investment position on the balance. For FY16, the all-in average cost of NOS' Net Financial Debt amounted to 2.2%, which compares with 3.0% for FY15.

Net Financial Gearing was 51.4% at the end of FY16 and Net Financial Debt / EBITDA (last 4 quarters) now stands at 2.0x. The average maturity of NOS' Net Financial Debt at the end of FY16 was 3.15 years.

Taking into account the loans issued at a fixed rate, the interest rate hedging operations in place, and the negative interest rate environment, as at 31 December 2016, the proportion of NOS' issued debt paying interest at a fixed rate is approximately 69%.

Net Financial Debt (Millions of Euros)	2015	2016	2016/2015
Short Term	160.0	213.9	33.7%
Bank and Other Loans	141.7	196.4	38.6%
Financial Leases	18.3	17.5	(4.4%)
Medium and Long Term	898.3	900.7	0.3%
Bank and Other Loans	862.6	871.8	1.1%
Financial Leases	35.8	28.9	(19.1%)
Total Debt	1,058.3	1,114.6	5.3%
Cash and Short Term Investments	9.9	2.3	(76.8%)
Net Financial Debt	1,048.4	1,112.3	6.1%
Net Financial Gearing (1)	49.6%	51.4%	1.7pp
Net Financial Debt / EBITDA	2.0x	2.0x	n.a.

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

Shareholder Remuneration

Considering that:

For the year ended December 31, 2016, a net profit for the year was determined in the separate accounts in the sum of EUR 80,022,804.40, and that this amount results from the fact that the company, in accordance with applicable accounting standards, recognised in its accounts for the year, the sum of EUR 1,186,010.00 by way of directors' profit sharing, in keeping with article 14(3) of the articles of association;

It is proposed that the following resolution be passed:

1. Given the current financial and asset position of NOS, that the net profit distributable under article 32 of the Companies Code, in the sum of EUR 80,022,804.40, be paid to shareholders, in addition to EUR 23,009,468.60 to Free Reserves, making a total payment by way of ordinary dividends for the 2016 financial year of EUR 103,032,276.00 (or 0,20 euros per share, in respect of the total number of shares issued);
2. That, since it is not possible to accurately determine the number of treasury shares that will be held on the date of the payment mentioned above, the overall sum of EUR 103,032,276.00 mentioned in the preceding paragraph calculated on the basis of an amount per share issued (in this case, 0,20 euros per share) be distributed by way of dividends as follows:

- a) The unit amount of 0,20 euros that presided over the drafting of this proposal be paid to each share issued;
- b) The unit amount corresponding to those shares that on the first day of the payment period mentioned above belong to the Company shall not be paid and shall be transferred to retained earnings.
3. Under article 14(3) of the Company's Articles of Association and as profit sharing in the Company, it is proposed to resolve on the allocation of the amount of EUR 1,186,010.00 to the Directors, under the criterion established by the Board of Directors

More about NOS

10

10.1

Group companies

NOS Comunicações

NOS Comunicações offers next generation fixed and mobile solutions for television, internet, voice and data for all market segments - Residential, Personal, Business and Wholesale, and is the leader in Pay TV, Next 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 interfaces - IRIS, which has been recognised nationally and internationally by being awarded various prizes and which offered the first automatic recording system on the market, or UMA TV, the most advanced and intelligent television in Europe and the first with voice recognition - 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.

The group is focused on the next revolution in TV broadcasting format, based on 4K technology or ultra HD (an image format that has 4 times more resolution than full HD with the 3,840 pixel standard) and has already shown some content with the new format in the Portuguese market that has impressed viewers because of its definition quality. In the personal segment, it offers, under unique conditions, a complete portfolio of mobile voice and data solutions using the 4G network, being the first operator to give a live demonstration of the potential of the speed of LTE-Advanced technology, while continuously monitoring the launch of the most sophisticated devices on the market worldwide.

In the business segment, NOS is positioned as a sustainable alternative for the Corporate (Hotels, Large Companies and Public Sector) and Mass Business segments. It offers a broad portfolio of products and services with tailor made solutions for each sector and businesses of different sizes, complementing this offer with ICT and Cloud services and with the first unlimited tariff plan on the market for corporate customers.

NOS Audiovisuais

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

NOS Cinemas

NOS 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.

Its first IMAX theatre was inaugurated in 2013 (Colombo Shopping Centre, with a capacity of around 400 seats) and another theatre with this state of the art technology in terms of sound and image opened in April 2015 in Matosinhos, at the Mar Shopping.

NOS Cinemas was also the first company worldwide to install satellite systems in all its cinema complexes, thus allowing content reception (movies).

Worldwide, NOS Cinemas is present in Mozambique through the company Lusomundo Moçambique, which has been experiencing a refurbishment process, initiated in 2010, closing down old theatres no longer able to provide standards of quality and opening new rooms with state of the art technology.

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 channel production, NOS Lusomundo TV also provides the pioneer subscription VOD service to other operators, providing 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.

NOS PUBLICIDADE - 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.

NOS Technology

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

NOS Towering

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

NOS Sistemas

A NOS Sistemas herda a experiência, "know NOS Sistemas inherits the experience, know how, partnerships and certifications of Mainroad, a company with over 12 years of experience in consulting, and the implementation and management of IT solutions, which has won more than 100 technological certifications since its foundation, in partnership with the main players in international and national markets.

Offering a complete range of IT services, namely Cloud infrastructure and solutions, Data Centre Services, IT Management Services, IT Governance and Security Services, supported by the NOS Data Centres, NOS Sistemas helps customers to attain the most efficient use of their technological infrastructure, and is able to support the customer selectively or globally through the outsourcing of services and IT infrastructure.

NOS Sistemas makes sure that applications, systems and networks that support the critical business processes of its customers are at their maximum availability, providing a specialist Customer Support Service 24/7 in order to respond to any challenge from its customers.

NOS Sistemas and the NOS Group are focused on delivering services and solutions of quality and high availability, constantly seeking to achieve outstanding excellence in customer service and the ability to respond and innovate through Information Technology and Communication services and solutions. These objectives are always underpinned by a vision of the future and by continuous improvement in relation to the growing market and business challenges.

NOS Inovação

NOS Inovação is a company of the NOS Group that was created out of a spin off of some of the assets of NOS Comunicações.

Its mission is to encourage and carry out scientific activity and research (R&D), as well as to demonstrate, divulge and transfer technology and training in the following areas: information systems and services, and latest generation television, internet, voice and data fixed and mobile solutions.

NOS Inovação is also responsible for the licensing and provision of engineering and consulting services in information, communications and electronic technologies in Portuguese and international markets.

NOS Açores Comunicações

NOS Açores operates in the Autonomous Region of Azores 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.

NOS Madeira Comunicações

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.

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 Lusomundo Audiovisuais) and AMC Networks International - Iberia, 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 five channels:

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

Panda, an educational thematic children channel, available on cable and IPTV. Its programming is exclusively dedicated to Portuguese children.

Hollywood is produced by Dreamia and broadcasts, every month, 24 hours a day, around 300 movies of the best selection of all cinema genres.

MOV with a programming based on horror, action and sci-fi movies and series.

Blast, part of the television operator ZAP's offer in Angola and Mozambique. It is a channel focused primarily on the action film genre and has more than 90% of its prime time programmes dubbed in Portuguese.

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.

Since August 2013 SPORT TV also provides new services to its subscribers – Multiscreen and Multiroom.

Currently, SPORT TV has 6 national channels, all in HD: SPORT.TV +, SPORT.TV 1, SPORT.TV 2, SPORT.TV 3, SPORT.TV 4, SPORT.TV 5 and 2 international channels: SPORT.TV ÁFRICA 1 and SPORT.TV ÁFRICA 2.

ZAP

NOS's entry into the African market has come about through its expansion in Angola via a joint venture, held 30% by NOS and 70% by SOCIP – Sociedade de Investimentos e Participações, S.A. (wholly controlled by Mrs Isabel dos Santos), its goal being to expand the availability of the offer of satellite Pay TV. NOS has thus taken the first step in a broader strategy of building its business on the African continent.

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

ZAP is presenting a very positive evolution, with strong customer take-up, having achieved Pay-TV market leadership in 2014 and increasing that leadership in the following years. Recently, ZAP launched an Internet and TV over fibre optic offer (FttH) in Luanda and its first cinema theatre complex.

10.2

Highlights of 2016

January

- . The Portuguese elect five NOS services as Product of the Year: N Play, the NOS Iris App; the Quatro packages, the "Tudo" tariff plan and the NOS card
- . NOS announces a partnership with PlayStation® and the Portugal League and presents the NOS PlayStation® League, an online football competition held during the first half of 2016
- . Opening of applications for NOS Alpha, the new NOS trainee programme

February

- . NOS obtains new international certification in customer service management in the Corporate area: ISO 20000
- . NOS and CIP (Business Confederation of Portugal) formalise a collaboration partnership with the goal of promoting the digital economy in Portugal and the use of Information and Communication Technologies (ICT)
- . 9 films distributed by NOS Audiovisuais receive 15 OSCARS®

March

- . Launch of the second edition of the NOS Innovation Award, which recognises innovation projects at Portuguese companies and institutions
- . NOS Cinemas, in partnership with CJ 4Dplex Co. and Sonae Sierra inaugurate the country's first cinema with 4DX technology at GaiaShopping

- . New offering alters mobile-data consumption with 3GB per card

April

- . Inauguration of the first cinema with 4DX technology in the Greater Lisbon region, at Almada Forum
- . NOS offers the best roaming rate in Europe

May

- . NOS and Vodafone announce agreement for reciprocal distribution of sports content
- . Euro 2016 games in 4K reinforce the ultra HD offering
- . "Innovation in health" was the theme of the first thematic conference organised within the scope of the 2016 NOS Innovation Award

June

- . NOS launches UMA, the most advanced and intelligent television in Europe, presenting a range of differentiating features such as voice command or the NOS TV application
- . Debating the major themes involving the process of innovation in companies with a new generation of Portuguese managers is one of the main goals of the "Innovation Circle", an initiative of NOS and of the Impresa Group
- . Promoting Portuguese cinema and discussing the reality of the industry in the country was the goal of the "Portuguese Cinema Encounters" organised by NOS
- . The edition of the NOS Primavera Sound is marked by historic performances and the largest turnout ever: 80 thousand people

July

- . Signing of the Protocol between NOS, the municipality of Oeiras and the Nova Information Management School within the scope of the Smart Cities
- . Launch of the NOS channel for the dissemination of entertainment content related to the activations of the brand itself
- . Second conference under the 2016 NOS Innovation Award dedicated to the theme "Industry 4.0: the challenge to digitise the economy"
- . Considered by the national and international press as one of the world's best festivals, NOS Alive has consolidated its position thanks to the excellence of the lineup

August

- . NOS League promotes union and fair play and creates the first official anthem of the competition sung by fans
- . Launch of the NOS TV App
- . Summer campaign: off of 15 GB of Internet on the purchase of unlocked Smartphones

September

- . NOS Em D'Bandada brings together new latitudes of Portuguese expression and a cinema cycle "There are films at NOS Em D'Bandada"
- . Launch of NOS Share, an App that allows storage of content in the cloud and sharing on all screens
- . The first ad with 4DX technology is KIA's in a partnership with NOS Cinemas and NOS Advertising

October

- . NOS and Huawei formalise strategic partnership in Shenzhen
- . The Portuguese consider that NOS has the best television and fixed phone services (ECSI Portugal 2016 – National Customer Satisfaction Index Study)
- . NOS Cinemas leads in innovation by bringing to Portugal the first laser projection to Braga Parque
- . NOS associates with Pixels Camp and broadcasts the event on television

November

- . NOS takes the augmented reality experience to the Web Summit
- . "Hacksaw Ridge" by Mel Gibson is the film chosen for the opening of the Lisbon & Estoril Film Festival (LEFFEST) with the support of BOS
- . The NOS customer service is the world's best and is awarded three gold medals in the Contact Centre World Awards

December

- . NOS offers Christmas presents to all its customers
- . New N Play App provides access to the multi-platform service, allowing customers to view thousands of films, series and cartoons unlimitedly

10.3

Glossary of terms

Initials	Significance
ADSL	Asymmetric Digital Subscriber Line
BSOD	Business Services Over DOCSIS
CAM	Circuitos Açores Madeira
CDN	Content Delivery Network
CG-NAT	Carrier Grade Network Address Translation
CMTS	Cable Modem Termination System
CRM	Customer Relationship Management
CSAT	Customer Satisfaction Score
DTH	Direct To Home
DUF	Direito de Utilização de Frequências
DWDM	Dense Wavelength Division Multiplexing
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortization
ECSI	European (and Portuguese) Customer Satisfaction Index
EPC	Evolved Packet Core
FTA	Free To Air
FTTH	Fibre To The Home
GB	Gigabyte
Gbps	Gigabit per Second
GBR	Guaranteed Bit Rate
GPON	Gigabit Optical passive Network
HFC	Hybrid Fibre Coaxial
HW	Hardware
IMS	Internet Multimedia Subsystem
IP	Internet Protocol
ISP	Internet Service Provider
KPI	Key Performance Indicator
LTE	Long Term Evolution
MB	Megabyte
Mbps	Megabit per Second
MCS	Mass Calling Services
MME	mobility management entity
MPLS	Multi Protocol Label Switching
MVNO	Mobile Virtual Network Operator
NPVR	Network Private Video Recorder
P2P	Point to Point
PCRF	Policy Control and Charging Rules Function
PIB / GDP	Gross Domestic Product
QAM4096	Quadrature Amplitude Modulation
RGU	Revenue Generating Unit
RLAH	Roam Like At Home
SEM	Search Engine Marketing
SEO	Search Engine Optimization
SGNS	Serving GPRS Support Node
SW	Software
VoLTE	Voice over LTE
VoWifi	Voice over WiFi
VPN	Virtual Private Network

Consolidated Financial Statements

Consolidated statement of financial position at 31 December 2015 and 2016

(Amounts stated in thousands of euros)

	NOTES	31/12/2015	31/12/2016
ASSETS			
NON - CURRENT ASSETS			
Tangible assets	8	1,167,538	1,158,181
Investment property		698	663
Intangible assets	9	1,178,559	1,158,779
Financial investments in group companies	10	29,922	7,888
Accounts receivable - other	11	7,182	6,489
Tax receivable	12	3,617	3,617
Available-for-sale financial assets		77	77
Deferred income tax assets	13	122,539	117,302
Derivative financial instruments	18	-	6
TOTAL NON - CURRENT ASSETS		2,510,132	2,453,002
CURRENT ASSETS			
Inventories	14	30,540	51,043
Accounts receivable - trade	15	347,837	348,926
Accounts receivable - other	11	11,135	15,814
Tax receivable	12	2,242	2,861
Deferred costs	16	64,660	84,391
Non-current assets held-for-sale	17	-	24,237
Derivative financial instruments	18	-	54
Cash and cash equivalents	19	9,948	2,313
TOTAL CURRENT ASSETS		466,362	529,639
TOTAL ASSETS		2,976,494	2,982,641
SHAREHOLDER'S EQUITY			
Share capital	20.1	5,152	5,152
Capital issued premium	20.2	854,219	854,219
Own shares	20.3	(10,559)	(18,756)
Legal reserve	20.4	3,556	1,030
Other reserves and accumulated earnings	20.4	119,004	112,031
Net income		82,720	90,381
EQUITY BEFORE NON - CONTROLLING INTERESTS		1,054,092	1,044,057
Non-controlling interests	21	9,430	9,041
TOTAL EQUITY		1,063,522	1,053,098
LIABILITIES			
NON - CURRENT LIABILITIES			
Borrowings	22	979,422	972,003
Provisions	23	139,484	146,287
Accounts payable	27	-	21,551
Tax payable	12	-	1,298
Accrued expenses	24	9,470	9,185
Deferred income	25	5,259	4,138
Derivative financial instruments	18	3,369	4,027
Deferred income tax liabilities	13	13,739	10,206
TOTAL NON - CURRENT LIABILITIES		1,150,743	1,168,696
CURRENT LIABILITIES			
Borrowings	22	178,022	224,692
Accounts payable - trade	26	327,485	238,828
Accounts payable - other	27	28,706	68,733
Tax payable	12	23,296	23,957
Accrued expenses	24	175,871	174,514
Deferred income	25	28,802	30,123
Derivative financial instruments	18	47	-
TOTAL CURRENT LIABILITIES		762,229	760,847
TOTAL LIABILITIES		1,912,972	1,929,543
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		2,976,494	2,982,641

The Notes to the Financial Statements form an integral part of the consolidated statement of financial position as at 31 December 2016.

Chief Accountant

Board of Directors

Consolidated statement of income by nature
for the years ended on 31 December 2015 and 2016
(Amounts stated in thousands of euros)

	NOTES	4 th QUARTER 15	12M 15	4 th QUARTER 16	12M 16
REVENUES:					
Services rendered		350,850	1,362,988	364,478	1,425,163
Sales		21,559	66,880	21,374	71,609
Other operating revenues		3,999	14,437	5,023	18,197
	28	376,408	1,444,305	390,875	1,514,969
COSTS, LOSSES AND GAINS:					
Wages and salaries	29	23,774	89,103	24,374	93,092
Direct costs	30	116,986	436,705	122,873	457,774
Costs of products sold	31	18,180	53,398	15,812	56,883
Marketing and advertising		7,472	29,128	12,898	36,269
Support services	32	24,668	93,721	23,838	91,445
Supplies and external services	32	48,302	183,719	45,285	184,416
Other operating losses / (gains)		247	780	433	831
Taxes		6,529	26,202	7,650	29,466
Provisions and adjustments	33	7,000	(1,550)	12,740	8,058
Depreciation, amortisation and impairment losses	8, 9 and 35	98,757	366,406	99,052	391,555
Restructuring costs		3,617	15,805	3,375	14,084
Losses / (gains) on sale of assets		(217)	(572)	(29)	(9)
Other losses / (gains) non recurrent		186	4,685	7,556	8,333
		355,501	1,297,530	375,857	1,372,197
INCOME BEFORE FINANCIAL RESULTS AND TAXES					
Losses / (gains) of affiliated companies	10 and 34	1,373	(3,584)	(2,297)	5,948
Financial costs	36	4,406	24,057	4,278	16,844
Foreign exchange losses / (gains)		(396)	794	(249)	480
Losses / (gains) on financial assets		-	249	-	-
Other financial expenses / (income)	36	2,022	10,629	1,797	7,277
		7,405	32,145	3,529	30,549
INCOME BEFORE TAXES					
Income taxes	13	4,403	32,138	(273)	22,226
NET CONSOLIDATED INCOME					
		9,099	82,492	11,761	89,996
ATTRIBUTABLE TO:					
NOS Group Shareholders		9,191	82,720	11,994	90,381
Non-controlling interests	21	(92)	(228)	(233)	(385)
EARNINGS PER SHARES					
Basic - euros	37	0.02	0.16	0.02	0.18
Diluted - euros	37	0.02	0.16	0.02	0.18

As a standard practice, only the annual accounts are audited, therefore the quarterly amounts were not audited autonomously.

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 2016.

Chief Accountant

Board of Directors

Consolidated statement of comprehensive income
for the years ended on 31 December 2015 and 2016
(Amounts stated in thousands of euros)

	NOTES	4 th QUARTER 15	12M 15	4 th QUARTER 16	12M 16
NET CONSOLIDATED INCOME		9,099	82,492	11,761	89,996
OTHER INCOME					
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO THE INCOME STATEMENT					
Accounting for equity method	10	138	(803)	-	(867)
Fair value of interest rate swap	18	(640)	(1,470)	1,354	(659)
Deferred income tax - interest rate swap	18	134	331	(305)	148
Fair value of equity swaps	18	-	-	(94)	(4)
Deferred income tax - equity swap	18	-	-	22	1
Fair value of exchange rate forward	18	117	(415)	(10)	47
Deferred income tax - exchange rate forward	18	(23)	151	2	(14)
Currency translation differences and others		36	(1,140)	(122)	(726)
INCOME RECOGNISED DIRECTLY IN EQUITY		(238)	(3,346)	847	(2,074)
TOTAL COMPREHENSIVE INCOME		8,861	79,146	12,608	87,922
ATTRIBUTABLE TO:					
NOS Group Shareholders		8,953	79,374	12,375	87,537
Non-controlling interests		(92)	(228)	233	385

As a standard practice, only the annual accounts are audited, therefore the quarterly amounts were not audited autonomously.

The Notes to the Financial Statements form an integral part of the consolidated statement of comprehensive income for the year ended on 31 December 2016.

Chief Accountant

Board of Directors

Consolidated statement of changes in shareholders' equity

for the years ended on 31 December 2015 and 2016

(Amounts stated in thousands of euros)

NOTES	SHARE CAPITAL	CAPITAL ISSUED PREMIUM	OWN SHARES, DISCOUNTS AND PREMIUMS	LEGAL RESERVE	OTHER RESERVES AND ACCUMULATED EARNINGS	NET INCOME	NON-CONTROLLING INTERESTS	TOTAL
BALANCE AS AT 1 JANUARY 2015	5,152	854,219	(11,791)	3,556	124,464	74,711	9,818	1,060,129
Result appropriation				-				-
Transfers to reserves	-	-	-	-	74,711	(74,711)	-	-
Dividends paid	-	-	-	-	(72,043)	-	(173)	(72,216)
Aquisition of own shares	20.3	-	(8,023)	-	-	-	-	(8,023)
Distribution of own shares - share incentive scheme	20.3	-	8,980	-	(9,961)	-	-	(981)
Distribution of own shares - other remunerations	20.3	-	275	-	141	-	-	416
Share Plan - costs incurred in the period and others	42	-	-	-	5,149	-	10	5,159
Comprehensive Income	-	-	-	-	(3,346)	82,720	(228)	79,146
Other	-	-	-	-	(111)	-	3	(108)
BALANCE AS AT 31 DECEMBER 2015	5,152	854,219	(10,559)	3,556	119,004	82,720	9,430	1,063,522
BALANCE AS AT 1 JANUARY 2016	5,152	854,219	(10,559)	3,556	119,004	82,720	9,430	1,063,522
Result appropriation								
Transfers to reserves	-	-	-	(2,526)	85,246	(82,720)	-	-
Dividends paid	-	-	-	-	(82,121)	-	-	(82,121)
Aquisition of own shares	20.3	-	(20,676)	-	-	-	-	(20,676)
Distribution of own shares - share incentive scheme	20.3	-	9,743	-	(10,502)	-	-	(759)
Distribution of own shares - other remunerations	20.3	-	2,736	-	(219)	-	-	2,517
Share Plan - costs incurred in the period and others	42	-	-	-	2,864	-	(4)	2,860
Comprehensive Income	-	-	-	-	(2,074)	90,381	(385)	87,922
Other	-	-	-	-	(167)	-	-	(167)
BALANCE AS AT 31 DECEMBER 2016	5,152	854,219	(18,756)	1,030	112,031	90,381	9,041	1,053,099

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 2016.

Chief Accountant

Board of Directors

Consolidated statement of cash flows
 for the years ended on 31 December 2015 and 2016
 (Amounts stated in thousands of euros)

	NOTES	12M 15	12M 16
OPERATING ACTIVITIES			
Collections from clients		1,712,123	1,812,084
Payments to suppliers		(1,018,088)	(1,154,400)
Payments to employees		(110,166)	(118,272)
Receipts / (payments) relating to income taxes		(3,011)	(21,387)
Other cash receipts / (payments) related with operating activities		(28,397)	(7,278)
CASH FLOW FROM OPERATING ACTIVITIES (1)		552,461	510,747
INVESTING ACTIVITIES			
CASH RECEIPTS RESULTING FROM			
Financial investments	5 and 10	1	25,366
Tangible assets		2,873	6,927
Intangible assets		16	46
Available-for-sale financial assets		2,225	-
Interest and related income		8,000	8,670
Other		1	-
		13,116	41,009
PAYMENTS RESULTING FROM			
Financial investments	5 and 10	(1)	(25,347)
Tangible assets		(295,281)	(256,907)
Intangible assets		(176,700)	(174,120)
		(471,982)	(456,374)
CASH FLOW FROM INVESTING ACTIVITIES (2)		(458,866)	(415,365)
FINANCING ACTIVITIES			
CASH RECEIPTS RESULTING FROM			
Borrowings	39.4	743,208	415,000
		743,208	415,000
PAYMENTS RESULTING FROM			
Borrowings	39.4	(741,500)	(330,014)
Lease rentals (principal)		(23,017)	(30,494)
Interest and related expenses		(40,817)	(31,381)
Dividends	20.4	(72,216)	(82,121)
Aquisition of own shares	20.3	(8,022)	(20,676)
		(885,572)	(494,686)
CASH FLOW FROM FINANCING ACTIVITIES (3)		(142,364)	(79,686)
Change in cash and cash equivalents (4)=(1)+(2)+(3)		(48,769)	15,696
Effect of exchange differences		(170)	(224)
Cash and cash equivalents at the beginning of the period		19,591	(29,348)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		(29,348)	(13,876)
Cash and cash equivalents	19	9,948	2,313
Bank overdrafts	22	(39,296)	(16,189)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		(29,348)	(13,876)

The Notes to the Financial Statements form an integral part of the consolidated statement of cash flows for the year ended on 31 December 2016.

Chief Accountant

Board of Directors

Notes to the consolidated financial statements as at 31 December 2016

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

1. Introductory note

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

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

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

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

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

NOS shares are listed on the Euronext Lisbon market. The Group's shareholder's structure as at 31 December 2016 is shown in Note 20.

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

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

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

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

NOS Inovação main activities are conducting and stimulating scientific activities of R&D (it owns all the intellectual property developed within the NOS Group, intending to guarantee the return of the initial investment through the commercialization of patents and concessions regarding commercial operation, as a result of the creation of new products and services), the demonstration, disclosure, technology and training transfers in the services and information management domains as well as fixed and mobile solutions of the latest generation of TV, internet, voice and data solutions.

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

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 year ended on 31 December 2016 were approved by the Board of Directors and their issue authorised on 1 March 2017.

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 by the previous Standing Interpretations Committee ("SIC"), adopted by the European Union, in force as at 1 January 2016.

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

The consolidated financial statements were prepared on a going concern basis from the ledgers and accounting records of the companies included in the consolidation (Annex A)), using the historical cost convention, adjusted where necessary for the valuation of financial assets and liabilities (including derivatives) at their fair value (Note 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 2016 are as follows:

- **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.
- **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.
- **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 is applicable to the whole of the financial statements and that the inclusion of irrelevant information could impair 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.
- **IAS 27 (amendments), "Equity Method in Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2016).** This amendment allows the choice to present, in the separate financial statements, investments in subsidiaries, jointly controlled companies or associates in accordance with Equity Method.

- Improvements to International Financial Reporting Standards (2012-2014 cycle effective for annual periods beginning on or after 1 January 2016). These improvements involve the review of various standards.

These changes had no material impact on the consolidated financial statements.

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

The following standard has not, yet been endorsed by the European Union, at the date of approval of these financial statements:

- **IFRS 14 (new), "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016).** This standard's main purpose is to improve comparability of financial reports for companies in regulated markets, allowing the companies that currently record assets and liabilities in result of the regulation form 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 material impact on the consolidated financial statements.

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

- **IFRS 2 (amendment), "Classification and measurement of share-based payments transactions" (effective for annual periods beginning on or after 1 January 2018).** These amendments incorporate the standard payment transactions based on shares and settled in cash.

- **IFRS 4 (amendment), "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018).** The amendments complement the current options in the standard that can be used to bridge the concern related with the temporary volatility of the results.
- **IFRS 10 and IAS 28 (amendments), "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (effective date to be designated).** The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.
- **IFRS 15 (clarification), "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 January 2018).** The clarifications presented are about the transition and not about changes in the underlying principles of the standard.
- **IFRS 16 (new), "Leasings" (effective for annual periods beginning on or after 1 January 2019).** This standard sets out recognition, presentation and disclosure of leasing contracts, defining a single accounting model. Aside from lower contracts than 12 months, leases should be accounted as an asset and a liability.
- **IAS 7 (amendment), "Cash Flow Statements" (effective for annual periods beginning on or after 1 January 2017).** This standard requires that the entity discloses information about changes in liabilities related to financing activities, including: (i) changes in financing cash flows; (ii) changes resulting from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in exchange rates; (iv) fair value changes; and (v) other changes.
- **IAS 12 (amendment), "Recognition of deferred tax assets of unrealised losses" (effective for annual periods beginning on or after 1 January 2017).** The amendments clarify when it should recognize an asset for deferred tax arising from unrealised losses.
- **IAS 40 (amendment), "Investment property transfers" (effective for annual periods beginning on or after 1 January 2018).** The amendments clarify if a property under construction or development, which was previously classified as Inventories, can be transferred to investment property when there is an evident change in use.
- **IFRIC 22 (interpretation), "Foreign currency transactions and advance consideration" (effective for periods beginning on or after 1 January 2018).** Interpretations clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.
- Improvements in International Financial Reporting Standards (2014-2016 cycle effective for periods beginning on or after 1 January 2017/2018). These improvements involve the review of various standards.

The Group is calculating the impact of these changes and will apply these standards as soon as they become effective.

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-controlling Interests" (Note 21)**.

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 "Losses / (gains) of affiliated companies" in the income statement before financial results and taxes. Direct changes in the post-acquisition equity of jointly controlled companies are recognised as the value of the shareholding as a contra entry in reserves, in equity.

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

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

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

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

For the year ended on 31 December 2016, the Group changed the presentation of the income resulting from the application of the Equity Method, from income before financial results and taxes to income before taxes.

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 "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.

For the year ended on 31 December 2016, the Group changed the presentation of the income resulting from the application of the Equity Method, from income before financial results and taxes to income before taxes.

Balances and transactions between group companies

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

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:

	2015 (YEARS)	2016 (YEARS)
Buildings and other constructions	2 - 50	2 - 50
Technical equipment:		
Network Installations and equipment	7 - 40	7 - 40
Terminal equipment	2 - 8	2 - 8
Other telecommunication equipment	3 - 10	3 - 10
Other technical equipment	1 - 16	1 - 16
Transportation equipment	3 - 4	3 - 4
Administrative equipment	2 - 10	2 - 10
Other tangible assets	4 - 8	4 - 8

2.3.4. Intangible assets

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

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

Goodwill

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

Goodwill is recorded as an asset and included in "Intangible assets" (Note 9) in the case of a controlled company or in the case in which the excess of cost has been originated by a merger, and in "Financial investments in group companies" (Note 10) in the case of a jointly controlled company or an associated company.

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

For the purposes of impairment tests, goodwill is attributed to the cash-generating units to which it is related (Note 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 (i.e. commissions incurred in customer acquisition, portability costs, negative margin in equipment sales, etc.);
- Content utilisation rights;
- Other contractual rights.

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

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

In the specific case of broadcasting rights of sports competitions, these are recognised as assets where the necessary conditions to organize each sports competition are present, which occurs in the homologation date of the participating teams in the competition that is being held in the sports season to be initiated, by the

organizing entity, taking into consideration that it is from that date that the conditions for the recognition of an asset are present, namely, the unequivocal attainment of the exploration rights of the games of the stated season. **In this situation, the stated rights are recognised in the income statement in "Depreciation, amortization and impairment losses", by the linear method, by twelfths, starting from the beginning of the month in which they are available for use.**

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:

	2015 (YEARS)	2016 (YEARS)
Rights of using capacities	Period of the contract	Period of the contract
Telecom licences	30 to 33	30 to 33
Software licences	1 to 8	1 to 8
Customer portfolios	5 to 6	5 to 6
Costs incurred in raising customers loyalty contracts	Loyalty contract period	Loyalty contract period
Content utilization rights	Period of the contract	Period of the contract
Other	1 to 8	1 to 8

2.3.5. Impairment of non-current assets, excluding goodwill

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

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

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

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

2.3.6. Financial assets

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

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

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

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

Financial assets at fair value through profit and loss

This category includes non-derivative financial assets acquired with the intention of selling them in the short term. This category also includes derivatives that do not qualify for hedge accounting purposes.

Gains and losses resulting from changes in the fair value of assets measured at fair value through profit or loss are recognised in results in the year in which they occur under "Losses / (gains) on financial assets", including the income from interest and dividends.

Financial assets available for sale

Financial assets available for sale are non-derivative financial assets which: (i) are designated as available for sale at the time of their initial recognition; or (ii) do not fit into the other categories of financial assets above.

They are recognised as non-current assets except where there is an intention to sell them within 12 months following the date of the statement of financial position.

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

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

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

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

Investments held to maturity

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

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

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

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

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

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

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

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

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

Due to the agreement between the three national operators of reciprocal availability, for several sports seasons, of sports content (national and international) owned by them (Note 38), NOS considered the recognition of the costs, excluding those divided by the remaining operators, on a systematic basis, given the pattern of economic benefits obtained through their commercial exploration.

2.3.11. Subsidies

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

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

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

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

2.3.12. Provisions and contingent liabilities

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

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

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

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

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

Provisions for potential future operating losses are not covered.

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

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

2.3.13. Leases

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

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

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

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

2.3.14. Income tax

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

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

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

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

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

In a business combination the deferred tax benefits acquired are recognised as 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 "Other reserves" in equity**.

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

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

2.3.16. Equity

Legal reserve

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

Share premium reserves

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

Reserves for plans of medium term incentive

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

Hedging reserves

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

Own shares reserves

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

Own shares

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

Retained results

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

2.3.17. Revenue

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

i) Revenues of Telecommunications Services:

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

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

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

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

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

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

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

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

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

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

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

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

- (i) When the gross inflows from economic benefits do not result in equity increases to the Group, i.e., the amount charged to the customer is equal to the amount delivered to the partner. This situation is applicable to the revenue obtained by the invoicing special services operators, in these cases the amounts charged on account of the capital are not revenue; and,
- (ii) **When the counterpart is not a "customer" but a partner who shares the risks and benefits of** developing a product or services in order for it to be commercialised. Thus, a counterpart of a contract will not be a customer if, for instance, the counterpart has hired from NOS to participate in an activity or process in which the parties in the contract share the risks and benefits instead of **obtaining the Group's ordinary activities** result. These cases are designated collaborative arrangements. This situation is applicable to revenues from operators affected by the reciprocal availability agreement regarding broadcasting rights of sports content.

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

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

Until 31 December 2014, revenue from penalties, due to the inherent uncertainties, was recorded only at the moment when it was received, and the amount was disclosed as a contingent asset (Note 41). From 1 January 2015, Revenue from penalties is recognised taking into account an estimated collectability rate taking into account the Group's collection history.

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

2.3.18. Accruals

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

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

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

2.3.19. Assets, liabilities and transactions in foreign currencies

Transactions in foreign currencies are converted into the functional currency at the exchange rate on the transactions dates. On each accounting date, outstanding balances (monetary items) are updated by applying the exchange rate prevailing on that date. The exchange rate differences in this update are recognised in the income statement for the year in which they were calculated. 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 2015 and 2016, 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:

	31/12/2015	31/12/2016
US Dollar	1.0887	1.0541
Angolan Kwanza	147.8315	184.4750
British Pound	0.7340	0.8562
Mozambican Metical	49.2900	74.5400
Canadian Dollar	1.5116	1.4188
Swiss Franc	1.0835	1.0739
Real	4.3117	3.4305

In the years ended at 31 December 2015 and 2016, 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 15	12M 16
Angolan Kwanza	133.1825	182.3243
Mozambican Metical	43.5342	69.8233

2.3.20. Financial charges and borrowings

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

2.3.21. Investment property

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

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

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

2.3.22. Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

2.3.23. Assets and liabilities offsetting

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

2.3.24. Employee benefits

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

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

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

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

2.3.25. Statement of cash flows

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

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

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

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

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

2.3.26. Subsequent events

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

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

3. Judgments and estimates

3.1. Relevant accounting estimates

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

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

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

Entities included in the consolidation perimeter

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

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

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

Impairment of non-current assets, excluding goodwill

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

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

Impairment of goodwill

Goodwill is subjected to impairment tests annually or whenever there are indications of a possible loss of value, in accordance with the criteria described in Note 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.

Errors, estimates and changes to accounting policies

In the years ended at 31 December 2015 and 2016, no material errors relating to previous years were recognised.

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 15). 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 2015 and 2016, 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.

	31/12/2015	31/12/2016
Accounts receivable other - non-current (Note 11)	7,182	6,489
Accounts receivable trade - current i)	285,170	285,212
Accounts receivable other - current (Note 11)	6,487	12,712
Cash and cash equivalents ii)	9,725	741
TOTAL FINANCIAL ASSETS	308,564	305,154

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 2015 and 2016, the balances receivable from customers by age were as follows:

	31/12/2015	31/12/2016
Not Due	101,897	86,280
Due but not impaired		
0 to 30	36,334	37,194
30 to 90	22,156	25,111
Over 90	96,280	94,054
Due and impaired		
0 to 90	23,182	5,326
90 - 180	6,424	11,301
180 to 360	11,047	21,021
Over 360	182,347	162,678
	479,667	442,965
Impairment of accounts receivable	(194,497)	(157,753)
TOTAL ACCOUNTS RECEIVABLE	285,170	285,212

At 31 December 2016, the total amount of accounts receivable - trade, impaired and overdue are covered by impairment adjustment around 86% (93% in 2015).

Credit risk monitoring, which is performed on a continuous base, can be summarised 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 group 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 2015 and 2016, **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), whose the counter parties for which are Financial Statement Institutions, are as follows:**

	31/12/2015	31/12/2016
A+	240	8
A-	189	5
BBB+	50	5
BBB	5	4
BB-	3,193	4
B+	1,148	63
B-	-	1
without rating	4,900	652
TOTAL	9,725	742

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) Commercial paper programmes of which around 350 million euros is being used, including 75 million euros issued without underwriting securities. The commercial paper programmes have a maximum amount of 470 million euros, corresponding to nine programmes, with six banks, which bear interest at market rates;
- b.2) Private and direct cash bonds to the value of 585 million euros;
- b.3) A Finance Contract with the European Investment Bank to support the development of mobile broadband network in Portugal totaling 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, 100% are subject to cross-default clauses, Pari Passu clauses and negative pledge clauses and 80% to ownership clauses.

In addition, approximately 42% of the total loans obtained require that the consolidated net financial debt does not exceed 3 times consolidated EBITDA, approximately 4% of the total loans obtained require that the consolidated net financial debt does not exceed 3.5 times consolidated EBITDA, and approximately 12% of the total loans obtained require 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.

	31/12/2015				31/12/2016			
	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	1,602	371,917	149,799	523,318	1,760	372,339	209,872	583,971
- Commercial Paper	99,107	234,882	-	333,989	149,368	200,000	-	349,368
- Foreign Loan	1,708	69,635	36,331	107,674	29,103	71,317	18,249	118,669
- Bank overdrafts	39,296	-	-	39,296	16,189	-	-	16,189
- Financial Leases	36,309	80,802	36,056	153,167	28,272	72,081	28,145	128,498
Accounts payable -trade	327,485	-	-	327,485	238,828	-	-	238,828
Accounts payable -other	28,706	-	-	28,706	90,284	-	-	90,284
Derivatives of financial instruments	47	3,369	-	3,416	-	4,027	-	4,027
Responsabilities with operating leases	50,460	96,833	29,271	176,564	49,175	104,173	42,651	195,999
TOTAL	584,720	857,438	251,457	1,693,615	602,979	823,936	298,917	1,725,833

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 Kwanza, 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.

A sensitivity analysis was performed using a strengthening or weakening by 10% of the functional currencies of the various financial investments at 31 December 2016. The amount of the investments would increase by 195 thousand euros or decrease by 160 thousand euros, respectively, and the counterpart of these changes the equity. In this sensitivity analysis, gains or losses that financial investments would recognize resulting from currency fluctuations are not considered.

The table below shows the Group's exposure to exchange rate risk at 31 December 2015 and 2016, based on the amounts of the Group's financial assets and liabilities in the statement of financial position (amounts stated in local currency):

	31/12/2015			
	US DOLLAR	BRITISH POUND	KWANZA	MOZAMBIQUE METICAL
ASSETS				
Account receivable - trade	2,854	-	-	2,558
Account receivable - other	-	-	465,300	804
Tax receivable	-	-	-	2,750
Cash and cash equivalents	178	9	-	30,880
TOTAL ASSETS	3,032	9	465,300	36,992
LIABILITIES				
Borrowings	98	-	-	-
Account payable - trade	11,012	145	-	497
Accounts payable - other	-	-	-	365
Tax payable	-	-	-	185
TOTAL LIABILITIES	11,110	145	-	1,047
NET	(8,078)	(136)	465,300	35,945
	31/12/2016			
	US DOLLAR	BRITISH POUND	KWANZA	MOZAMBIQUE METICAL
ASSETS				
Account receivable - trade	4,747	-	-	2,960
Account receivable - other	-	-	465,300	2,093
Tax receivable	-	-	-	3,222
Cash and cash equivalents	2	-	-	45,287
TOTAL ASSETS	4,749	-	465,300	53,562
LIABILITIES				
Borrowings	-	-	-	-
Account payable - trade	7,958	9	-	993
Accounts payable - other	388	21	-	1,980
Tax payable	-	-	-	24
TOTAL LIABILITIES	8,346	30	-	2,997
NET	(3,597)	(30)	465,300	50,565

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 2016 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 decreased by 22 thousand euros (2015: decreased 339 thousand euros) or increased by 27 thousand euros (2015: increased 414 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 EIB financing of 110 million euros, the bond loan of 50 million euros and finance leases, have variable interest rates, which exposes the Group to 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).

The 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 2016 would have resulted in an increase or decrease in annual profit before tax of approximately 1.4 million euros (2015: 1.1 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 1,702 thousand euros (2015: over 2,662 thousand euros) and down 1,711 thousand euros (2015: down 2,653 thousand euros) at 31 December 2016.

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 and cash equivalents. The internal ratio set as a target is a level of debt lower than 3 times EBITDA.

	31/12/2015	31/12/2016
Total gross debt	1,058,322	1,114,623
Cash and cash equivalents	(9,948)	(2,313)
TOTAL NET DEBT	1,048,374	1,112,310
EBITDA	533,099	556,735
Total net debt/EBITDA	1.97	2.00

Estimated fair value

The table below shows the financial assets and liabilities of the Group valued at fair value at 31 December 2015 and 2016, as the levels of the fair value hierarchy:

	31/12/2015			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
ASSETS				
Available-for-sale financial assets	-	-	77	77
	-	-	77	77
LIABILITIES				
Derivative financial instruments - interest rate swap (Note 18)	-	3,369	-	3,369
Derivative financial instruments - exchange rate forward (Note 18)	-	47	-	47
	-	3,416	-	3,416
	31/12/2016			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
ASSETS				
Available-for-sale financial assets	-	-	77	77
Derivative financial instruments - equity swap (Note 18)	-	23	-	23
Derivative financial instruments - exchange rate forward (Note 18)	-	37	-	37
	-	60	77	137
LIABILITIES				
Derivative financial instruments - interest rate swap (Note 18)	-	4,027	-	4,027
	-	4,027	-	4,027

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 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

During the year ended on 31 December 2015, the changes in the consolidated perimeter were as follow:

- 1) On 30 March 2015, the spin-off project of NOS Comunicações, SA materialised, giving rise to the creation of a new entity, NOS Inovação, SA, to which was transferred the Product Development Department assets, which include, among others, the IRIS platform. **The spin-off had no impact on the Group's consolidated financial statements;**
- 2) On 30 July 2015 the company NOS Sistemas España, SL. was established;
- 3) On December 2015 the companies Lusomundo España, SL ("Lusomundo España") and Distodo - Distribution and Logistics, Lda were dissolved and have not originated material impact on the consolidated financial statements.

During the year ended on 31 December 2016, the changes in the consolidated perimeter were as follow:

- 1) On 18 January 2016, the company ZON Finance BV was dissolved, which had no impact on the **Group's consolidated financial statements;**
- 2) On 28 July 2016, with the entrance of Vodafone on the share capital of Sport Tv, NOS SGPS now owns **a share of 33,33% (prior to 50%). This operation originated a gain of 2,509 thousands of euros in "Net losses / (gains) of affiliated companies" (1,926 thousands of euros due to the dilution of negative results from 2016 and 583 thousands of euros due to the dilution of the share capital on 1 January - Note 10);**

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: NOS Technology, NOS Towering, Per-mar, Sontária, NOS, NOS Açores, NOS Communications, NOS Madeira, NOSPUB, NOS SA, NOS Lusomundo TV, ZON Finance, Teliz Holding, NOS Sistemas, NOS Sistemas España and NOS Inovação.

- Audiovisual – the supply of video production services and sales, cinema exhibition and distribution and the acquisition/negociation of Pay TV and VOD (video-on-demand) rights and includes the following companies: NOS Audiovisuais, NOS Cinemas, Lusomundo Moçambique, Lda ("Lusomundo Moçambique"), Lusomundo España, Lusomundo Imobiliária 2, S.A. ("Lusomundo Imobiliária 2"), Lusomundo Sociedade de Investimentos Imobiliários, SGPS, S.A. ("Lusomundo SII") and Empracine – Empresa Promotora de Atividades Cinematográficas, Lda ("Empracine").

Assets and liabilities by segment at 31 December 2015 and 2016 are shown below:

	TELCO	AUDIOVISUALS	ELIMINATIONS	GROUP
ASSETS				
NON - CURRENT ASSETS:				
Tangible assets	1,153,518	14,020	-	1,167,538
Intangible assets	1,080,120	98,439	-	1,178,559
Investments in jointly controlled companies and associated companies	114,084	3,720	(87,882)	29,922
Accounts receivable - other	56,325	19,856	(68,999)	7,182
Deferred income tax assets	110,742	11,797	-	122,539
Other non-current assets	3,694	698	-	4,392
TOTAL NON - CURRENT ASSETS	2,518,483	148,530	(156,881)	2,510,132
CURRENT ASSETS:				
Inventories	29,562	978	-	30,540
Account receivables	343,052	58,204	(42,284)	358,972
Deferred costs	62,561	2,099	-	64,660
Other current assets	1,774	534	(66)	2,242
Cash and cash equivalents	9,050	898	-	9,948
TOTAL CURRENT ASSETS	445,999	62,713	(42,350)	466,362
TOTAL ASSETS	2,964,482	211,243	(199,231)	2,976,494
SHAREHOLDER'S EQUITY				
Share capital	5,152	28,699	(28,699)	5,152
Capital issued premium	854,219	-	-	854,219
Own shares	(10,559)	-	-	(10,559)
Legal reserve	3,556	1,087	(1,087)	3,556
Other reserves and accumulated earnings	101,399	68,819	(51,214)	119,004
Net income	76,289	6,433	(2)	82,720
EQUITY BEFORE NON - CONTROLLING INTERESTS	1,030,056	105,038	(81,002)	1,054,092
Non-controlling interests	9,372	21	37	9,430
TOTAL EQUITY	1,039,428	105,059	(80,965)	1,063,522
LIABILITIES				
NON - CURRENT LIABILITIES:				
Borrowings	1,002,215	52,932	(75,725)	979,422
Provisions	133,215	6,269	-	139,484
Accrued expenses	9,475	65	(70)	9,470
Other non-current liabilities	8,628	-	-	8,628
Deferred income tax liabilities	13,008	731	-	13,739
TOTAL NON - CURRENT LIABILITIES	1,166,541	59,997	(75,795)	1,150,743
CURRENT LIABILITIES:				
Borrowings	203,516	965	(26,459)	178,022
Accounts payable	348,280	19,043	(11,132)	356,191
Tax payable	20,851	2,511	(66)	23,296
Accrued expenses	157,134	23,551	(4,814)	175,871
Other current liabilities	28,732	117	-	28,849
TOTAL CURRENT LIABILITIES	758,513	46,187	(42,471)	762,229
TOTAL LIABILITIES	1,925,054	106,184	(118,266)	1,912,972
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	2,964,482	211,243	(199,231)	2,976,494

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

The results by segment and investments in tangible and intangible assets for the periods ended on 31 December 2015 and 2016 are shown below:

	TELCO		AUDIOVISUALS		ELIMINATIONS		GROUP	
	4 th QUARTER 15	12M 15	4 th QUARTER 15	12M 15	4 th QUARTER 15	12M 15	4 th QUARTER 15	12M 15
REVENUES:								
Services rendered	338,389	1,310,585	26,232	98,215	(13,771)	(45,812)	350,850	1,362,988
Sales	16,730	48,805	4,855	18,136	(26)	(61)	21,559	66,880
Other operating revenues	4,075	14,311	387	1,630	(463)	(1,504)	3,999	14,437
	359,194	1,373,701	31,474	117,981	(14,260)	(47,377)	376,408	1,444,305
COSTS, LOSSES AND GAINS:								
Wages and salaries	21,381	79,528	2,473	9,666	(80)	(91)	23,774	89,103
Direct costs	121,012	445,236	7,047	29,919	(11,073)	(38,450)	116,986	436,705
Costs of products sold	18,150	53,316	51	115	(21)	(33)	18,180	53,398
Marketing and advertising	8,265	29,233	1,455	6,277	(2,248)	(6,382)	7,472	29,128
Support services	24,553	93,328	753	1,889	(638)	(1,496)	24,668	93,721
Supplies and external services	43,261	164,440	5,240	20,202	(199)	(923)	48,302	183,719
Other operating losses / (gains)	233	714	14	66	-	-	247	780
Taxes	6,366	25,920	162	282	1	-	6,529	26,202
Provisions and adjustments	6,963	(1,659)	37	109	-	-	7,000	(1,550)
	250,184	890,056	17,232	68,525	(14,258)	(47,375)	253,158	911,206
EBITDA	109,010	483,645	14,242	49,456	(2)	(2)	123,250	533,099
Depreciation, amortisation and impairment losses	87,693	326,791	11,064	39,615	-	-	98,757	366,406
Other losses / (gains)	3,684	19,741	(98)	177	-	-	3,586	19,918
INCOME BEFORE FINANCIAL RESULTS AND TAXES	17,633	137,113	3,276	9,664	(2)	(2)	20,907	146,775
Losses / (gains) of affiliated companies	971	(3,204)	402	(380)	-	-	1,373	(3,584)
Financial costs	4,196	23,001	210	1,056	-	-	4,406	24,057
Foreign exchange losses / (gains)	290	756	(686)	38	-	-	(396)	794
Losses / (gains) on financial assets	-	249	-	-	-	-	-	249
Other financial expenses / (income)	1,978	10,540	44	89	-	-	2,022	10,629
	7,435	31,342	(30)	803	-	-	7,405	32,145
INCOME BEFORE TAXES	10,198	105,771	3,306	8,861	(2)	(2)	13,502	114,630
Income taxes	3,547	29,710	856	2,428	-	-	4,403	32,138
NET INCOME	6,651	76,061	2,450	6,433	(2)	(2)	9,099	82,492
CAPEX	102,816	368,647	10,865	39,628	-	-	113,681	408,275
EBITDA - CAPEX	6,194	114,998	3,377	9,828	(2)	(2)	9,569	124,824

	TELCO		AUDIOVISUALS		ELIMINATIONS		GROUP	
	4 th QUARTER 16	12M 16	4 th QUARTER 16	12M 16	4 th QUARTER 16	12M 16	4 th QUARTER 16	12M 16
REVENUES:								
Services rendered	351,019	1,372,461	25,624	101,005	(12,165)	(48,303)	364,478	1,425,163
Sales	16,305	53,698	5,127	18,052	(58)	(141)	21,374	71,609
Other operating revenues	4,739	17,938	601	1,459	(317)	(1,200)	5,023	18,197
	372,063	1,444,097	31,352	120,516	(12,540)	(49,644)	390,875	1,514,969
COSTS, LOSSES AND GAINS:								
Wages and salaries	21,842	83,013	2,533	10,080	(1)	(1)	24,374	93,092
Direct costs	123,852	468,643	8,990	29,115	(9,969)	(39,984)	122,873	457,774
Costs of products sold	15,812	56,821	1	74	(1)	(12)	15,812	56,883
Marketing and advertising	12,973	36,168	1,726	6,996	(1,801)	(6,895)	12,898	36,269
Support services	23,836	91,187	485	1,871	(483)	(1,613)	23,838	91,445
Supplies and external services	40,883	164,845	4,686	20,710	(284)	(1,139)	45,285	184,416
Other operating losses / (gains)	417	774	16	57	-	-	433	831
Taxes	7,595	29,320	56	146	(1)	-	7,650	29,466
Provisions and adjustments	13,258	8,004	(518)	54	-	-	12,740	8,058
	260,468	938,775	17,975	69,103	(12,540)	(49,644)	265,903	958,234
EBITDA	111,595	505,322	13,377	51,413	-	-	124,972	556,735
Depreciation, amortisation and impairment losses	89,800	353,994	9,252	37,561	-	-	99,052	391,555
Other losses / (gains)	10,839	22,241	63	167	-	-	10,902	22,408
INCOME BEFORE FINANCIAL RESULTS AND TAXES	10,956	129,087	4,062	13,685	-	-	15,018	142,772
Losses / (gains) of affiliated companies	(2,294)	6,665	(3)	(717)	-	-	(2,297)	5,948
Financial costs	4,218	16,381	60	463	-	-	4,278	16,844
Foreign exchange losses / (gains)	74	70	(323)	410	-	-	(249)	480
Losses / (gains) on financial assets	-	(5,611)	(15,600)	(20,192)	15,600	25,803	-	-
Other financial expenses / (income)	1,787	7,217	10	60	-	-	1,797	7,277
	3,785	24,722	(15,856)	(19,976)	15,600	25,803	3,529	30,549
INCOME BEFORE TAXES	7,171	104,365	19,918	33,661	(15,600)	(25,803)	11,489	112,223
Income taxes	(295)	19,912	22	2,314	-	-	(273)	22,226
NET INCOME	7,466	84,453	19,895	31,346	(15,600)	(25,803)	11,761	89,996
CAPEX	91,602	356,282	8,430	36,379	-	-	100,032	392,661
EBITDA - CAPEX	19,993	149,040	4,947	15,034	-	-	24,940	164,074

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

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

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

	31/12/2015			
	LOANS AND ACCOUNTS RECEIVABLE	AVAILABLE- FOR-SALE FINANCIAL ASSETS	INVESTMENTS HELD-TO- MATURITY	DERIVATIVES
ASSETS				
Available-for-sale financial assets	-	77	-	-
Derivative financial instruments (Note 18)	-	-	-	-
Accounts receivable - trade (Note 15)	347,837	-	-	-
Accounts receivable - other (Note 11)	13,669	-	-	-
Cash and cash equivalents (Note 19)	9,948	-	-	-
TOTAL FINANCIAL ASSETS	371,454	77	-	-
LIABILITIES				
Borrowings (Note 22)	-	-	-	-
Derivative financial instruments (Note 18)	-	-	-	3,416
Accounts payable - trade (Note 26)	-	-	-	-
Accounts payable - other (Note 27)	-	-	-	-
Accrued expenses (Note 24)	-	-	-	-
TOTAL FINANCIAL LIABILITIES	-	-	-	3,416

	31/12/2015			
	OTHER FINANCIAL LIABILITIES	TOTAL FINANCIAL ASSETS AND LIABILITIES	NON FINANCIAL ASSETS AND LIABILITIES	TOTAL
ASSETS				
Available-for-sale financial assets	-	77	-	77
Derivative financial instruments (Note 18)	-	-	-	-
Accounts receivable - trade (Note 15)	-	347,837	-	347,837
Accounts receivable - other (Note 11)	-	13,669	4,648	18,317
Cash and cash equivalents (Note 19)	-	9,948	-	9,948
TOTAL FINANCIAL ASSETS	-	371,531	4,648	376,179
LIABILITIES				
Borrowings (Note 22)	1,157,444	1,157,444	-	1,157,444
Derivative financial instruments (Note 18)	-	3,416	-	3,416
Accounts payable - trade (Note 26)	327,485	327,485	-	327,485
Accounts payable - other (Note 27)	28,625	28,625	81	28,706
Accrued expenses (Note 24)	185,341	185,341	-	185,341
TOTAL FINANCIAL LIABILITIES	1,698,895	1,702,311	81	1,702,392

31/12/2016

	LOANS AND ACCOUNTS RECEIVABLE	AVAILABLE- FOR-SALE FINANCIAL ASSETS	INVESTMENTS HELD-TO- MATURITY	DERIVATIVES
ASSETS				
Available-for-sale financial assets	-	77	-	-
Derivative financial instruments (Note 18)	-	-	-	60
Accounts receivable - trade (Note 15)	348,926	-	-	-
Accounts receivable - other (Note 11)	19,201	-	-	-
Cash and cash equivalents (Note 19)	2,313	-	-	-
TOTAL FINANCIAL ASSETS	370,440	77	-	60
LIABILITIES				
Borrowings (Note 22)	-	-	-	-
Derivative financial instruments (Note 18)	-	-	-	4,027
Accounts payable - trade (Note 26)	-	-	-	-
Accounts payable - other (Note 27)	-	-	-	-
Accrued expenses (Note 24)	-	-	-	-
TOTAL FINANCIAL LIABILITIES	-	-	-	4,027

31/12/2016

	OTHER FINANCIAL LIABILITIES	TOTAL FINANCIAL ASSETS AND LIABILITIES	NON FINANCIAL ASSETS AND LIABILITIES	TOTAL
ASSETS				
Available-for-sale financial assets	-	77	-	77
Derivative financial instruments (Note 18)	-	60	-	60
Accounts receivable - trade (Note 15)	-	348,926	-	348,926
Accounts receivable - other (Note 11)	-	19,201	3,102	22,303
Cash and cash equivalents (Note 19)	-	2,313	-	2,313
TOTAL FINANCIAL ASSETS	-	370,577	3,102	373,679
LIABILITIES				
Borrowings (Note 22)	1,196,695	1,196,695	-	1,196,695
Derivative financial instruments (Note 18)	-	4,027	-	4,027
Accounts payable - trade (Note 26)	238,828	238,828	-	238,828
Accounts payable - other (Note 27)	90,132	90,132	152	90,284
Accrued expenses (Note 24)	183,699	183,699	-	183,699
TOTAL FINANCIAL LIABILITIES	1,709,354	1,713,381	152	1,713,533

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

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

At 31 December 2015 and 2016, the movements in this item were as follows:

	31/12/2014	INCREASES	TRANSFER AND OTHERS	31/12/2015
ACQUISITION COST				
Land	919	-	-	919
Buildings and other constructions	301,266	6,862	17,057	325,185
Basic equipment	2,285,138	143,118	37,973	2,466,229
Transportation equipment	11,031	5,416	(1,792)	14,655
Tools and dies	1,238	13	15	1,266
Administrative equipment	309,352	13,291	6,386	329,029
Other tangible assets	41,535	291	425	42,251
Tangible assets in-progress	93,172	93,065	(142,966)	43,271
	3,043,651	262,056	(82,902)	3,222,805
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES				
Land	37	-	-	37
Buildings and other constructions	151,513	11,257	5,887	168,657
Basic equipment	1,420,704	183,135	(69,602)	1,534,237
Transportation equipment	5,349	1,212	(387)	6,174
Tools and dies	1,213	12	-	1,225
Administrative equipment	283,293	22,432	(1,521)	304,204
Other tangible assets	39,772	911	50	40,733
	1,901,881	218,959	(65,573)	2,055,267
	1,141,770	43,097	(17,329)	1,167,538

	31/12/2015	INCREASES	TRANSFER AND OTHERS	31/12/2016
ACQUISITION COST				
Land	919	-	-	919
Buildings and other constructions	325,185	5,745	37,303	368,233
Basic equipment	2,466,229	127,527	(55,369)	2,538,387
Transportation equipment	14,655	339	(6,321)	8,673
Tools and dies	1,266	1	74	1,341
Administrative equipment	329,029	16,986	(70,446)	275,569
Other tangible assets	42,251	199	(1,362)	41,088
Tangible assets in-progress	43,271	87,438	(98,642)	32,067
	3,222,805	238,235	(194,762)	3,266,278
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES				
Land	37	-	-	37
Buildings and other constructions	168,657	12,333	17,363	198,353
Basic equipment	1,534,237	175,982	(95,827)	1,614,392
Transportation equipment	6,174	950	(4,063)	3,061
Tools and dies	1,225	28	(3)	1,250
Administrative equipment	304,204	19,061	(72,399)	250,866
Other tangible assets	40,733	512	(1,107)	40,138
	2,055,267	208,867	(156,037)	2,108,097
	1,167,538	29,368	(38,725)	1,158,181

At 31 December 2016, the tangible assets net value is composed mainly by basic equipment, namely:

- Network and telecommunications infrastructure (fiber optic network and cabling, network equipment, and other equipment) in the amount of 785.8 million euros (31 December 2015: 786.3 million euros);
- Terminal equipment installed on client premises, included under Basic equipment, amounts to 138.2 million euros (31 December 2015: 145.7 million euros).

The net amount of "Transfer and others" corresponds mainly to the reclassification to "Non-current assets held-for-sale" in the amount of 24.2 million euros (Note 17), to the transfer of assets, in the amount of 8.4 million euros to "Intangible assets" and to the disposal of assets.

The acquisition cost of the "Tangible assets" and "Intangible assets" held by the Group under finance lease contracts at 31 December 2015 and 2016, amounted to 225.1 million euros and 231.2 million euros, and their net book value as of those dates amounted to 127.9 million euros and 112.9 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 2016, total net value of these costs amounted to 15.2 million euros (31 December 2015: 15.4 million euros). The amount capitalised in the period ended on 31 December 2016 amounted to 1.1 million euros (31 December 2015: 2.2 million euros).

At 31 December 2015 and 2016, the value of commitments to third parties relating to investments to make was as follows:

	31/12/2015	31/12/2016
Network	6,299	3,988
Information systems	1,829	3,023
	8,128	7,011

During the year ended on 31 December 2016, NOS carried out the impairment analysis (see assumptions in Note 9, except for the evaluation period used, which was 3 years) of fixed assets related to cinema exhibition, which, to date, had a net value of 7,011 thousand euros (8,128 thousand euros in 2015). Given the range of influence of each complex, the cinemas were grouped as cash-generating units on a regional basis for impairment testing purposes. Regional cash-generating units are Lisbon, Porto, Coimbra, Aveiro, Viseu and cinemas scattered throughout the other regions of the country are considered individual cash generating units. This analysis did not result in material impairment adjustments.

9. Intangible assets

At 31 December 2015 and 2016, the movements in this item were as follows:

	31/12/2014	INCREASES	TRANSFER AND OTHERS	31/12/2015
ACQUISITION COST				
Industrial property and other rights	1,414,048	74,877	1,072	1,489,997
<i>Goodwill</i>	641,599	-	-	641,599
Other intangible assets	-	60	(60)	-
Intangible assets in-progress	41,929	71,340	(82,680)	30,589
	2,097,576	146,277	(81,668)	2,162,185
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES				
Industrial property and other rights	933,369	147,438	(101,337)	979,470
Other intangible assets	-	-	4,156	4,156
	933,369	147,438	(97,181)	983,626
	1,164,207	(1,161)	15,513	1,178,559

	31/12/2015	INCREASES	TRANSFER AND OTHERS	31/12/2016
ACQUISITION COST				
Industrial property and other rights	1,489,997	81,118	125,920	1,697,035
<i>Goodwill</i>	641,599	-	-	641,599
Intangible assets in-progress	30,589	73,309	(70,524)	33,374
	2,162,185	154,427	55,396	2,372,008
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES				
Industrial property and other rights	979,470	182,654	46,326	1,208,450
Intangible assets in-progress	4,156	-	623	4,779
	983,626	182,654	46,949	1,213,229
	1,178,559	(28,227)	8,447	1,158,779

At 31 December 2016, the item "Industrial property and other rights" includes mainly:

- (1) A net amount of 135.2 million euros (31 December 2015: 143.4 million euros) mainly related to the investment, net of amortisation, made in the development of the UMTS network by NOS SA, including: (i) 42.8 million euros (31 December 2015: 45.4 million euros) related to the license, (ii) 14.3 million euros (31 December 2015: 15.2 million euros) related to the agreement signed in 2002 between Oni Way and the other three mobile telecommunication operators with activity in Portugal, (iii) 4.4 million euros (31 December 2015: 4.7 million euros) **related to the Share Capital of "Fundação para as Comunicações Móveis", established in 2007, under an agreement entered with Ministério das Obras Públicas, Transportes e Comunicações and the three mobile telecommunication operators in Portugal;** (iv) 62.6 million euros (31 December 2015: 66.4 million euros) **related with the programme "Initiatives E";** and (v) the net amount of 7.4 million euros (31 December 2015: 7.9 million euros) corresponding to the valuation of the license in the fair value allocation process resulting from the merger;
- (2) A net amount of 94.0 million euros (31 December 2015: 97.8 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 3.3 million euros (31 December 2015: 3.4 million euros) corresponding to the valuation of the license in the fair value allocation process resulting from the merger;
- (3) A net amount of 51.0 million euros (31 December 2015: 58.5 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 56.9 million euros (31 December 2015: 59.5 million euros) and 20.9 million euros (31 December 2015: 21.8 million euros) corresponding to the capitalised costs related to **customers' loyalty contracts and future rights to use movies and series, respectively;**
- (5) A net amount of approximately 16.4 million euros (31 December 2015: 26.3 million euros) corresponding to the valuation of Optimus customer portfolio under the fair value allocation process resulting from the merger.

Increases in the year ended 31 December 2016 correspond mainly to customer acquisition costs, in the amount of 67 million euros, movies and series usage rights, in the amount of 33 million euros, and software acquisition and development, in the amount of 28 million euros.

The amount of "Transfer and others" corresponds, mainly, to the transfer of assets, in the amount of 8.4 million euros from "Tangible assets".

Impairment tests on goodwill

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

	31/12/2015	31/12/2016
Telco	564,998	564,998
Audiovisuals	76,601	76,601
	641,599	641,599

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

These estimates are based on the following assumptions:

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

* EBITDA = Operational result + Depreciation and amortization (CAGR - average 5 years)

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

The number of years specified in the impairment tests depends on the degree of maturity of the various businesses and markets, and were determined on the basis of the most appropriate 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. Financial investments in group companies

At 31 December 2015 and 2016, this item was composed as follows:

	31/12/2015	31/12/2016
INVESTMENTS - EQUITY METHOD		
Sport TV	21,617	2,219
Dreamia	2,938	3,770
Finstar	4,949	1,632
Mstar	230	(825)
Upstar	96	139
Canal 20 TV, S.A.	17	13
East Star	36	36
Big Picture 2 Films	39	80
	29,922	7,063
ASSETS	29,922	7,888
LIABILITIES (NOTE 23)	-	(825)

Movements in "Financial investments in group companies" in the periods ended on 31 December 2015 and 2016 were as follows:

	12M 15	12M 16
AS AT JANUARY 1	31,480	29,922
Gains / (losses) for the year (Note 34)	3,584	(6,550)
Gains (Note 34) i)	-	583
Dividends	(4,099)	-
Capital increase	-	25,347
Return of supplementary ii)	-	(41,547)
Supplementary capital	-	175
Margins between the deferred group companies	(240)	-
Changes in equity iii)	(803)	(867)
AS AT DECEMBER 31	29,922	7,063

i) Gains generated by the entrance of Vodafone in the share capital of Sport Tv (Note 5).

ii) During the first quarter of 2016, Sport Tv returned supplementary payments in the amount of 41.5 million euros through the delivery of cash in the amount of 25.3 million euros and the assignment of credits in the amount of 16.2 million euros (Note 11).

iii) Amounts related to changes in equity of the companies registered by the equity method of consolidation are mainly related to foreign exchange impacts of the investment in other currencies than euro.

The Group's interest in the results and assets and liabilities of the jointly controlled companies and associated companies in the years ended on 31 December 2015 and 2016 is as follows:

ENTITY	2015						GAIN / (LOSS) ATTRIBUTED TO THE GROUP
	ASSETS	LIABILITIES	EQUITY	REVENUE	NET INCOME	% HELD	
Sport TV	151,272	108,038	43,234	119,753	(10,310)	50.00%	(5,155)
Dreamia	12,821	6,946	5,875	3,522	943	50.00%	472
Finstar	173,112	155,814	17,298	240,445	26,869	30.00%	8,061
Mstar	6,246	5,478	768	21,319	835	30.00%	251
Upstar	131,772	131,453	319	80,667	100	30.00%	30
Distodo*	-	-	-	-	-	50.00%	(94)
Canal 20 TV, S.A.	36	1	35	56	37	50.00%	18
East Star	137	17	120	-	-	30.00%	-
Big Picture 2 Films	1,977	1,782	195	5,345	4	20.00%	1
	477,373	409,529	67,844	471,107	18,478		3,584

* Company dissolved at 31 December 2015

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

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

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

11. Accounts receivable - other

At 31 December 2015 and 2016, this item was composed as follows:

	31/12/2015		31/12/2016	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Accounts receivables i)	7,774	8,010	13,560	7,317
Advances of suppliers	4,648	-	3,102	-
	12,422	8,010	16,662	7,317
Impairment of other receivable	(1,287)	(828)	(848)	(828)
	11,135	7,182	15,814	6,489

i) The increase in the year ended on 31 December 2016 results of transferred credits by Sport Tv in the amount of 16.2 million euros (Note 10), which on 31 December 2016 amounted to 9.7 million euros.

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

	12M 15	12M 16
AS AT JANUARY 1	1,796	2,115
Increases (Note 33)	661	136
Others	(342)	(575)
AS AT DECEMBER 31	2,115	1,676

12. Taxes payable and receivable

At 31 December 2015 and 2016, these items were composed as follows:

	31/12/2015		31/12/2016	
	RECEIVABLE	PAYABLE	RECEIVABLE	PAYABLE
NON CURRENT				
Value-added tax (Note 41)	3,617	-	3,617	-
Income taxes (i)	-	-	-	1,298
	3,617	-	3,617	1,298
CURRENT				
Value-added tax	1,812	17,631	974	18,633
Income taxes (i)	-	1,355	1,457	1,298
Personnel income tax withholdings	-	2,168	-	1,980
Social Security contributions	-	2,003	-	1,895
Other	430	139	430	151
	2,242	23,296	2,861	23,957
	5,859	23,296	6,478	25,255

(i) The credit amounts correspond to the amount to be paid in 2017 and 2018, following the Group's adhesion to the optional regime of revaluation of fixed tangible assets and investment property (Note 13).

At 31 December 2015 and 2016 the amounts of IRC (Corporate Income Tax) receivable and payable were composed as follows:

	31/12/2015	31/12/2016
Estimated current tax on income	(8,550)	(20,113)
Payments on account	2,744	15,070
Withholding income taxes	3,760	4,565
Other	691	(661)
	(1,355)	(1,139)

13. Income tax expense

NOS and its associated companies are subject to IRC - Corporate Income Tax - at the rate of 21% on taxable amount (taxable profit less eventual tax losses subject to deduction), plus IRC surcharge at the maximum rate of 1.5% on taxable profit, giving an aggregate rate of approximately 22.5%.

Additionally, following the introduction of austerity measures approved by Law 66-B/2012 of 31 December, and respective addendum published by Law 2/2014 of 16 January, this rate was raised by 3% and will be applied to the company's taxable profit between 1.5 million euros and 7.5 million euros, by 5% to the company's taxable profit which exceeds 7.5 million euros, and by 7% to the company's taxable profit above 35 million euros.

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

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

The companies covered by the RETGS in 2016 are:

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

Under current legislation, tax declarations are subject to review and correction by tax authorities for a period of four years, except where tax losses have occurred or tax benefits have been obtained, whose term, in these cases, matches the deadline to use them. It should be noted that in the event of inspections, appeals or disputes in progress, these periods may be 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 2016.

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 year ended on 31 December 2015 and 2016 were as follows:

	31/12/2014	DEFERRED TAXES OF THE PERIOD		31/12/2015
		INCOME (NOTE B)	EQUITY (NOTE 18)	
DEFERRED INCOME TAX ASSETS				
Doubtful accounts receivable	7,442	262	-	7,704
Inventories	3,784	(1,211)	-	2,573
Other provision and adjustments	79,817	(8,201)	-	71,616
Intragroup gains	19,973	3,945	-	23,918
Liabilities recorded as part of the allocation of fair value to the liabilities acquired in the merger	9,744	(1,106)	-	8,638
Derivatives	427	-	345	772
Tax incentives	19,297	(11,979)	-	7,318
Tax losses carried forward	631	(631)	-	-
	141,115	(18,921)	345	122,539
DEFERRED INCOME TAX ASSETS				
Revaluations of assets as part of the allocation of fair value to the assets acquired in the merger	14,617	(3,461)	-	11,156
Derivatives	137	-	(137)	-
Other	2,483	100	-	2,583
	17,237	(3,362)	(137)	13,739
NET DEFERRED TAX	123,878	(15,559)	482	108,800

	31/12/2015	DEFERRED TAXES OF THE PERIOD		31/12/2016
		INCOME (NOTE B)	EQUITY (NOTE 18)	
DEFERRED INCOME TAX ASSETS				
Doubtful accounts receivable	7,704	(324)	-	7,380
Inventories	2,573	(91)	-	2,482
Other provision and adjustments	71,616	4,088	-	75,704
Intragroup gains	23,918	(884)	-	23,034
Liabilities recorded as part of the allocation of fair value to the liabilities acquired in the merger	8,638	(837)	-	7,801
Derivatives	772	(20)	149	901
Tax incentives	7,318	(7,318)	-	-
	122,539	(5,386)	149	117,302
DEFERRED INCOME TAX LIABILITIES				
Revaluations of assets as part of the allocation of fair value to the assets acquired in the merger	11,156	(3,277)	-	7,879
Derivatives	-	(4)	14	10
Other	2,583	(266)	-	2,317
	13,739	(3,547)	14	10,206
NET DEFERRED TAX	108,800	(1,839)	135	107,096

At 31 December 2016, 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 fixed tangible assets and intangible assets, amounted to 59.3 million euros (2015: 56.9 million euros);
- ii) Other provisions amounted to 16.4 million euros (2015: 14.7 million euros).

At 31 December 2016, the deferred tax liability related to the revaluation of assets relates mainly to the **appreciation of customers' portfolio, telecommunications licenses and other assets of Optimus Group companies**.

At 31 December 2016 deferred tax assets were not recognised in the amount of 1.5 million euros, corresponding mainly to tax incentives.

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

At 31 December 2016, the tax rate used to calculate the deferred tax assets relating to tax losses carried forward was 21% (2015: 21%). In the case of temporary differences, the rate used was 22.5% (2015: 22.5%) increased to a maximum of 5.46% (2015: 6.2%) of state surcharge when the taxation of temporary differences in the estimated period of application of the state surcharge was perceived as likely. Tax benefits, related to deductions from taxable income, are considered 100%, and in some cases, their full acceptance is conditional upon the approval of the authorities that grants such tax benefits.

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

Under the terms of current legislation in Portugal, tax losses generated up to 2009, or in 2010 and 2011, from 2012 to 2013, from 2014 to 2016 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 2012 and 2013, and 70% of taxable profit in the following years.

B) Effective tax rate reconciliation

In the years ended on 31 December 2015 and 2016, the reconciliation between the nominal and effective rates of tax was as follows:

	4 th QUARTER 15	12M 15	4 th QUARTER 16	12M 16
Income before taxes	13,502	114,630	11,489	112,223
Statutory tax rate	22.5%	22.5%	22.5%	22.5%
ESTIMATED TAX	3,038	25,792	2,585	25,250
Permanent differences i)	(1,480)	(2,152)	(1,931)	114
Differences in tax rate of group companies	(431)	(1,183)	159	(1,904)
Income tax related to previous years	168	536	420	(4,278)
Tax benefits ii)	718	344	1,907	181
State surcharge	1,375	6,296	(277)	5,182
Autonomous taxation iii)	302	865	4,133	4,712
Revaluation of assets iii)	-	-	(6,696)	(6,696)
Provisions (Note 23)	(841)	(928)	(416)	(307)
Other	1,554	2,568	(157)	(28)
INCOME TAXES	4,403	32,138	(273)	22,226
Effective income tax rate	32.6%	28.0%	-2.4%	19.8%
Income tax	(634)	16,579	(261)	20,387
Deferred tax	5,037	15,559	(12)	1,839
	4,403	32,138	(273)	22,226

i) At 31 December 2015 and 2016 the permanent differences were composed as follows:

	4 th QUARTER 15	12M 15	4 th QUARTER 16	12M 16
Equity method (Note 34)	1,373	(3,584)	(2,297)	5,948
Other	(7,950)	(5,979)	(6,283)	(5,440)
	(6,577)	(9,563)	(8,580)	508
	22.5%	22.5%	22.5%	22.5%
	(1,480)	(2,152)	(1,931)	114

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

iii) Through the government budget for 2016, by Law 7-A/2016 of 30 March, the government was authorised to establish a facultative framework for tangible asset and investment property tax revaluation. Using this legal authorization, Decree 66/2016 of 3 November, establishes the mentioned framework. During 2016, some companies of the NOS group opted to adopt this framework, which will be reflected in an autonomous taxation of 14% regarding the value of the asset revaluation reserve, and that should be settled in 3 annual installments in return of the acceptance of the tax deduction, in a determined surcharge of the depreciations of the revaluated value/reserve from 2018. In this context, during 2016, the amount of 1.3 million euros was paid as autonomous taxation and an estimated amount of 2.6 million euros, to be paid in the years of 2017 and 2018 (Note 12), as the result of the revaluation reserve amounting to 27.8 million euros. As a consequence, a deferred income tax asset, in the amount of 6.7 million euros, was registered, following the future tax deductions from the depreciation accruals of the revaluated assets.

14. Inventories

At 31 December 2015 and 2016, this item was composed as follows:

	31/12/2015	31/12/2016
INVENTORIES		
Telco	37,985	45,075
Audiovisuals	2,195	15,491
	40,180	60,566
IMPAIRMENT OF INVENTORIES		
Telco	(8,423)	(8,388)
Audiovisuals	(1,217)	(1,135)
	(9,640)	(9,523)
	30,540	51,043

The increase in "Inventories – Audiovisuals" is justified, mainly, by the broadcasting rights acquired under the new contracts of sports content (Note 38.3), in the amount of 20.3 million euros, which at 31 December 2016 amounted to 13.5 million euros (Note 27).

The movements occurred in impairment adjustments were as follows:

	12M 15	12M 16
AS AT JANUARY 1	13,924	9,640
Increase and decrease - Cost of products sold (Note 31)	1,744	1,618
Other	(6,028)	(1,735)
AS AT DECEMBER 31	9,640	9,523

15. Accounts receivable - trade

At 31 December 2015 and 2016, this item was as follows:

	31/12/2015	30/09/2016
Trade receivables	285,170	285,212
Doubtful accounts for trade receivables	194,497	157,753
Unbilled revenues i)	62,667	63,714
	542,334	506,679
Impairment of trade receivable	(194,497)	(157,753)
	347,837	348,926

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

Accounts receivable by age are presented on Note 4.1.

The movements occurred in impairment adjustments were as follows:

	12M 15	12M 16
AS AT JANUARY 1	175,789	194,497
Increases and decreases (Note 33)	(620)	11,682
Penalties - i)	19,982	8,255
Receivables written off and other - ii)	(654)	(56,681)
AS AT DECEMBER 31	194,497	157,753

- i) Penalties correspond to the estimated amount of uncollectible invoiced penalties recognised in the period, deducted from revenue, as described in Note 41.6.
- ii) This item refers, mainly, to the write off of clients over which there was an impairment registered.

16. Deferred costs

At 31 December 2015 and 2016, this item was composed as follows:

	31/12/2015	31/12/2016
Costs of litigation procedure activity	31,013	22,775
Discounts i)	19,228	28,957
Programming costs ii)	2,187	16,974
Rentals	3,275	3,754
Advertising	551	633
Insurance	2,655	1,249
Other	5,751	10,049
	64,660	84,391

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

ii) The increase results from advanced payments made to Sport Tv regarding the new distribution model, agreed between telecom operators.

17. Non-current assets held-for-sale

At 31 December 2016, this item corresponds to NOS Comunicações S.A. FTTH network assets, located in the metropolitan areas of Lisbon and Oporto, on which Vodafone has exercised its purchase option, on 25 February 2016, as per the statement of non-opposition decision by the Competition Authority to the operation of merger between ZON and Optimus of 26 August 2013. The amount corresponds to the book value, net of amortization, reclassified from tangible assets (Note 8) during 2015. The sale was achieved in January 2017 (Note 43).

18. Derivative financial instruments

Exchange rate derivatives

At the date of the statement of the financial position there were foreign currency forwards open for 1,032 thousand euros (2015: 4,018 thousand euros), the fair value amounts to a gain of about 37 thousand euros (2015: loss of about 47 thousand euros).

Interest rate derivatives

At 31 December 2016, NOS had contracted four interest rate swaps totaling of 375 million euros (2015: 375 thousand euros), whose maturities expire in 2017 (two swaps in the amount of 125 million euros) and 2019 (two swaps in the amount of 250 million euros). The fair value of interest rate swaps, in the negative amount of 4.0 million euros (2015: negative amount of 3.4 million euros) was recorded in liabilities, against **shareholder's equity**.

Own shares derivatives

At 31 December 2016, NOS had contracted three own shares derivatives, in the amount of 2,041 thousand euros maturing in March 2017, 2018 and 2019, respectively, in order to cover the delivery of share plans liquidated in cash.

NOTIONAL	31/12/2015			
	ASSETS		LIABILITIES	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Interest rate swaps	375,000	-	-	-
Exchange rate forward	4,018	-	-	47
	379,018	-	-	47
				3,369

NOTIONAL	31/12/2016			
	ASSETS		LIABILITIES	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Interest rate swaps	375,000	-	-	-
Equity swaps	2,041	17	6	-
Exchange rate forward	1,032	37	-	-
	378,073	54	6	4,027

Movements during the years ended on 31 December 2015 and 2016 were as follows:

	31/12/2014	RESULT	EQUITY	31/12/2015
Fair value interest rate swaps	(1,899)	-	(1,470)	(3,369)
Fair value exchange rate forward	368	-	(415)	(47)
CASH FLOW HEDGE DERIVATIVES	(1,531)	-	(1,885)	(3,416)
Deferred income tax liabilities	(137)		137	-
Deferred income tax assets	427		345	772
DEFERRED INCOME TAX	290	-	482	772
	(1,241)	-	(1,403)	(2,644)

	31/12/2015	RESULT	EQUITY	31/12/2016
Fair value interest rate swaps	(3,369)	-	(659)	(4,027)
Fair value exchange rate forward	(47)	37	47	37
Fair value equity swaps	-	27	(4)	23
CASH FLOW HEDGE DERIVATIVES	(3,416)	64	(615)	(3,967)
Deferred income tax liabilities	-	4	(14)	(10)
Deferred income tax assets	772	(20)	149	901
DEFERRED INCOME TAX	772	(16)	135	890
	(2,644)	48	(480)	(3,077)

19. Cash and cash equivalents

At 31 December 2015 and 2016, this item was composed as follows:

	31/12/2015	31/12/2016
Cash	223	1,572
Deposits	9,190	240
Term deposits i)	535	501
	9,948	2,313

i) At 31 December 2015 and 2016, term deposits have short-term maturities and bear interest at normal market rates.

20. Shareholder's equity

20.1. Share capital

At 31 December 2015 and 2016 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 2015 and 2016 are:

	31/12/2015		31/12/2016	
	NUMBER OF SHARES	% SHARE CAPITAL	NUMBER OF SHARES	% SHARE CAPITAL
ZOPT, SGPS, SA ⁽¹⁾	257,632,005	50,01%	268,644,537	52,15%
Banco BPI, SA ⁽²⁾	17,516,365	3,40%	14,275,509	2,77%
Sonaecom, SGPS, SA	11,012,532	2,14%	-	-
Norges Bank	10,891,068	2,11%	10,891,068	2,11%
Blackrock, Inc	10,349,515	2,01%	10,349,515	2,01%
TOTAL	307,401,485	59,67%	304,160,629	59,04%

- (1) In accordance with subparagraphs 1.b) and 1.c) of Article 20 and Article 21 of the Portuguese Securities Code, a qualified shareholding of 52.15% of the share capital and voting rights of company, calculated in accordance with Article 20.^º 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 dos Santos, and (ii) ZOPT, a jointly controlled company by its shareholders Kento Holding Limited, Unitel International Holdings B.V. and Sonaecom under the shareholder agreement signed between them; and,
 - b. Entities in a control relationship with Sonaecom, namely, SONTEL, BV, SONAE Investments BV, SONAE, SGPS, S.A., EFANOR Investimentos, SGPS, S.A. and Belmiro Mendes de Azevedo, also due of such control and of the shareholder agreement mentioned in a.
- (2) Under the terms of paragraph 1 of Article 20 of the Portuguese Securities Code, the voting rights corresponding to 2.77% of NOS share capital, held by Banco BPI Pension Fund and BPI Vida - Companhia de Seguros de Vida, S.A are attributable to Banco BPI.

Note: On 26 October 2016, Lancaster Investment Management LLP issued an Economic Long Position press release, regarding 2.08% of the voting rights of NOS, SGPS, S.A..

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 27 August 2013. The capital increase is detailed as follows:

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

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

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

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

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 2016 there were 3,017,603 own shares, representing 0.5858% of the share capital (31 December 2015: 1,666,482 own shares, representing 0.3235% of the share capital).

Movements in the years ended on 31 December 2015 and 2016 were as follows:

	QUANTITY	VALUE
BALANCE AS AT 1 JANUARY 2015	2,496,767	11,791
Acquisition of own shares	1,128,664	8,023
Distribution of own shares - share incentive scheme	(1,901,179)	(8,980)
Distribution of own shares - other remunerations	(57,770)	(275)
BALANCE AS AT 30 SEPTEMBER 2015	1,666,482	10,559
BALANCE AS AT 1 JANUARY 2016	1,666,482	10,559
Acquisition of own shares	3,312,503	20,676
Distribution of own shares - share incentive scheme	(1,531,842)	(9,743)
Distribution of own shares - other remunerations	(429,540)	(2,736)
BALANCE AS AT 30 SEPTEMBER 2016	3,017,603	18,756

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.

The General Meeting of Shareholders held on 26 April 2016 approved the proposal by the Board of Directors of **allocating the amount of 2,526 thousand euros to "Legal reserve"**.

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 2016, NOS had reserves which by their nature are considered distributable in the amount of approximately 68 million euros, not including the net income.

Dividends

The General Meeting of Shareholders held on 6 May 2015 approved a proposal by the Board of Directors for payment of an ordinary dividend per share of 0.14 euros, totaling 72,123 thousand euros. The dividend attributable to own shares amounted to 80 thousand euros.

	DIVIDENDS
Dividends	72,123
Dividends of own shares	(80)
	72,043

In the first semester of 2015, dividends totaling 173 thousand euros were paid to the minority shareholders of NOS Madeira.

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

	DIVIDENDS
Dividends	82,426
Dividends of own shares	(305)
	82,121

21. Non-controlling interests

The movements of the non-controlling interests occurred during the years ended on 31 December 2015 and 2016 and the results attributable to non-controlling interests for the year are as follows:

	31/12/2014	ATTRIBUTABLE PROFITS	OTHER	31/12/2015
NOS Madeira Comunicações	6,978	(65)	(174)	6,739
NOS Açores Comunicações	2,796	(163)	(1)	2,632
Lusomundo SII	6	-	17	23
Empracine	1	-	(1)	-
Lusomundo Imobiliária 2, SA	37	-	(1)	36
	9,818	(228)	(160)	9,430

	31/12/2015	ATTRIBUTABLE PROFITS	OTHER	31/12/2016
NOS Madeira Comunicações	6,739	(285)	(4)	6,450
NOS Açores Comunicações	2,632	(99)	-	2,533
Lusomundo SII	23	-	-	23
Lusomundo Imobiliária 2, SA	36	(1)	-	35
	9,430	(385)	(4)	9,041

22. Borrowings

At 31 December 2015 and 2016, the composition of borrowings was as follows:

	31/12/2015		31/12/2016	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
LOANS - NOMINAL VALUE	141,004	865,966	196,216	876,667
Debenture loan	-	525,000	-	585,000
Commercial paper	100,000	235,000	150,000	200,000
Foreign loans	1,708	105,966	30,027	91,667
Bank overdrafts	39,296	-	16,189	-
LOANS - ACCRUALS AND DEFERRALS	709	(3,402)	204	(4,890)
FINANCIAL LEASES	36,309	116,858	28,272	100,226
Long term contracts	18,275	80,847	10,785	71,287
Other	18,034	36,011	17,487	28,939
	178,022	979,422	224,692	972,003

During the year ended on 31 December 2016, the average cost of debt of the used lines was approximately 2.2% (2015: 2.9%).

22.1. Debenture loans

At 31 December 2015, the Company has the following bonds issued, totaling 525 million euros, with maturity after 31 December 2016:

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

At 31 December 2016, the Company has the above obligations have additionally contracted:

- i) A bond issue in the amount of 60 million euros, signed in June 2016 and organised by ING, whose maturity occurs in June 2023. The issue bears interest at a variable rate indexed to Euribor and paid semiannually.

At 31 December 2016, an amount of 1,606 thousand euros, corresponding to interest and commissions, was **deducted from this amount and recorded in the item "Loans - accruals and deferrals"**.

22.2. Commercial paper

At 31 December 2016 the Company has borrowings of 350 million euros in the form of commercial paper, of which 75 million euros issued without underwriting securities. The total amount contracted, under underwriting securities, is of 470 million euros, corresponding to 9 programmes, with six banks, which bear interest at market rates. Commercial paper programmes with maturities over 1 year totaling 200 million euros are classified as non-current, since the Company has the ability to unilaterally renew current issues on **or before the programmes' maturity dates and because they are underwritten by the organizer. As such, this** amount, although having a current maturity, it was classified as non-current for presentation purposes in the financial position statement.

At 31 December 2016 an amount of 349 thousand euros, corresponding to interest and commissions, was **deducted to this amount and recorded in the item "Loans - accruals and deferrals"**.

22.3. Foreign loans

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 2016, the escrow account signed with Caixa Geral de Depósitos bears interest at a variable rate indexed to Euribor and paid monthly. The amount used is 10 million euros.

Additionally, at 31 December 2016, an amount of 2,731 thousand euros was deducted from this amount, corresponding to the benefit associated with the fact that the loan is at a subsidised rate.

22.4. Financial leases

On 31 December 2015 and 2016, the long-term contracts are mainly related to contracts signed by NOS SA for the acquisition of exclusive satellite use, to the contracts signed by NOS SA and NOS Technology related to the purchase of rights to use the distribution network and the contract signed by NOS Cinemas regarding the acquisition of digital equipment.

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

Financial leases - payments

	31/12/2015	31/12/2016
Until 1 year	43,225	33,779
Between 1 and 5 years	97,275	85,895
Over 5 years	40,119	30,615
	180,619	150,289
Future financial costs (lease)	(27,452)	(21,791)
PRESENT VALUE OF FINANCE LEASE LIABILITIES	153,167	128,498

Financial leases - present value

	31/12/2015	31/12/2016
Until 1 year	36,309	28,272
Between 1 and 5 years	80,802	72,081
Over 5 years	36,056	28,145
	153,167	128,498

All bank borrowings contracted (with the exception of EIB loan of 110 million euros, bond loan in the amount 50 million euros and finance leases) are negotiated at variable short term interest rates and their book value is therefore broadly similar to their fair value.

The maturities of the loans obtained are as follows:

	31/12/2015			31/12/2016		
	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS
Debenture loan	1,602	371,917	149,799	1,183	372,339	209,872
Commercial paper	99,107	234,882	-	149,651	200,000	-
Foreign loans	1,708	69,635	36,331	29,397	71,317	18,249
Bank overdrafts	39,296	-	-	16,189	-	-
Financial Leases	36,309	80,802	36,056	28,272	72,081	28,145
	178,022	757,236	222,186	224,692	715,737	256,266

23. Provisions and adjustments

At 31 December 2015 and 2016, the provisions were as follows:

	31/12/2015	31/12/2016
Litigation and other - i)	61,042	57,697
Financial investments - ii)	-	825
Dismantling and removal of assets - iii)	24,204	29,694
Contingent liabilities - iv)	34,673	33,486
Contingencies - other - v)	19,565	24,585
	139,484	146,287

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 2013. Given that the increase made in 2008 was not accepted due to not complying with Article 18 of the CIRC, also in the years following, the deduction corresponding to credits generated in that year, will eliminate the calculation of taxable income, to meet the annual amortisation hired as part of the operation (20 million per year during 5 years). NOS SA challenged the decisions regarding the 2008, 2009, 2010, 2011 and 2012 fiscal year and will appeal for the judicial review in due time the decision regarding the 2013 fiscal year. Regarding the year 2008, the Administrative and Fiscal Court of Porto has already decided unfavorably, in March 2014. The company has appealed;

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 (based on violation of NOS, SA's right of defense)**. In April 2014 ANACOM has notified NOS SA of a new judicial process, based on the same accusations. This process is a repetition of the initial

one. In September 2014, ANACOM, based on the same facts, fined NOS SA in the amount of 6.5 million euros. This decision was contested by NOS SA. In May 2015, it was acquitted by the Court of First Instance, which entirely revoked the decision by ANACOM and the fine which had been applied. ANACOM appealed the decision and the process is currently and since June 2015 on appeal in Lisbon Court of Appeal;

c. Supplementary Capital: the fiscal authorities are of the opinion that NOS SA has broken the principle of full competition under the terms of (1) of Article 58 of the Corporate Tax Code (CIRC) - currently Article 63 - , by granting supplementary capital to its subsidiary NOS Towering, without having been remunerated at a market interest rate. In consequence, it has been notified, with regard to the years 2004, 2005, 2006 and 2007 of corrections to the determination of its taxable income in the total amount of 20.5 million euros. NOS SA contested the decision with regard to all the above mentioned years. As for the year 2004, the Court has decided favorably. This decision is concluded (favorably), originating a reversal of provisions, in 2016, in the amount of 1.3 million euros plus interest. As for the years 2006 and 2007, the Oporto Fiscal and Administrative Court has already decided unfavorably. The company has contested this decision and the final decision of the processes is still pending;

- ii) The amount under the item "Financial investments" corresponds to the liabilities assumed, in addition to the investment made, by the Group in jointly controlled companies and associated companies (Note 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, namely:

a. Extraordinary contribution toward the fund for the compensation of the net costs of the universal service of electronic communications (CLSU): The Extraordinary contribution toward the fund for the compensation of the net costs of the universal service of electronic communications (CLSU) is legislated in Articles 17 to 22 of Law nr 35/2012, of 23 August. From 1995 until June 2014, MEO, SA (former PTC) was the sole provider for the universal service of electronic communications, having been designated administratively by the government, i.e. without a tender procedure, which constitutes an illegality, by the way acknowledged by the European Court of Justice who, through its decision taken in June 2014, condemned the Portuguese State to pay a fine of 3 million euros for illegally designating MEO. In accordance with Article 18 of the abovementioned Law 35/2012, the net costs incurred by the operator responsible for providing the universal service, approved by ANACOM, must be shared between other companies who provide, in national territory public communication networks and publicly accessible electronic communications services. NOS is therefore within the scope of this extraordinary contribution given that MEO has been requesting the payment of CLSU to the compensation fund of the several periods during which it was responsible for providing the services. In accordance with law, the compensation fund can be activated to compensate the net costs of the electronic communications universal service, relative to the period before the designation of the provider by tender, whenever, cumulatively (i) there are net costs, considered excessive, the amount of which is approved by ANACOM,

following an audit to their preliminary calculation and support documents, which are provided by the universal service provider, and (ii) the universal service provider requester the Government compensation for the net costs approved under the terms previously mentioned.

In 2013, ANACOM deliberated to approve the final results of the CLSU audit presented by MEO, relative to the period from 2007 to 2009, in a total amount of 66.8 million euros, a decision which was contested by the Company. In January 2015, ANACOM issued the settlement notes in the amount of 18.6 million euros, which were contested by NOS and for which a bail was presented by NOS SGPS (Note 38) to avoid Tax Execution Proceedings. The guarantees have been accepted by ANACOM.

In 2014, ANACOM deliberated to approve the final results of the CLSU audit by MEO, relative to the period from 2010 to 2011, in a total amount of 47.1 million euros, a decision also contested by the Company. In February 2016, ANACOM issued the settlement notes in the amount of 13 million euros, which were also contested and for which it was before also presented bail by NOS SGPS in order to avoid the promotion of respective tax enforcement processes, guarantees that have been accepted by ANACOM.

In 2015, ANACOM deliberated to approve the final results of the audit to CLSU presented by MEO relative to the period from 2012 to 2013, in the amount of 26 million euros and 20 million euros, respectively, decision which was also contested by the Company.

At October 2016, ANACOM approved the results of the audit to the CLSU presented by MEO related with the period between January and June 2014, in the amount of 7.7 million euros, decision which NOS will contest in the usual terms.

It is the opinion of the Board of Directors of NOS that these extraordinary contributions to SU (not designated through a tender procedure) flagrantly violate the Directive of Universal Service. Moreover, considering the existing legal framework since NOS began its activity, the request of payment of the extraordinary contribution violates the principle of the protection of confidence, recognised on a legal and constitutional level in Portuguese domestic law. For these reasons, NOS will continue judicially challenge the liquidation of each extraordinary contribution, once the Board of Directors is convinced it will be successful in all challenges, both future and already undertaken;

b. Other tax proceedings: which the Board of Directors is convinced that there are strong arguments to obtain a favorable decision for NOS SA, but considers that they correspond to a contingent liability under the fair value allocation of assumed liabilities related to the merger operation;

v) The amount under the caption "Contingencies - other" refers to provisions for risks related to miscellaneous events/disputes of various kinds, the settlement of which may result in outflows of cash, and other likely liabilities related to several transactions from previous periods, and whose outflow of cash is probable, namely, costs charged to the current period or previous years, for which it is not possible to estimate reliably the time of occurrence of the expense.

During the year ended on 31 December 2015, movements in provisions were as follows:

	31/12/2014	INCREASES	DECREASES	OTHER	31/12/2015
Litigation and other	50,129	4,895	(4,706)	10,724	61,042
Financial investments	64	-	(64)	-	-
Dismantling and removal of assets	18,131	404	(251)	5,920	24,204
Contingent liabilities	34,673	-	-	-	34,673
Contingencies - other	24,224	241	(237)	(4,663)	19,565
	127,221	5,540	(5,258)	11,981	139,484

During the year ended on 31 December 2015, increases of provisions mainly refer to the update of the value of contingencies and respective interest claims. The decreases in provisions include the reduction of the fine, in the amount of 500 thousand euros, of the proceeding brought by CNPD, abovementioned.

The amount recorded in the item "Litigation and other" under the heading "Other" in the amount of 10.7 million euros corresponds mainly to a reclassification from deferred tax assets, since they were reducing the deferred tax assets of tax losses (Note 13), in the amount of 9.9 million euros.

The movement recorded in "Other" in the amount of 5.9 million under the heading "Dismantling and removal of assets", was recorded by counterpart of "Tangible assets" and results mainly from the increase in provisions for dismantling of assets result of the change of the rate used in the update for the present value of the liability.

Additionally, the movements recorded in "Other" in the amount of 4.7 million euros are related mainly to the use of provisions created for compensation to employees in the amount of 1 million euros and the reclassification of cost estimates which can not be estimated with high reliability by the time of implementation of the expenditure in the amount of 4 million euros.

During the year ended on 31 December 2016, movements in provisions were as follows:

	31/12/2015	INCREASES	DECREASES	OTHER	31/12/2016
Litigation and other	61,042	6,533	(7,901)	(1,977)	57,697
Financial investments	-	825	-	-	825
Dismantling and removal of assets	24,204	362	(186)	5,314	29,694
Contingent liabilities	34,673	-	(3,164)	1,977	33,486
Contingencies - other	19,565	2,926	(11)	2,105	24,585
	139,484	10,646	(11,262)	7,419	146,287

During the period ended on 31 December 2016, increases of provisions mainly refer to the update of the value of contingencies, respective interest claims and litigation costs, which were already provisioned. The decreases in provisions correspond to the reduction of contingencies through closed processes and revaluation of the amounts of current contingencies.

The amount recorded in the item "Dismantling and removal of assets" under the heading "Other" in the amount of 5.3 million euros was recorded against "Tangible assets", and relates to the update of the present value of those costs at the rate of the cost of debt of the NOS group.

Additionally, the movement recorded in "Other" in the amount of 2.1 million euros refers mainly to the use of provisions made for redundancy payments in the amount of 1.6 million euros and the reclassification of cost estimates for which it is not possible to reliably estimate the time of realisation of the expense in the amount of 3.7 million euros.

The net movements for the years ended on 31 December 2015 and 2016 reflected in the income statement under "Provisions and adjustments" were as follows:

	12M 15	12M 16
Provisions and adjustments (Note 33)	(1,671)	(3,876)
Financial investments (Note 10)	(64)	825
Other losses / (gains) non-recurrent	1,683	2,432
Interests - dismantling of assets	153	176
Other interests	1,095	134
Income tax (Note 13)	(928)	(307)
Other	14	-
INCREASES AND DECREASES IN PROVISIONS	282	(616)

24. Accrued expenses

At 31 December 2015 and 2016, these items were composed as follows:

	31/12/2015	31/12/2016
NON CURRENT		
Contractual obligations i)	9,470	8,776
Other	-	409
	9,470	9,185
CURRENT		
Invoices to be issued by operators ii)	43,309	43,630
Vacation pay and bonuses	26,235	25,005
Advertising	8,107	17,272
Content and film rights	16,106	15,841
Professional services	16,272	13,066
Programming services	10,377	12,670
Investments in tangible and intangible assets	16,808	11,806
Costs of litigation procedure activity	10,452	8,380
Comissions	6,376	5,835
Energy and water	3,528	3,696
Rentals	4,608	2,007
Maintenance and repair	1,715	1,622
Other accrued expenses	11,978	13,684
	175,871	174,514

i) Under the fair value allocation process of to the assets and liabilities of the Optimus group, contractual obligations were identified relating to long-term contracts whose prices are different from market prices. This amount relates to the medium and long-term portion of the fair value adjustment of these contracts.

ii) Invoices to be billed by operators, mainly international operators, regarding interconnection costs related with international traffic and roaming services.

25. Deferred income

At 31 December 2015 and 2016, this item was composed as follows:

	31/12/2015		31/12/2016	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Advanced billing i)	28,467	-	29,491	-
Investment subsidy ii)	335	5,259	632	4,138
	28,802	5,259	30,123	4,138

i) This item relates mainly to the billing of Pay TV services regarding the following month to the report period and **amounts received from NOS Comunicações' customers, related with the recharges of mobile phones and purchase of telecommunications minutes as of yet unused.**

ii) Deferred income related to the implicit subsidy when the EIB loans were obtained at interest rates below market value (Note 22).

26. Accounts payable - trade

At 31 December 2015 and 2016, this item was composed as follows:

	31/12/2015		31/12/2016	
Suppliers current account		322,319		232,305
Invoices in reception and conference		5,166		6,523
	327,485		238,828	

27. Accounts payable - other

At 31 December 2015 and 2016, this item was composed as follows:

	31/12/2015		31/12/2016	
NON CURRENT				
Assignment of receivables without resources i)		-		21,551
		-		21,551
CURRENT				
Tangible fixed assets and intangible assets suppliers		27,617		34,772
Assignment of receivables without resources i)		-		18,624
Football games broadcasting rights ii)		-		13,500
Advances from customers		81		152
Other		1,008		1,685
	28,706		68,733	
	28,706		90,284	

i) In the year ended on 31 December 2016, NOS Comunicações, SA materialised a credit assignment transaction, that was coordinated by Banco Comercial Português and Caixa Geral de Depósitos, in the amount of 40.2 million euros (total agreed of 49.8 million euros), which it ceded future credits to be generated by a portfolio of Corporate customers. This does not imply any change in the accounting treatment of the receivables or in the relationship with their customers.

ii) **The figures in "Football games broadcasting rights" are justified by the estimated amount payable for the acquisition of games broadcasting rights for the season 16/17 under the new contracts of sports content (Note 38.3), in the amount of 20.3 million euros, which, at 31 December 2016, amounted to 13.5 million euros (Note 14).**

28. Operating revenues

Consolidated operating revenues for the years ended on 31 December 2015 and 2016 are distributed as follows:

	4 th QUARTER 15	12M 15	4 th QUARTER 16	12M 16
SERVICES RENDERED:				
Telco i)	332,200	1,288,343	344,839	1,350,527
Audiovisuals and cinema exhibition ii)	18,650	74,645	19,639	74,636
	350,850	1,362,988	364,478	1,425,163
SALES:				
Telco iii)	16,710	48,750	16,303	53,682
Audiovisuals and cinema exhibition iv)	4,849	18,130	5,071	17,927
	21,559	66,880	21,374	71,609
OTHER OPERATING REVENUES:				
Telco	3,634	13,181	4,434	16,785
Audiovisuals and cinema exhibition	365	1,256	589	1,412
	3,999	14,437	5,023	18,197
	376,408	1,444,305	390,875	1,514,969

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

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

29. Wages and salaries

In the years ended on 31 December 2015 and 2016, this item was composed as follows:

	4 th QUARTER 15	12M 15	4 th QUARTER 16	12M 16
Remuneration	16,373	66,053	16,353	69,424
Social taxes	4,092	16,699	4,254	17,211
Social benefits	356	1,382	843	1,804
Other	2,953	4,969	2,924	4,653
	23,774	89,103	24,374	93,092

In the years ended on 31 December 2015 and 2016, the average number of employees of the companies included in the consolidation was 2,503 and 2,515, respectively. At year ended on 31 December 2016, the number of employees of the companies included in the consolidation was 2,522 employees.

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

30. Direct costs

In the years ended on 31 December 2015 and 2016, this item was composed as follows:

	4 th QUARTER 15	12M 15	4 th QUARTER 16	12M 16
Exhibition costs	42,999	163,401	52,973	187,841
Traffic costs	53,590	202,529	51,337	198,693
Capacity costs	13,912	51,374	12,801	49,753
Shared advertising revenues	4,099	13,391	4,969	15,440
Other	2,386	6,010	793	6,047
	116,986	436,705	122,873	457,774

The increase in Exhibition costs is justified, mainly, by the new contracts of sports content (Note 38.3) and **the revision of Sport TV's distribution rights model**.

31. Cost of products sold

In the years ended on 31 December 2015 and 2016, this item was composed as follows:

	4 th QUARTER 15	12M 15	4 th QUARTER 16	12M 16
Costs of products sold	17,199	51,654	15,409	55,265
Increases / (decreases) in inventories impairment (Note 14)	981	1,744	403	1,618
	18,180	53,398	15,812	56,883

32. Support services and supplies and external services

In the years ended on 31 December 2015 and 2016, this item was composed as follows:

	4 th QUARTER 15	12M 15	4 th QUARTER 16	12M 16
SUPPORT SERVICES:				
Call centers and customer support	8,612	33,541	8,394	33,849
Information systems	5,759	18,576	5,844	19,690
Administrative support and other	10,297	41,604	9,600	37,906
	24,668	93,721	23,838	91,445
SUPPLIES AND EXTERNAL SERVICES:				
Maintenance and repair	10,948	43,921	11,088	44,419
Rentals	10,206	41,653	11,727	44,682
Electricity	5,578	21,511	5,642	21,816
Commissions	3,877	15,622	2,456	11,472
Professional services	3,727	14,134	3,591	12,944
Communications	2,024	8,223	1,897	7,931
Installation and removal of terminal equipment	2,585	6,974	2,679	9,361
Other supplies and external services	9,357	31,681	6,205	31,791
	48,302	183,719	45,285	184,416

33. Provisions and adjustments

In the years ended on 31 December 2015 and 2016, this item was composed as follows:

	4 th QUARTER 15	12M 15	4 th QUARTER 16	12M 16
Provisions (Note 23)	(1,071)	(1,671)	555	(3,876)
Impairment of account receivables - trade (Note 15)	7,905	(620)	11,967	11,682
Impairment of account receivables - other (Note 11)	163	661	126	136
Other	3	80	92	116
	7,000	(1,550)	12,740	8,058

34. Losses / (gains) of affiliated companies

In the years ended on 31 December 2015 and 2016, this item was composed as follows:

	4 th QUARTER 15	12M 15	4 th QUARTER 16	12M 16
EQUITY METHOD (NOTE 10)				
Sport TV	1,702	5,155	(1,396)	3,197
Dreamia	316	(472)	35	(657)
Finstar	(696)	(8,061)	(939)	2,395
Mstar	(27)	(251)	77	1,111
Upstar	(10)	(30)	(36)	(42)
Others	88	75	(37)	(55)
	1,373	(3,584)	(2,297)	5,948
	1,373	(3,584)	(2,297)	5,948

35. Depreciation, amortisation and impairment losses

In the years ended on 31 December 2015 and 2016, this item was composed as follows:

	4 th QUARTER 15	12M 15	4 th QUARTER 16	12M 16
TANGIBLE ASSETS				
Buildings and other constructions	2,846	11,257	3,039	12,333
Basic equipment	49,009	183,135	44,367	175,982
Transportation equipment	351	1,212	(344)	950
Tools and dies	3	12	8	28
Administrative equipment	4,866	22,432	4,141	19,061
Other tangible assets	231	911	1,101	512
	57,306	218,959	52,313	208,867
INTANGIBLE ASSETS				
Industrial property and other rights	41,473	147,438	46,718	182,654
	41,473	147,438	46,718	182,654
INVESTMENT PROPERTY				
Investment property	(22)	9	21	34
	(22)	9	21	34
	98,757	366,406	99,052	391,555

36. Financing costs and other financial expenses / (income)

In the years ended on 31 December 2015 and 2016, financing costs and other financial expenses / (income) were composed as follows:

	4 th QUARTER 15	12M 15	4 th QUARTER 16	12M 16
FINANCING COSTS:				
INTEREST EXPENSE:				
Borrowings	4,133	22,254	4,210	16,711
Finance leases	1,599	5,367	1,300	5,663
Derivatives	397	1,124	626	2,180
Other	567	3,103	(72)	914
	6,696	31,848	6,064	25,468
INTEREST EARNED	(2,290)	(7,791)	(1,786)	(8,624)
	4,406	24,057	4,278	16,844
OTHER FINANCIAL EXPENSES / (INCOME):				
Comissions and guarantees	1,410	7,660	1,433	5,367
Other	612	2,969	364	1,910
	2,022	10,629	1,797	7,277

Interest earned mainly corresponds to default interests charged to customers.

37. Net earnings per share

Earnings per share for the years ended on 31 December 2015 and 2016, were calculated as follow:

	4 th QUARTER 15	12M 15	4 th QUARTER 16	12M 16
Consolidated net income attributable to shareholders	9,191	82,720	11,994	90,381
Number of ordinary shares outstanding during the period (weighted average)	513,676,594	513,964,985	512,136,639	512,651,058
Basic earnings per share - euros	0,02	0,16	0,02	0,18
Diluted earnings per share - euros	0,02	0,16	0,02	0,18

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.

38. Guarantees and financial undertakings

38.1. Guarantees

At 31 December 2015 and 2016, the Group had furnished sureties, guarantees and comfort letters in favor of third parties corresponding to the following situations:

	31/12/2015	31/12/2016
Financial institutions i)	110,264	110,264
Tax authorities ii)	12,161	14,850
Other iii)	13,446	12,288
	135,871	137,402

- i) At 31 December 2015 and 2016, this amount relates to guarantees issued by NOS in connection with the loans from EIB.
- ii) At 31 December 2015 and 2016, this amount relates to guarantees demanded by the tax authorities in connection with tax proceedings contested by the Company and its subsidiaries (Note 41).
- iii) At 31 December 2015 and 2016, 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 41).

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.

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

Additionally, during 2014, in connection with a contract between Upstar and a supplier of TV contents, NOS **signed a personal guarantee, in the form of a partial endorsement, proportional to NOS's shareholder position of 30%, as a counter guarantee of a guarantee by Novo Banco in the amount of 30 million dollars, to pledge the fulfillment of the contract's obligations. In January 2017 the supplier partially activated the guarantee in the amount of 12.5 million dollars.**

During 2015, NOS issued a comfort letter to Caixa Geral de Depósitos as part of an issue of a bank guarantee to Sport Tv amounting to 23.1 million euros. At 31 December 2016, the active amount of bank guarantees ascends to 10.3 million euros.

During the first semester of 2015 and 2016 and following the settlement notes to CLSU 2007-2009 and 2010-2011, NOS constituted guarantees in favor of the Universal Service Compensation Fund in the amount of 23.6 million euros and 16.7 million euros, respectively, in order to prevent the introduction of tax enforcement proceedings in order to enforce recovery of the amounts paid (Note 23).

On 30 September 2016, NOS constituted guarantees on behalf of Sport Tv, to the The Football Association League Limited in the amount of 29.1 million euros, which, at 31 December 2016, amounted to 19.9 million euros.

During 2016, NOS provided a guarantee to Warner Brothers, under the cinema distribution contract renewal for national territory and African Portuguese speaking countries, effective as of 1 January 2017.

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

38.2. Operating leases

The rentals due on operating leases have the following maturities:

	31/12/2015				31/12/2016			
	AUTOMATIC RENEWAL	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	AUTOMATIC RENEWAL	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS
Stores, movie theatre and other buildings	723	19,325	43,869	25,007	1,170	16,994	41,164	19,888
Telecommunication towers and rooftops	6,748	18,874	43,933	4,264	1,732	19,557	52,684	20,972
Equipment	-	1,948	4,835	-	-	1,338	2,848	-
Vehicles	-	2,842	4,197	-	-	3,828	5,044	-
	7,471	42,989	96,833	29,271	2,902	41,717	101,740	40,860

38.3. Other undertakings

Covenants

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

In addition, approximately 42% of the total loans obtained require that the consolidated net financial debt does not exceed 3 times consolidated EBITDA, approximately 4% of the total loans obtained require that the consolidated net financial debt does not exceed 3.5 times consolidated EBITDA, and approximately 12% of the total loans obtained require that the consolidated net financial debt does not exceed 4 times consolidated EBITDA.

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

Commitments under the merger between ZON and Optimus SGPS

At 31 December 2016 remained outstanding, following the final decision of the Competition Authority not to oppose the merger between ZON and Optimus SGPS, the following commitment was made to ensure that NOS SA negotiated with Vodafone a contract that gives the option of buying its fiber network.

The contract was signed within the prescribed period, having Vodafone exercised its respective option of buying and the purchase and sale agreement formalised in January 2017 (Note 43).

Assignment agreements football broadcast rights

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

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

- 1) TV broadcasting rights and multimedia home games of Sporting SAD;
- 2) The right to explore the static and virtual advertising at Stadium José Alvalade;
- 3) The right of transmission and distribution of Sporting TV Channel;
- 4) The right to be its main sponsor.

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

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

- 1) Associação Académica de Coimbra - Organismo Autónomo de Futebol, SDUQ, Lda
- 2) Os Belenenses Sociedade Desportiva Futebol, SAD
- 3) Clube Desportivo Nacional Futebol, SAD
- 4) Futebol Clube de Arouca - Futebol, SDUQ, Lda
- 5) Futebol Clube de Paços de Ferreira, SDUQ, Lda
- 6) Marítimo da Madeira Futebol, SAD
- 7) Sporting Clube de Braga - Futebol, SAD
- 8) Vitória Futebol Clube, SAD

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

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

- 1) C. D. Tondela - Futebol, SDUQ, Lda
- 2) Clube Futebol União da Madeira, Futebol, SAD
- 3) Grupo Desportivo de Chaves - Futebol, SAD

- 4) Sporting Clube da Covilhã – Futebol, SDUQ, Lda
- 5) Clube Desportivo Feirense – Futebol, SAD
- 6) Sport Clube de Freamunde – Futebol, SAD
- 7) Sporting Clube Olhanense – Futebol, SAD
- 8) Futebol Clube de Penafiel, SDUQ, Lda
- 9) Portimonense Futebol, SAD

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

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

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

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

The estimated cash flows are estimated as follows:

Seasons	2016/17	following
Estimated cash flows with the contracts signed by NOS with the sports entities *	41 M€	1,150 M€
NOS estimated cash flows for the contracts signed by NOS (net of the amounts charged to the operators) and for the contracts signed by the remaining operators	24 M€	660 M€

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

In August 2016, an agreement was achieved so that the shareholder structure of Sport TV can be owned in equal parts by NOS, MEO, Vodafone and Olivedesportos. On 24 February 2017, MEO entered into the share capital of Sport TV (Note 43).

39. Notes to the statement of cash flows

The statement of cash flows has been prepared in accordance with the provisions of IAS 7, with the following points to note:

39.1. Cash receipts resulting from financial investments

This item was composed as follows:

	12M 15	12M 16
Return supplementary payments Sport TV	-	25,347
Other	1	19
	1	25,366

39.2. Cash payments resulting from financial investments

This item was composed as follows:

	12M 15	12M 16
Loss coverage Sport TV	-	25,347
Other	1	-
	1	25,347

39.3. Earnings per shares

This item was composed as follows:

	12M 15	12M 16
NOS SGPS	72,043	82,121
NOS Madeira	172	-
Lusomundo Imobiliária 2	1	-
	72,216	82,121

39.4. Borrowings

This item presents, by net value, the reimbursements and respective monthly issue renewals of commercial paper programmes.

40. Related parties

40.1. Summary list of related parties

Detailed summary of related parties as at 31 December 2016:

RELATED PARTIES	
3shoppings - Holding, SGPS, S.A.	Capwatt Hectare - Heat Power, ACE
8 ^a Avenida Centro Comercial, SA	Capwatt II - Heat Power, S.A.
Accive Insurance Cons. e Franchising, Lda	Capwatt III - Heat Power, S.A.
Accive Insurance-Corretor de Seguros, SA	Capwatt Maia - Heat Power, S.A.
Aduanas Caspe, S.L.U.	Capwatt Martim Longo - Solar Power, S.A.
Aegean Park, S.A.	Capwatt Vale do Caima - Heat Power, S.A.
Agepan Eiweiler Management GmbH	Capwatt Vale do Tejo - Heat Power, S.A.
Agloma Imobiliária y Servicios, S.L.	CAPWATT, SGPS, S.A.
Agloma Investimentos, Sgps, S.A.	Carvemagere-Manut.e Energias Renov., Lda
ALBCC Albufeirashopping C.Comercial SA	Casa da Ribeira-Sociedade Imobiliária,SA
Albufeira Retail Park	Cascaishopping - Centro Comercial, S.A.
ALEXA Administration GmbH	Cascaishopping Holding I, SGPS, S.A.
ALEXA Holding GmbH	CCCB Caldas da Rainha - Centro Comercial,SA
ALEXA Shopping Centre GmbH	Centro Colombo - Centro Comercial, S.A.
Álgarveshopping - Centro Comercial, S.A.	Centro Residencial da Maia,Urban., S.A.
Apor - Agência para a Modernização do Porto	Centro Vasco da Gama - Centro Comercial, S.A.
Aqualuz - Turismo e Lazer, Lda	Chão Verde - Soc.Gestora Imobiliária, S.A.
Aqualuz Tróia-Expl.Hoteleira e Imob., SA	Ciminvest - Sociedade de Investimentos e Participações, S.A.
Arat Inmuebles, S.A.	Cinclus Imobiliária, S.A.
ARP Alverca Retail Park,SA	Citic Capital Sierra Limited
Arrábidashopping - Centro Comercial, S.A.	Citic Capital Sierra Prop. Man. Limited
Aserraderos de Cuellar, S.A.	Citorres - Sociedade Imobiliária, S.A.
Atelgen-Produção Energia, ACE	Coimbrashopping - Centro Comercial, S.A.
Atlantic Ferries - Tráf.Loc,Flu.e Marít, S.A.	Colombo Towers Holding, BV
Azulino Imobiliária, S.A.	Comercial Losan Polonia SP. Z.O.O.
BA Business Angels, SGPS, SA	Comercial Losan, S.L.U.
BA Capital, SGPS, SA	Companhia de Pesca e Comércio de Angola (Cosal), SARL
Banco BPI, SA	Companhia Térmica do Serrado, ACE
BB Food Service, S.A.	Companhia Térmica Tagol, Lda.
Beeskow Holzwerkstoffe	Condis - Sociedade de distribuição, S.A.
Beralands BV	Condis Limitada
Bertimóvel - Sociedade Imobiliária, S.A.	Contacto Concessões, SGPS, S.A.
Big Picture 2 Films, SA	Contimobe - Imobil.Castelo Paiva, S.A.
Blackrock, Inc.	Continente Hipermercados, S.A.
Bloco Q - Sociedade Imobiliária, S.A.	Contry Club da Maia-Imobiliária, S.A.
BOM MOMENTO - Comércio Retalhista, SA	Craiova Mall BV
Bright Development Studio, S.A.	CTE-Central Termoeléct. do Estuário, Lda
Bright Ventures Capital SCR	Cumulativa - Sociedade Imobiliária, S.A.
Caixanet - Telecomunicações e Telemática, SA	Digitmarket - Sistemas de Informação, S.A.
Canal 20 TV	Discovery Sports, SA
Canasta - Empreendimentos Imobiliários, S.A.	DOC Malaga SITECO, S.L.U.
Candotal Spain, S.L.	DOC Malaga SITECO, S.L.U.
Cape Technologies Limited	Dortmund Tower GmbH
CAPWATT - Brainpower, S.A.	Dos Mares - Shopping Centre B.V.
Capwatt ACE, S.A.	Dos Mares - Shopping Centre, S.A.
Capwatt Colombo - Heat Power, S.A.	Dreamia - Serviços de Televisão, S.A.
Capwatt Engenho Novo - Heat Power, S.A.	Dreamia Holding B.V.

RELATED PARTIES

East Star Ltd	Iberosegur-Soc. Ibérica Med. Seguros,Lda
Ecocíclo – Energia e Ambiente, S.A.	Igimo – Sociedade Imobiliária, S.A.
EFACEC Electric Mobility, S.A.	Iginha - Sociedade Imobiliária, S.A.
EFACEC ENERGIA - Máquinas e Equipamentos Eléctricos S.A.	Imobeaute, SA
EFACEC Engenharia e Sistemas, S.A.	Imoclub - Serviços Imobiliários, S.A.
EFACEC Marketing Internacional, S.A.	Imoconti - Soc. Imobiliária, S.A.
EFACEC Power Solutions, SGPS, S.A.	Imodivor - Sociedade Imobiliária, S.A.
EFACEC Serviços Corporativos, S.A.	Imoestrutura - Soc. Imobiliária, S.A.
Efanor Investimentos, SGPS, S.A.	Imogamek, S.A.
Efanor Serviços de Apoio à Gestão, S.A.	Imohotel - Emp.Turist.Imobiliários, S.A.
Ergone Energias, Lda	Imoluanda, S.A.
Empreend.Imob.Quinta da Azenha, S.A.	Imomuro - Sociedade Imobiliária, S.A.
Enerlousado-Recursos Energéticos, Lda.	Imopenínsula - Sociedade Imobiliária, S.A.
Estação Viana – Centro Comercial, S.A.	Implamac Gestão de Imóveis, S.A.
Euroresinas - Indústrias Químicas, S.A.	Imoponte - Soc. Imobiliaria, S.A.
Farmácia Seleção, S.A.	Imoresort - Sociedade Imobiliária, S.A.
Fashion Division Canárias, SL	Imoresultado - Soc. Imobiliaria, S.A.
Fashion Division, S.A.	Imosedas - Imobiliária e Seviços, S.A.
Fidequity – Serviços de Gestão, S.A.	Imosistema - Sociedade Imobiliária, S.A.
Filmes Mundáfrica, SARL	Impaper Europe GmbH
Finisantoro Holding Limited	Implantação - Imobiliária, S.A.
FINSTAR - Sociedade de Investimentos e Participações, SA	Infofield - Informática, S.A.
Fozimo – Sociedade Imobiliária, S.A.	Inovretail, Lda.
Frases e Frações Imobiliária e Serv., SA	Inparvi SGPS, S.A.
Freccia Rossa – Shopping Centre S.r.l.	Interlog - SGPS, S.A.
Fundo de Invest. Imobiliário Imosedede	Ioannina Development of Shopping Centres, SA
Fundo Esp.Inv.Imo.Fec. WTC	Irmãos Vila Nova III - Imobiliária, SA
Fundo I.I. Parque Dom Pedro Shop.Center	Irmãos Vila Nova, SA
Fundo Invest. Imobiliário Imosonae Dois	Isoroy SAS
Fundo Invest.Imob.Shopp. Parque D.Pedro	ITRUST - Cyber Security and Intellig., SA
Gaiashopping I – Centro Comercial, S.A.	IVN - Serviços Partilhados, SA
Gaiashopping II – Centro Comercial, S.A.	IVN Asia Limited
GHP Gmbh	Kento Holding Limited
Gli Orsi Shopping Centre 1 Srl	Land Retail B.V.
Global Usebti, S.L.	Landscape - Promoções e Projectos Imobiliários, Lda
Glunz AG	Larim Corretora de Resseguros Ltda
Glunz Service GmbH	Larissa Develop. Of Shopping Centers, S.A.
Glunz UK Holdings Ltd	Lazam - MDS Corretora e Administradora de Seguros, S.A.
Glunz Uka Gmbh	LCC LeiriaShopping Centro Comercial SA
Golf Time – Golfe e Invest. Turísticos, S.A.	Le Terrazze - Shopping Centre 1 Srl
Gots - Gestão, Organização, Desenvolvimento e Serviços, S.A.	Libra Serviços, Lda.
Guimarãeshopping – Centro Comercial, S.A.	Loop5 Shopping Centre GmbH
Harvey Dos Iberica, S.L.	Losan Colombia, S.A.S.
Henderseon Group plc	Losan Overseas Textile, S.L.
Herco Consultoria de Risco, S.A.	Losan Tekstil Urun.V E Dis Ticaret, L.S.
Herco Consultoria de Riscos e Corretora de Seguros Ltda	Loureshopping - Centro Comercial, S.A.
HighDome PCC Limited	Lusitânia - Companhia de Seguros, SA
HighDome PCC Limited (Cell Europe)	Lusitânia Vida - Companhia de Seguros, SA
Hipergest, S.A.	Luz del Tajo – Centro Comercial S.A.
Iberia Shop.C. Venture Coöperatief U.A.	Luz del Tajo B.V.
Iberian Assets, S.A.	Madeirashopping – Centro Comercial, S.A.
Iberian Holdings Spain S.L.U	Maiashopping – Centro Comercial, S.A.

RELATED PARTIES

Maiequipa - Gestão Florestal, S.A.	Pharmaconcept - Actividades em Saúde, S.A.
Marcas MC, ZRT	PHARMACONTINENTE - Saúde e Higiene, S.A.
Marina de Tróia S.A.	Plaza Éboli - Centro Comercial S.A.
Marmagno - Expl.Hoteleira Imob., S.A.	Plaza Mayor Parque de Ócio BV
Marvero - Expl.Hoteleira Imob., S.A.	Plaza Mayor Parque de Ocio, SA
MCCARE, Serviços de Saúde, S.A.	Plaza Mayor Shopping BV
MDS Africa SGPS, SA	Plaza Mayor Shopping, SA
MDS AUTO - Mediação de Seguros, SA	Plenerg Srl
MDS Corretor de Seguros, S.A.	Poliface North America
MDS Malta Holding Limited	Ponto de Chegada - Soc. Imobiliária, SA
MDS RE - Mediador de resseguros	PORTCC - Portimãoshopping Centro Comercial, SA
MDS, SGPS, SA	Porturbe - Edifícios e Urbanizações, S.A.
Megantic BV	Praedium - Serviços, S.A.
Microcom Doi Srl	Praedium II - Imobiliária, S.A.
MJB-Design, Lda	Praesidium Services Limited
MJLF - Empreendimentos Imobiliários, S.A.	Predicomercial - Promoção Imobiliária, S.A.
Modalfa - Comércio e Serviços, S.A.	Predilugar - Sociedade Imobiliária, SA
MODALLOOP - Vestuário e Calçado, S.A.	Prédios Privados Imobiliária, S.A.
Modelo - Dist.de Mat. de Construção, S.A.	Predisedas - Predial das Sedas, S.A.
Modelo Continente Hipermercados, S.A.	Proj. Sierra Germany 4 (four) - Sh.C.GmbH
Modelo Continente Intenational Trade, SA	Proj.Sierra Germany 2 (two) - Sh.C.GmbH
Modelo Hiper Imobiliária, S.A.	Project Guia, S.A.
Movelpartes - Comp para Ind.Mobiliária, S.A.	Project SC 1 BV
Mstar, SA	Project Sierra 10 BV
Niara Holding, SGPS, Lda	Project Sierra 11 BV
Niara Power, Lda	Project Sierra 12 BV
Norges Bank	Project Sierra 2 BV
Norteshopping - Centro Comercial, S.A.	Project Sierra 8 BV
Norteshopping Retail and Leisure Centre, BV	Project Sierra Cúcuta BV
Nova Cimangola, S.A.	Project Sierra Four Srl
Novodecor (PTY), LTD	Project Sierra Four, SA
Olimpo Real Estate Socimi, SA	Project Sierra Spain 1 B.V.
OSB Deutchland Gmbh	Project Sierra Spain 2 - Centro Comer. S.A.
Overseas Investments SA	Project Sierra Two Srl
Panorama Equity Investments BV	Promessa Sociedade Imobiliária, S.A.
Pantheon Plaza BV	Proyecto Cúcuta S.A.S.
Paracentro - Gest.de Galerias Com., S.A.	Público - Comunicação Social, S.A.
Parcelas e Narrativas - Imobiliária SA	QCE-Desenv. e Fabrico de Equipamentos,SA
Pareuro, BV	Racionaliz. y Manufact.Florestales, S.A.
Park Avenue Develop. of Shop. Centers S.A.	Rio Sul - Centro Comercial, S.A.
Parklake Shopping, SA	River Plaza Mall, Srl
Parque Atlântico Shopping - C.C., S.A.	River Plaza, BV
Parque D. Pedro 1 B.V.	Ronfegen-Recursos Energéticos, Lda.
Parque de Famalicão - Empr. Imob., S.A.	S.C. Microcom Doi Srl
Pátio Boavista Shopping Ltda.	S21 Sec Brasil, Ltda
Pátio Campinas Shopping Ltda	S21 SEC Gestion, S.A.
Pátio Goiânia Shopping Ltda	S21 Sec Information Security Labs, S.L.
Pátio Londrina Empreend. e Particip. Ltda	S21 Sec, S.A. de CV
Pátio São Bernardo Shopping Ltda	Salsa DE GmbH
Pátio Sertório Shopping Ltda	Salsa Distribution USA LLC
Pátio Uberlândia Shopping Ltda	Salsa France, S.A.R.L.
PCJ - Público, Comunicação e Jornalismo, S.A.	Salsa Luxembourg, Sàrl

RELATED PARTIES

Santoro Finance - Prestação de Serviços, S.A.	Sierra Spain Malaga Holdings S.L.U
Santoro Financial Holding, SGPS, S.A.	Sierra Spain ShoppinG Centers Services S.A.U.
Saphety - Transacciones Electronicas SAS	Sierra Turkey Gayrim.Yön.P.Dan.An.Sirket
Saphety Brasil Transações Eletrônicas Ltda	Sierra VdG Holding BV
Saphety Level - Trusted Services, S.A.	Sierra Zenata Project BV
SC - Consultadaria, S.A.	SII - Soberana Invest. Imobiliários, S.A.
SC - Eng. e promoção imobiliária,SGPS, S.A.	SIRS - Sociedade Independente de Radiodifusão Sonora, S.A.
SC Aegean B.V.	SISTAVAC, S.A.
SC Assets, SGPS, SA	SISTAVAC, SGPS, S.A.
SC Finance BV	SISTAVAC-Sistemas HVAC-R do Brasil, Ltda
SC For-Serv.Form.e Desenv.R.H.,Unip.,Lda	SLS Salsa - Comércio e Difusão de Vestuário, S.A.
SC Hospitality, SGPS , S.A.	SLS Salsa España - Comercio y Difusión de Vestuario, S.A.U.
SC, SGPS, SA	Soc.Inic.Aproveit.Florest.-Energias,SA
SDSR - Sports Division SR, S.A.	Société de Tranchage Isoroy S.A.S.
Selifa - Empreendimentos Imobiliários, S.A.	Socijofra - Sociedade Imobiliária, S.A.
Sempre à Mão - Sociedade Imobiliária, S.A.	Sociloures - Soc.Imobiliária, S.A.
Sempre a Postos - Produtos Alimentares e Utilidades, Lda	Socip - Sociedade de Investimentos e Participações, S.A.
Serra Shopping - Centro Comercial, S.A.	Sodiba Limitada
Sesagest - Proj.Gestão Imobiliária, S.A.	Soflorin, BV
Sete e Meio - Invest. Consultadaria, S.A.	Sohi Meat Solut-Distr Carnes
Sete e Meio Herdades - Inv. Agr. e Tur., S.A.	Soira - Soc.Imobiliária de Ramalde, S.A.
SFS - Serviços de Gestão e Marketing, SA	Solinca - Health and Fitness, SA
Shopping Centre Colombo Holding BV	Solinca - Investimentos Turísticos, S.A.
Shopping Centre Parque Principado B.V.	Solinfitness - Club Malaga, S.L.
SIAL Participações Ltda	Solingen Shopping Center GmbH
Sierra Berlin Holding BV	Soltroia - Imob.de Urb.Turismo de Tróia, S.A.
Sierra Brazil 1 BV	Sumit Imobiliária, SA
Sierra Central S.A.S	Sonae Arauco France SAS
Sierra Cevital Shopping Center, Spa	Sonae Capital Brasil, Lda
Sierra Core Assets Holdings, B.V.	Sonae Capital,SGPS, S.A.
Sierra Corporate Services Holland, BV	Sonae Center Serviços II, SA
Sierra Developments Holding B.V.	Sonae Financial Services, S.A.
Sierra Developments, SGPS, S.A.	Sonae Ind., Prod. e Com.Deriv.Madeira, S.A.
Sierra European R.R.E. Assets Hold. B.V.	Sonae Indústria - SGPS, S.A.
Sierra Germany GmbH	Sonae Indústria (UK),Ltd
Sierra GP Limited	Sonae Indústria de Revestimentos, S.A.
Sierra Greece, SA	Sonae Investimentos, SGPS, SA
Sierra Investimentos Brasil Ltda	Sonae Investment Management-S.T.,SGPS,SA
Sierra Investments (Holland) 1 B.V.	Sonae Investments BV
Sierra Investments (Holland) 2 B.V.	Sonae MC - Modelo Continente, SGPS, SA
Sierra Investments Holding B.V.	Sonae MC S2 Africa Limited
Sierra Investments SGPS, S.A.	Sonae Novobord (PTY) Ltd
Sierra Italy, Srl	Sonae RE, S.A.
Sierra Management, SGPS, S.A.	Sonae SGPS, S.A.
Sierra Maroc SARL	Sonae Sierra Brasil S.A.
Sierra Maroc Services, SARL	Sonae Sierra Brazil, BV / SARL
Sierra Portugal, S.A.	Sonae Sierra, SGPS, S.A.
Sierra Project Nürnberg BV	Sonae SR Malta Holding Limited
Sierra Real Estate Greece BV	Sonae Tafibra Benelux, BV
Sierra Retail Ventures BV	Sonaecenter Serviços, S.A.
Sierra Romania Sh. Centers Services Srl	Sonaecom - Serviços Partilhados, S.A.
Sierra Solingen Holding GmbH	Sonaecom - Sistemas de Información España, S.L.

RELATED PARTIES

Sonaecom, SGPS, S.A.	Tróia Natura, S.A.
Sonaecom-Cyber Security and Int.,SGPS,SA	Troiaresort - Investimentos Turísticos, S.A.
Sonaegest - Soc.Gest.Fundos Investimentos	Troiaresort, SGPS, S.A.
Sonaerp - Retail Properties, SA	Tulipamar - Expl.Hoteleira Imob., S.A.
SONAESR - Serviços e logistica, SA	Turismo da Samba (Tusal), SARL
Sondis Imobiliária, S.A.	Unipress - Centro Gráfico, Lda
Sontel BV	Unishoping Consultoria Imob. Ltda.
Sonvecap BV	Unitel International Holdings, B.V.
Sopair, S.A.	Unitel STP
Sotáqua - Soc. de Empreendimentos Turist	Unitel T+
Soternix-Produção de Energia, ACE	UP INVEST, SGPS, S.A.
Spanboard Products, Ltd	Upstar Comunicações SA
SPF - Sierra Portugal	Urbinveste - Promoções e Projectos Imobiliários, S.A.
SPF - Sociedade de Participações Financeiras, Lda	Urbisedas - Imobiliária das Sedas, S.A.
Spinarq - Engenharia, Energia e Ambiente, SA	Usebti Textile México S.A. de C.V.
Spinarq Moçambique, Lda	Valor N, S.A.
Spinveste - Gestão Imobiliária SGII, S.A.	Via Catarina - Centro Comercial, S.A.
Spinveste - Promoção Imobiliária, S.A.	Vidatel, Ltd
Sport TV Portugal, S.A.	Vistas do Freixo-Emp.Tur.Imobiliários,SA
Sport Zone Canárias, SL	Vuelta Omega, S.L.
Sport Zone España-Com.Art.de Deporte,SA	WeDo Consulting - Sistemas de Informação, S.A.
Sport Zone spor malz.per.satis ith.ve ti	WeDo do Brasil - Soluções Informáticas, Ltda
Spred, SGPS, SA	WeDo Technologies (UK) Limited
SSI Angola, S.A.	WeDo Technologies Americas, Inc.
STP Cabo SARL	WeDo Technologies Australia PTY Limited
Suncoutim - Solar Energy, S.A.	WeDo Technologies BV
Tableros Tradema, S.L.	WeDo Technologies Egypt LLC
Tafiber,Tableros de Fibras Ibéricas, SL	WeDo Technologies Mexico, S de R.L.
Tafibra South Africa (PTY) Ltd.	Weiterstadt Shopping BV
Tafibra Suisse, SA	Winterfell 2 Limited
Tafisa - Tableros de Fibras, S.A.	Winterfell Industries Limited
Tafisa Canadá Société en Commandite	Wise Intelligence Solutions Holding Limited
Tafisa France, S.A.	Wise Intelligence Solutions Limited
Tafisa UK, Ltd	Worten - Equipamento para o Lar, S.A.
Taiber,Tableros Aglomerados Ibéricos, SL	Worten Canárias, SL
Tecnológica Telecomunicações LTDA.	Worten España Distribución, SL
Teconologias del Medio Ambiente,SA	Yako - Retalho Alimentar, S.A.
Terra Peregin - Participações SGPS, S.A.	ZAP Cinemas, S.A.
Têxtil do Marco, S.A.	ZAP Media, S.A.
The Artist Porto Hot.&Bistrô-Act.Hot.,SA	ZAP Publishing, S.A.
The House Ribeira Hotel - Expl. Hot., SA	ZIPPY - Comércio e Distribuição, SA
TLANTIC B.V.	ZIPPY - Comercio y Distribución, S.A.
Tlantic Portugal - Sist. de Informação, S.A.	Zippy cocuk malz.dag.ith.ve tic.ltd.sti
Tlantic Sistemas de Informação Ltd ^a	ZOPT, SGPS, S.A.
Tool Gmbh	ZYEVOLUTION-Invest.Desenv.,SA.
Troia Market-Supermercados, S.A.	

40.2. 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 2015 and 2016 and transactions in the years ended on 31 December 2015 and 2016 between NOS Group and its associated companies, joint ventures and other related parties are as follows:

Balances at 31 December 2015

	ACCOUNTS RECEIVABLES	ACCOUNTS PAYABLE	ACCRUED EXPENSES	DEFERRED INCOME	DEFERRED COSTS
SHAREHOLDERS					
Banco BPI	1,994	(19)	-	-	-
Sonaecom	118	-	-	-	-
JOINTLY CONTROLLED COMPANIES AND ASSOCIATED COMPANIES					
Big Picture 2 Films	13	1,335	361	-	-
Dreamia Holding BV	2,579	-	-	-	-
Dreamia SA	1,717	861	188	-	-
Finstar	9,982	-	-	-	-
Mstar	1	-	-	-	-
Sport TV	885	12,521	4,164	-	-
Upstar	13,617	-	-	-	-
ZAP Cinemas	3,015	-	-	-	-
ZAP Media	465	-	-	-	-
OTHER RELATED PARTIES					
Cascaishoping Centro Comercial	3	59	-	-	57
Digitmarket-Sistemas de Informação	42	962	-	3	245
ITRUST - Cyber Security and Intellig.	5	144	8	-	-
Modelo Continente Hipermercados	1,188	126	(120)	-	3
MDS - Corretor de Seguros	40	-	-	-	107
SC-Consultadoria	171	-	-	20	-
Sonae Ind., Prod. e Com. Deriv. Madeira	115	-	-	2	-
Sierra Portugal	637	(25)	58	5	383
Sonae Center Serviços II	701	8	49	149	-
Sonaecom - Serviços Partilhados	41	86	5	-	-
SDSR - Sports Division SR	124	-	-	-	-
Unitel	1,709	968	969	-	-
We Do Consulting-Sist. de Informação	139	1,245	-	-	44
Worten - Equipamento para o Lar	2,474	(6)	389	-	-
Other related parties	625	123	40	7	48
	42,399	18,386	6,113	184	887

Transactions at 31 December 2015

	REVENUES	WAGES AND SALARIES	DIRECT COSTS	MARKETING AND ADVERTISING	SUPPORT SERVICES	SUPPLIES AND EXTERNAL SERVICES	OTHER OPERATING LOSSES / (GAINS)	FINANCIAL INCOME AND (EXPENSES)	FIXED ASSETS
SHAREHOLDERS									
Banco BPI	4,790	-	-	-	-	5	-	(750)	-
SonaeCom	26	3	-	-	(6)	(12)	71	-	-
JOINTLY CONTROLLED COMPANIES AND ASSOCIATED COMPANIES									
Big Picture 2 Films	70	-	3,045	-	-	59	-	-	-
Distodo	-	-	-	-	-	1	-	-	-
Dreamia Holding BV	208	-	-	-	-	-	-	266	-
Dreamia SA	2,850	(2)	(937)	32	(0)	(2)	-	(0)	-
Finstar	1,163	-	-	-	-	-	-	-	-
Mstar	33	-	-	-	-	-	-	-	-
Sport TV	208	-	45,956	-	-	4	-	0	-
Upstar	12,420	-	(973)	-	(0)	19	382	(68)	-
ZAP Cinemas	437	-	-	-	-	-	-	-	-
ZAP Media	1,921	-	-	-	-	-	-	-	-
OTHER RELATED PARTIES									
Aqualuz Tróia-Expl.Hoteleira e Imob.	124	65	-	-	-	0	-	-	-
Cascaisshopping Centro Comercial	15	-	-	8	-	685	-	-	-
Continente Hipermercados	299	-	-	-	-	46	-	0	-
Digitmarket-Sistemas de Informação	282	(0)	20	-	324	234	-	-	3,334
ITRUST - Cyber Security and Intellig.	1	(1)	8	-	129	54	-	-	238
MDS - Corretor de Seguros	494	-	-	-	-	244	-	-	-
Modafla - Comercio e Serviços	233	-	-	-	-	-	-	-	-
Modelo - Dist.de Mat. de Construção	206	-	-	-	-	-	-	-	-
Modelo Continente Hipermercados	5,287	117	118	447	-	(93)	-	0	-
Pharmacontinente - Saúde e Higiene	170	-	-	-	-	-	-	-	-
Público - Comunicação Social	170	-	(1)	20	(0)	0	-	-	-
Raso - Viagens e Turismo	304	74	-	195	32	1,757	-	-	-
Saphety Level - Trusted Services	109	-	-	-	734	7	-	-	29
SC-Consultadoria	1,069	22	-	-	-	-	-	-	-
SDSR - Sports Division SR	497	-	-	0	-	-	-	-	-
Sierra Portugal	3,788	-	-	320	3	4,869	(0)	-	-
SISTAVAC	182	-	-	-	-	66	-	-	-
Solilca - Health & Fitness	127	-	-	-	-	-	-	-	-
Sonae Center Servicos II	2,028	102	-	-	21	-	-	-	-
Sonae Ind., Prod. e Com.Deriv.Madeira	894	-	-	-	-	-	-	-	-
SonaeCom - Serviços Partilhados	296	-	0	-	12	57	-	-	0
SonaeCom-Sistemas Informacion Espana SL	28	-	-	-	214	0	-	-	-
Spinveste - Promocão Imobiliária	-	-	-	-	-	286	-	-	-
Unitel	2,133	-	1,768	-	-	-	0	-	-
We Do Consulting-Sist. de Informação	536	(0)	-	-	3,528	47	-	-	4,260
Worten - Equipamento para o Lar	5,472	-	0	547	-	842	0	0	2
Other related parties	1,324	2	0	35	9	349	-	0	-
	50,196	381	49,006	1,603	5,000	9,527	453	(552)	7,862

Balances at 31 December 2016

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

Transactions at 31 December 2016

	REVENUES	WAGES AND SALARIES	DIRECT COSTS	MARKETING AND ADVERTISING	SUPPORT SERVICES	OTHER NON-RECURRING LOSSES / (GAINS)	SUPPLIES AND EXTERNAL SERVICES	OTHER OPERATING LOSSES / (GAINS)	FINANCIAL INCOME AND (EXPENSES)	FIXED ASSETS
SHAREHOLDERS										
Banco BPI	5,011	-	104	-	-	-	5	-	(391)	-
JOINTLY CONTROLLED COMPANIES AND ASSOCIATED COMPANIES										
Big Picture 2 Films	52	-	5,240	-	-	-	53	-	-	-
Dreamia Holding BV	276	-	-	-	-	-	-	-	212	-
Dreamia SA	2,734	(7)	(564)	38	-	-	(6)	8	-	-
Finstar	939	-	-	-	-	-	-	-	-	-
Mstar	34	-	-	-	-	-	-	-	-	-
Sport TV	282	-	61,187	-	-	-	-	-	-	-
Upstar	14,942	-	(435)	20	-	-	(1)	-	-	-
ZAP Cinemas	(19)	-	-	-	-	-	-	-	-	-
ZAP Media	491	-	-	-	-	-	-	-	-	-
OTHER RELATED PARTIES										
Cascaisshopping	28	-	-	7	-	1	705	-	-	-
Continente Hipermercados	288	-	-	-	-	-	90	-	-	3
Digitimarket	404	-	-	-	319	-	349	-	-	3,900
EFACECENG	129	-	-	-	-	-	-	-	-	-
GLUNZAG	108	-	-	-	-	-	-	-	-	-
Itrust - Cyber Security and Intellig	11	-	246	-	120	-	54	-	-	307
Modelo - Distribuição Materiais Construção	193	-	-	-	-	-	-	-	-	-
Modelo Continente Hipermercados	5,036	-	137	477	-	-	(111)	-	-	-
MDS - Corretor de Seguros	492	-	-	-	-	-	302	-	-	-
Modalfa	213	-	-	-	-	-	-	-	-	-
Pharmacontinente	153	-	-	-	-	-	-	-	-	-
Publico	193	-	-	30	-	-	1	-	-	-
Sephety Level - Trusted Services	113	-	-	-	519	-	2	-	-	32
SC-Consultadoria	1,201	-	-	-	-	-	-	-	-	-
SONAESR-Serviços e logística	107	-	-	-	-	-	1	-	-	-
Sonae Indústria PCDM	843	-	-	-	-	-	-	-	-	4
Sistavac	131	-	-	-	-	-	6	-	-	64
Sierra Portugal	3,521	-	-	325	-	-	4,970	-	-	-
Solínica - Health & Fitness, SA	169	-	-	-	-	-	-	-	-	-
Sonae Center II	2,634	-	-	-	1	-	(7)	-	-	-
Sonae.com	16	(53)	-	-	-	-	-	270	-	-
Sonae.com - Serviços Partilhados	270	-	-	-	1	-	3	-	-	-
Spinveste - Promoção Imobiliária	-	-	-	-	-	-	284	-	-	-
SDSR - Sports Division SR	368	-	-	-	-	-	-	-	-	-
UNTEL	2,061	-	1,671	-	-	-	-	-	-	-
We Do Consulting-Sist. de Informação	506	-	-	7	2,785	-	212	-	-	4,489
Worten - Equipamento para o Lar	6,115	-	-	633	-	30	1,297	-	-	1
Other related parties	1,594	45	(1)	123	39	-	432	-	-	30
	51,639	(15)	67,585	1,660	3,784	31	8,641	278	(179)	8,830

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.

40.3. Remuneration paid to the managers and other key member of the NOS Management

Remuneration paid to managers and other key members of NOS' Management (Managers) for the years ended 31 December 2015 and 2016 were as follows:

	12M 15	12M 16
Fixed remuneration	2,365	2,719
Profit Sharing /Bonus	1,014	1,186
Share-based compensation plans	1,043	1,206
	4,422	5,111

The amounts shown in the table were calculated on an accruals basis for Compensation and Profit sharing / Bonus (short-term remuneration). The value for the Action Plans and Savings Plans Shares correspond to the amount to be allocated in 2017 on the performance of 2016 (awarded in 2016 on the performance in 2015 to 12M 15). The average number of key members of management in 2016 is 16 (16 in 2015). The Corporate Governance Report includes detailed information on the NOS remuneration policy.

The Company considers Leaders members of the Board of Directors.

40.4. Fees and auditors' services

Information concerning fees and services rendered by auditors is described on note 47 of the Corporate Governance Report.

41. Legal actions and contingent assets and liabilities

41.1. Legal actions with regulators

NOS SA (i), NOS Açores (ii) and NOS Madeira (iii) brought actions for judicial review of ANACOM's decisions in respect of the payment of the Annual Fee (for 2009, 2010, 2011, 2012, 2013, 2014 and 2015) 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, 7,270 thousand euros, 7,426 thousand euros and 7,253 thousand euros; (ii) 29 thousand euros, 60 thousand euros, 95 thousand euros, 95 thousand euros, 104 thousand euros, 107 thousand euros and 98 thousand euros; (iii) 40 thousand euros, 83 thousand euros, 130 thousand euros, 132 thousand euros, 149 thousand euros, 165 thousand euros and 161 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 the annual rate of 2009, for which the appeal was upheld, with no prior hearing, condemning ICP-ANACOM to pay the costs. ANACOM appealed and by decision of July 2013, this appeal was not upheld.

The remaining proceedings are awaiting trial and/or decision.

41.2. Tax authorities

During the course of the 2003 to 2016 financial years, some companies of the NOS Group were the subject of tax inspections for the 2001 to 2014 financial years. Following these inspections, NOS SGPS, as the controlling company of the Tax Group, and companies not covered by Tax Group, were notified of the corrections made to the Group's tax losses, to VAT and stamp tax and to make the payments related to the corrections made to the above exercises. The total amount of the notifications unpaid is about 24 million euros, added interest and charges. Note that the Group considered that the corrections were unfounded, and contested the amounts mentioned. The Group provided the bank guarantees demanded by the tax authorities in connection with these proceedings, as stated in Note 38.

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

41.3. Actions by MEO against NOS SA, NOS Madeira and NOS Açores and by NOS SA against MEO

- In 2011, MEO brought an action in Lisbon Judicial Court against NOS SA, claiming payment of 10.3 million euros, as compensation for alleged undue portability of NOS SA in the period between March 2009 and July 2011. NOS SA lodged a contest and reply, having started the expert evidence, that the Court however declared void. The hearing was held in late April and early May 2016, having a ruling beendelivered last September, which judged the action partially founded, based not on the existence of undue portability, but on the mere delay of the documentation shipment. NOS was condemned to pay, approximately 5.3 million euros, a decision which NOS appealed.
- MEO made three court notices to NOS SA (April 2013, July 2015 and March 2016), three to NOS Açores (March and June 2013 and May 2016) and three to NOS Madeira (March and June 2013 and May 2016), in order to stop the prescription of alleged damages resulting from claims of undue portability, absence of response time to requests submitted to them by MEO and alleged illegal refusal of electronic portability requests.

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

- In 2011, NOS SA brought an action in Lisbon Judicial Court against MEO, claiming payment of 22.4 million euros, for damages suffered by NOS SA, arising from violations of the Portability Regulation by MEO, in particular, the large number of unjustified refusals of portability requests by MEO in the period between February 2008 and February 2011. The court declared the compulsory performance of expert evidence. At the same time, experts who will be tasked with the economic and financial expertise have been appointed.

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

41.4. Action against NOS SGPS

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

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

Afterwards, the same company brought a new civil lawsuit based on the same facts, but this time, against NOS Comunicações. NOS appealed in September 2016.

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

41.5. Action against Sport Tv

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

It is the understanding of the Board of Directors, supported by lawyers who monitor the process, that, in particularly in formal motives, it is unlikely that NOS SA is responsible in this action.

- Cabovisão brought an action against the Sport Tv, in which it requests compensation from the latter for alleged losses resulting from abuse of a dominant position, amounting to 18 million euros, added capital and interests, that will be due as of 31 December 2014, and lost profits. The Board of Directors of Sport Tv and lawyers, who monitor the process, predict a favorable outcome, not estimating impacts in the accounts, in addition to those already registered.

41.6. Contractual penalties

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

Until 31 December 2014, revenue from penalties, due to inherent uncertainties was recorded only at the moment when it was received, so at December 2016, the receivables by NOS SA, NOS Madeira and NOS Açores amount to a total of 97,884 thousand euros. During the year ended on 31 December 2016, 3,819 thousand euros related to 2014 receivables were received and recorded in the income statement.

From 1 January 2015, revenue from penalties is recognised taking into account an estimated collectability rate taking into account the Group's collection history. The penalties invoiced are recorded as accounts receivable and amounts determined as uncollectible are recorded as impairment by deducting revenue recognised upon invoicing (Note 15).

41.7. Interconnection tariffs

At 31 December 2016, accounts receivable and accounts payable include 37,139,253 euros and 29,913,608 euros, respectively, resulting from a dispute between the subsidiary NOS SA and, essentially, the operator MEO – Serviços de Comunicação e Multimédia, S.A. (previously named TMN – Telecomunicações Móveis Nacionais, S.A.), in relation to the indefiniteness of interconnection tariffs, recorded in 2001. In the lower court, the decision was favorable to NOS SA. The Court of Appeal, on appeal, rejected the intentions of MEO. However, MEO again appealed to the Supreme Court, for final and permanent decision, who upheld the **decision of the "Tribunal da Relação" (Court of Appeal), thus concluding that the interconnection prices for 2001 were not defined**. The settlement of outstanding amounts will depend on the price that will be established.

42. Share incentive scheme

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

In addition to the NOS Plan abovementioned, at 31 December 2016, are still unvested:

- i) The Share Incentive Scheme approved by the General Meetings of Shareholders on 27 April 2008 ("Standard Plan"). The Standard Plan is aimed at eligible members selected by the responsible bodies, regardless of the roles they perform. In this plan the vesting period for the assigned shares is five years, starting twelve months after the period to which the respective assignment relates, at a rate of 20% a year, as long as the employee stays in the company during each of these five periods.
- ii) NOS Sistemas, formerly named Mainroad, had implemented a share incentive scheme for more senior employees based on Sonaecom shares ("Mainroad Plan"), subsequently converted into NOS shares in the acquisition date (20 September 2014). Mainroad Plan was aimed to employees above a certain function level. The vesting occurs three years after the award of each plan, assuming that the employees are still employed in the Company, during that period.

As at 31 December 2016, the unvested plans are:

	NUMBER OF SHARES
STANDARD PLAN	
Plan 2012	59,997
Plan 2013	120,070
MAINROAD PLAN	
Plan 2014	41,958
NOS PLAN	
Plan 2014	880,134
Plan 2015	674,491
Plan 2016	748,389

During the year ended on 31 December 2016, the movements that occurred in the plans, are detailed as follows:

	SENIOR PLAN	STANDARD PLAN	OPTIMUS PLAN	MAINROAD PLAN	NOS PLAN
BALANCE AS AT 31 DECEMBER 2015:	163,909	376,269	1,171,594	132,606	1,537,786
MOVEMENTS IN THE PERIOD:					
Awarded	-	-	-	-	757,636
Vested	(116,823)	(186,455)	(1,079,349)	(91,766)	(57,449)
Cancelled / elapsed / corrected ⁽¹⁾	(47,086)	(9,747)	(92,245)	1,118	65,041
BALANCE AS AT 31 DECEMBER 2016:	-	180,067	-	41,958	2,303,014

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

The share plans costs are recognised over the year between the awarding and vesting date of those shares. The responsibility is calculated taking into consideration the share price at award date of each plan, however for the Mainroad plan, the award date is the date of the acquisition (the time of conversion of Sonaecom shares plans into NOS shares plans). As at 31 December 2016, the outstanding responsibility related to these plans is 7,216 thousand euros and is recorded in Reserves, in the amount of 6,317 thousand euros, for plans liquidated in shares and in Accrued expenses, in the amount of 1,199 thousand euros, for plans liquidated in cash.

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

	ACCRUED EXPENSES	RESERVES	TOTAL
Costs recognised in previous years related to plans as at 31 December 2015	-	10,111	10,111
Costs of plans vested in the period	-	(6,198)	(6,198)
Costs of plans exceptionally settled in cash and others	-	(457)	(457)
Reclassification to accrued expenses of plans to settle in cash	889	(889)	-
Costs recognised in the period	310	3,749	4,059
TOTAL COST OF THE PLANS	1,199	6,317	7,516

43. Subsequent events

On 31 January 2017 the purchase and sale agreement of NOS Comunicações S.A. FTTH network was signed, already classified as held-for-sale (Notes 17 and 34). The agreed sale price and already received amounted to 24.2 million euros, not having originated any gain or loss.

In addition, on 24 February 2017, after the entry of MEO into the share capital of Sport Tv, MEO, Vodafone, Olivedesportos and NOS now own an equal share of 25%.

During the first quarter of 2017, following the notice of settlement related with CLSU of 2012-2013, NOS contracted bank guarantees in favor of the compensation fund for universal service, in the amount of 17.5 million euros, in order to prevent the establishment of fiscal execution processes, looking for the coercive payment of the liquidated amounts.

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.

44. Annexes

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

COMPANY	HEADQUARTERS	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP		
				EFFECTIVE 31/12/2015	DIRECT 31/12/2016	EFFECTIVE 31/12/2016
NOS, SGPS, S.A. (Holding)	Lisbon	Management of investments	-	-	-	-
Empracine - Empresa Promotora de Atividades Cinematográficas, Lda.	Lisbon	Movies exhibition	Lusomundo SII	100%	100%	100%
Lusomundo - Sociedade de investimentos imobiliários SGPS, SA	Lisbon	Management of Real Estate	NOS	100%	100%	100%
Lusomundo Imobiliária 2, S.A.	Lisbon	Management of Real Estate	Lusomundo SII	100%	100%	100%
Lusomundo Moçambique, Lda.	Maputo	Movies exhibition and commercialization of other public events	NOS Cinemas	100%	100%	100%
NOS Sistemas, S.A. ('NOS Sistemas')	Lisbon	Rendering of consulting services in the area of information systems	NOS SA	100%	100%	100%
NOS Sistemas España, S.L.	Madrid	Rendering of consulting services in the area of information systems	NOS SA	100%	100%	100%
NOS Açores Comunicações, S.A.	Ponta Delgada	Distribution of television by cable and satellite and operation of telecommunications services in the Azores area	NOS SA	84%	84%	84%
NOS Communications S.à r.l	Luxembourg	Ownership, management and operation of intellectual property	NOS	100%	100%	100%
NOS Comunicações, S.A.	Lisbon	Implementation, operation, exploitation and offer of networks and rendering services of electronic communications and related resources; offer and commercialisation of products and equipments of electronic communications	NOS	100%	100%	100%
NOS Inovação, S.A.	Matosinhos	Achievement and promotion of scientific activities and research and development as well as the demonstration, dissemination, technology transfer and formation in the fields of services and information systems and fixed solutions and last generation mobile, television, internet, voice and data, and licensing and engineering services and consultancy	NOS	100%	100%	100%
NOS Lusomundo Audiovisuais, S.A.	Lisbon	Import, distribution, commercialization and production of audiovisual products	NOS	100%	100%	100%
NOS Lusomundo Cinemas, S.A.	Lisbon	Movies exhibition and commercialization of other public events	NOS	100%	100%	100%
NOS Lusomundo TV, Lda.	Lisbon	Movies distribution, editing, distribution, commercialization and production of audiovisual products	NOS Audiovisuais	100%	100%	100%
NOS Madeira Comunicações, S.A.	Funchal	Distribution of television by cable and satellite and operation of telecommunications services in the Madeira area	NOS SA	78%	78%	78%
NOS PUB, Publicidade e Conteúdos, S.A.	Lisbon	Commercialization of cable tv contents	NOS SA	100%	100%	100%
NOS TECHNOLOGY - Concepção, Construção e Gestão de Redes de Comunicações, S.A. ('Artis')	Matosinhos	Design, construction, management and exploitation of electronic communications networks and their equipment and infrastructure, management of technologic assets and rendering of related services	NOS	100%	100%	100%
NOS TOWERING - Gestão de Torres de Telecomunicações, S.A. ('Be Towering')	Lisbon	Implementation, installation and exploitation of towers and other sites for the instalment of telecommunications equipment	NOS	100%	100%	100%
Per-Mar - Sociedade de Construções, S.A. ('Per-Mar')	Lisbon	Purchase, sale, renting and operation of property and commercial establishments	NOS	100%	100%	100%
Sontária - Empreendimentos Imobiliários, S.A. ('Sontária')	Lisbon	Realisation of urbanisation and building construction, planning, urban management, studies, construction and property management, buy and sale of properties and resale of purchased for that purpose	NOS	100%	100%	100%
Teliz Holding B.V.	Amsterdam	Management of group financing activities	NOS	100%	100%	100%
ZON FINANCE B.V. (a)	Amsterdam	Management of group financing activities	NOS SA / NOS	100%	-	-

a) Company liquidated on 18 January 2016.

B) Associated companies

COMPANY	HEADQUARTERS	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP		
				EFFECTIVE 31/12/2015	DIRECT 31/12/2016	EFFECTIVE 31/12/2016
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%

C) Jointly controlled companies

COMPANY	HEADQUARTERS	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP		
				EFFECTIVE 31/12/2015	DIRECT 31/12/2016	EFFECTIVE 31/12/2016
Dreamia Holding B.V.	Amsterdam	Management of investments	NOS Audiovisuais	50,00%	50,00%	50,00%
Dreamia - Serviços de Televisão, S.A.	Lisbon	Conception, production, realization and commercialization of audiovisual contents and provision of publicity services	Dreamia Holding BV	50,00%	100,00%	50,00%
East Star Ltd	Port Louis	Management of investments involved in the development, operation and marketing, through any technological means, of telecommunications, television and audiovisual products and services	Teliz Holding B.V.	30,00%	30,00%	30,00%
FINSTAR - Sociedade de Investimentos e Participações, S.A.	Luanda	Distribution of television by satellite, operation of telecommunications services	Teliz Holding B.V.	30,00%	30,00%	30,00%
MSTAR, SA	Maputo	Distribution of television by satellite, operation of telecommunications services	NOS	30,00%	30,00%	30,00%
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%	33,33%	33,33%
Upstar Comunicações S.A.	Vendas Novas	Electronic communications services provider, production, commercialization, broadcasting and distribution of audiovisual contents	NOS	30,00%	30,00%	30,00%
ZAP Media S.A.	Luanda	Projects development and activities in the areas of entertainment, telecommunications and related technologies, the production and distribution of the contents and the design, implementation and operation of infrastructure and related facilities	FINSTAR	30,00%	100,00%	30,00%
ZAP Cinemas, S.A.	Luanda	Projects development and activities in the areas of entertainment, telecommunications and related technologies, the production and distribution of the contents and the design, implementation and operation of infrastructure and related facilities	FINSTAR	30,00%	100,00%	30,00%
ZAP Publishing, S.A.	Luanda	Projects development and activities in the areas of entertainment, telecommunications and related technologies, the production and distribution of the contents and the design, implementation and operation of infrastructure and related facilities	ZAP Media	30,00%	100,00%	30,00%

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

D) Companies recorded at cost

COMPANY	HEADQUARTERS	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP		
				EFFECTIVE 31/12/2015	DIRECT 31/12/2016	EFFECTIVE 31/12/2016
Turismo da Samba (Tusal), SARL (a)	Luanda	n.a.	NOS	30.00%	30.00%	30.00%
Filmes Mundáfrica, SARL (a)	Luanda	Movies exhibition, organisation and operation of public shows	NOS	23.91%	23.91%	23.91%
Companhia de Pesca e Comércio de Angola (Cosal), SARL (a)	Luanda	n.a.	NOS	15.76%	15.76%	15.76%
Caixanet - Telecomunicações e Telemática, S.A.	Lisbon	Telecommunication services	NOS	5.00%	5.00%	5.00%
Apor - Agência para a Modernização do Porto	Oporto	Development of modernizing projects in Oporto	NOS	3.98%	3.98%	3.98%
Lusitânia Vida - Companhia de Seguros, S.A ("Lusitânia Vida")	Lisbon	Insurance services	NOS	0.03%	0.03%	0.03%
Lusitânia - Companhia de Seguros, S.A ("Lusitânia Seguros")	Lisbon	Insurance services	NOS	0.04%	0.04%	0.04%

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

Individual Financial Statements



Statement of financial position

at 31 December 2015 and 2016

(Amounts stated in euros)

	NOTES	31/12/2015	31/12/2016
ASSETS			
NON - CURRENT ASSETS			
Tangible assets	6	177,508	131,017
Intangible assets	7	453,889,010	453,894,603
Financial investments in group companies	8	855,472,156	1,028,499,738
Accounts receivable	9	578,633,908	567,917,595
Tax receivable	10	709,685	709,685
Available-for-sale financial assets	11	76,727	76,727
Deferred income tax assets	12	1,338,766	2,096,703
Derivative financial instruments		-	5,750
TOTAL NON - CURRENT ASSETS		1,890,297,760	2,053,331,818
CURRENT ASSETS			
Accounts receivable	9	371,902,173	275,393,310
Tax receivable	10	170,303	38,296
Deferred costs	13	908,093	55,320
Derivative financial instruments	20	-	17,169
Cash and cash equivalents	14	4,632,810	72,516
TOTAL CURRENT ASSETS		377,613,379	275,576,611
TOTAL ASSETS		2,267,911,139	2,328,908,429
SHAREHOLDER'S EQUITY			
Share capital	15.1	5,151,614	5,151,614
Capital issued premium	15.2	854,218,633	854,218,633
Own shares	15.3	(10,558,533)	(18,756,232)
Legal reserve	15.4	3,556,300	1,030,323
Other reserves and accumulated earnings	15.4	312,760,562	274,262,896
Net income		49,472,032	80,022,807
TOTAL SHAREHOLDER'S EQUITY		1,214,600,608	1,195,930,041
LIABILITIES			
NON - CURRENT LIABILITIES			
Borrowings	16	862,564,218	871,777,232
Provisions	17	3,800,777	3,230,803
Accrued expenses	18	40,968	450,181
Deferred income	19	5,259,038	4,138,440
Derivative financial instruments	20	3,368,942	4,027,492
TOTAL NON - CURRENT LIABILITIES		875,033,944	883,624,149
CURRENT LIABILITIES			
Borrowings	16	117,685,119	184,465,926
Accounts payable	21	54,491,013	58,916,241
Tax payable	10	3,524,594	2,477,423
Accrued expenses	18	2,240,398	2,862,551
Deferred income	19	335,463	632,098
TOTAL CURRENT LIABILITIES		178,276,587	249,354,239
TOTAL LIABILITIES		1,053,310,531	1,132,978,388
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		2,267,911,139	2,328,908,429

The Notes to the Financial Statements form an integral part of the statement of financial position as at 31 December 2016.

Chief Accountant

Board of Directors

Statement of income by nature

for the financial years ended on 31 December 2015 and 2016

(Amounts stated in euros)

	NOTES	2015	2016
REVENUES:			
Services rendered	22	6,100,108	6,976,893
Other operating revenues	23	274,362	587,517
		6,374,470	7,564,409
COSTS, LOSSES AND GAINS:			
Wages and salaries	24	4,848,729	6,138,901
Marketing and advertising		1,343	13,514
Support services	25	1,618,177	1,039,041
Supplies and external services		1,504,929	937,437
Other operating losses / (gains)	26	80,013	58,623
Taxes		88,220	28,232
Provisions and adjustments	17	(726,474)	(7,958)
Depreciation, amortisation and impairment losses	6 and 7	145,816	(139,756)
Restructuring costs	17	(52,535)	365,534
Losses / (gains) on sale of assets		25,957	(117)
Other losses / (gains) non recurrent	27	12,358	(666,664)
		7,546,533	7,766,787
INCOME BEFORE FINANCIAL RESULTS AND TAXES			
Financial costs / (revenues)	28	(15,126,848)	(4,069,138)
Foreign exchange losses / (gains)		8,076	(998)
Losses / (gains) of affiliated companies	29	(46,909,388)	(81,126,863)
Other financial expenses / (income)	28	8,630,314	5,763,332
		(53,397,846)	(79,433,667)
INCOME BEFORE TAXES			
Income taxes	12	2,753,751	(791,518)
NET INCOME		49,472,032	80,022,807
EARNINGS PER SHARES			
Basic - euros	15.5	0.10	0.16
Diluted - euros	15.5	0.10	0.16

The Notes to the Financial Statements form an integral part of the statement of income by nature for the year ended on 31 December 2016.

Chief Accountant

Board of Directors

Statement of comprehensive income
 for the financial years ended on 31 December 2015 and 2016
 (Amounts stated in euros)

	NOTES	2015	2016
NET INCOME		49,472,032	80,022,807
OTHER INCOME			
ITEMS THAT MAY BE RECLASSIFIED TO THE INCOME STATEMENT			
Fair value of derivative financial investments	20	(1,139,337)	(513,140)
OTHER COMPREHENSIVE INCOME		(1,139,337)	(513,140)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		48,332,695	79,509,668

The Notes to the Financial Statements form an integral part of the statement of comprehensive income for the year ended on 31 December 2016.

Chief Accountant

Board of Directors

Statement of changes in shareholders' equity

for the financial years ended on 31 December 2015 and 2016

(Amounts stated in euros)

NOTES	SHARE CAPITAL	CAPITAL ISSUED PREMIUM	OWN SHARES	LEGAL RESERVE	OTHER RESERVES AND ACCUMULATED EARNINGS	NET INCOME	TOTAL
BALANCE AS AT 1 JANUARY 2015	5,151,614	854,218,633	(11,790,900)	3,556,300	384,467,678	6,135,855	1,241,739,180
Result appropriation							
Transferred to reserves	-	-	-	-	6,135,855	(6,135,855)	-
Dividends paid	-	-	-	-	(72,042,607)	-	(72,042,607)
Aquisition of own shares	-	-	(8,022,408)	-	-	-	(8,022,408)
Distribution of own shares - share plan	-	-	8,979,367	-	(8,979,367)	-	-
Distribution of own shares - other remunerations	-	-	275,408	-	(804,303)	-	(528,895)
Share Plan - Costs incurred in the year and others	-	-	-	-	5,122,643	-	5,122,643
Comprehensive income for the year	-	-	-	-	(1,139,337)	49,472,032	48,332,695
BALANCE AS AT 31 DECEMBER 2015	5,151,614	854,218,633	(10,558,533)	3,556,300	312,760,562	49,472,032	1,214,600,608
BALANCE AS AT 1 JANUARY 2016	5,151,614	854,218,633	(10,558,533)	3,556,300	312,760,562	49,472,032	1,214,600,608
Result appropriation							
Transferred to reserves	-	-	-	(2,525,977)	51,998,009	(49,472,032)	-
Dividends paid	15.4	-	-	-	(82,120,996)	-	(82,120,996)
Aquisition of own shares	15.3	-	-	(20,675,774)	-	-	(20,675,774)
Distribution of own shares - share plan	15.3	-	-	9,742,452	-	(10,501,896)	(759,444)
Distribution of own shares - other remunerations	15.3	-	-	2,735,623	-	(219,948)	2,515,675
Share Plan - Costs incurred in the year and others	34	-	-	-	-	2,860,304	2,860,304
Comprehensive income for the year	-	-	-	-	(513,140)	80,022,807	79,509,670
BALANCE AS AT 31 DECEMBER 2016	5,151,614	854,218,633	(18,756,232)	1,030,323	274,262,896	80,022,807	1,195,930,041

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 2016.

Chief Accountant

Board of Directors

Statement of cash flows

for the financial years ended on 31 December 2015 and 2016

(Amounts stated in euros)

	NOTES	2015	2016
OPERATING ACTIVITIES			
Collections from clients		16,731,740	7,416,709
Payments to suppliers		(7,461,847)	(3,153,929)
Payments to employees		(5,344,854)	(7,003,815)
Receipts / (payments) relating to income taxes		(386,753)	(12,934,080)
Other cash receipts / (payments) related with operating activities		5,736,935	22,484,131
CASH FLOW FROM OPERATING ACTIVITIES (1)		9,275,221	6,809,017
INVESTING ACTIVITIES			
CASH RECEIPTS RESULTING FROM			
Financial investments	8	59,535,586	25,347,377
Tangible assets		41	27,739
Loans granted		14,881,620	87,148,178
Interest and related income		51,633,771	24,674,824
Dividends		14,923,188	119,929,280
		140,974,206	257,127,398
PAYMENTS RESULTING FROM			
Financial investments	8	(59,589,386)	(225,377,377)
Tangible assets		(85,259)	(8,263)
Loans granted		(26,982,633)	-
		(86,657,277)	(225,385,640)
CASH FLOW FROM INVESTING ACTIVITIES (2)		54,316,929	31,741,758
FINANCING ACTIVITIES			
CASH RECEIPTS RESULTING FROM			
Borrowings		1,584,627,486	424,519,123
		1,584,627,486	424,519,123
PAYMENTS RESULTING FROM			
Borrowings		(1,559,000,000)	(330,000,000)
Lease rentals (principal)		(60,764)	(10,867)
Interest and related expenses		(32,835,496)	(23,702,316)
Dividends	15.4	(72,042,607)	(82,120,996)
Aquisition of own shares	15.3	(8,022,408)	(20,675,774)
		(1,671,961,275)	(456,509,953)
CASH FLOW FROM FINANCING ACTIVITIES (3)		(87,333,789)	(31,990,830)
Change in cash and cash equivalents (4)=(1)+(2)+(3)		(23,741,639)	6,559,945
Cash and cash equivalents at the beginning of the year		11,721,727	(12,019,912)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		(12,019,912)	(5,459,967)
Cash and cash equivalents	14	4,632,810	72,516
Bank overdrafts	16	(16,652,721)	(5,532,483)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		(12,019,912)	(5,459,967)

The Notes to the Financial Statements form an integral part of the statement of cash flows for the year ended on 31 December 2016.

Chief Accountant

Board of Directors

Notes to the financial statements at 31 December 2016

(Amounts stated in euros, unless otherwise stated)

1. Introductory note

NOS, SGPS, S.A. ("NOS" or "Company"), formerly named ZON OPTIMUS, SGPS, S.A. ("ZON OPTIMUS") and until 27 August 2013 named ZON Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, S.A. ("ZON"), with Company headquarters registered at Rua Actor António Silva, 9, Campo Grande, was established by Portugal Telecom, SGPS, S.A. ("Portugal Telecom") on 15 July 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 became fully independent from Portugal Telecom.

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

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

The businesses operated by NOS and its associated companies, 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 2016 is shown in Note 15.

Cable and satellite television in Portugal is mainly provided by NOS 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.

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

NOS Inovação main activities are conducting and stimulating scientific activities of R&D (it owns all the intellectual property developed within the NOS Group, intending to guarantee the return of initial investment through the commercialization of patents and concessions regarding commercial operation, as a result of a creation of new products and services), the demonstration, disclosure, technology and training transfers in the services and information management domains as well as fixed and mobile solutions of the latest generation of TV, internet, voice and data solutions.

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 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. The effect of these consolidation consists in an assets and net income increase of 653,733 thousand euros and 10,359 thousand euros, respectively, and in a reduction **shareholder's equity of 142,832 thousand euros.**

The financial statements for the financial year ended on 31 December 2016 are presented in euros and were approved by the Board of Directors and their issue authorized on 1 March 2017.

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 gives 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 stated.

2.1 Basis of presentation

The financial statements were prepared in accordance with the International Financial Reporting Standards ("IAS/IFRS") issued by the International Accounting Standards Board ("IASB"), and Interpretations issued by the International Financial Reporting Committee ("IFRIC") or by the previous Standing Interpretations Committee ("SIC"), adopted by the European Union, in force as at 1 January 2016.

The financial statements are presented in euros as this the main currency of the Company's operations.

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, 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 become effective on 1 January 2016 are as follow:

- **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.**
- **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.**
- **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 impair 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.**

- IAS 27 (amendments), "Equity Method in Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2016). This amendment allows the choice to present, in the separate financial statements, investments in subsidiaries, jointly controlled companies or associates in accordance with Equity Method.
- Improvements to International Financial Reporting Standards (2012-2014 cycle effective for annual periods beginning on or after 1 January 2016). These improvements involve the review of various standards.

These changes had no material impact on the financial statements.

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

The following standard has not yet been endorsed by the European Union, at the date of approval of these financial statements:

- IFRS 14 (new), "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016). This standard's main purpose is to improve comparability of financial reports for companies in regulated markets, allowing the companies that currently record assets and liabilities in result of the regulation from the markets where they operate, in accordance with the adopted accounting principles, do not have the need to eliminate those assets and liabilities in the first time adoption of the IFRS.

This standard will have no material impact on the financial statements.

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

- IFRS 2 (amendment), "Classification and measurement of share-based payments transactions" (effective for annual periods beginning on or after 1 January 2018). These amendments incorporate the standard payment transactions based on shares and settled in cash.
- IFRS 4 (amendment), "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018). The amendments complement the current options in the standard that can be used to bridge the concern related with the temporary volatility of the results.
- IFRS 10 and IAS 28 (amendments), "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (effective 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 15 (clarification), "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 January 2018). The clarifications presented are about the transition and not about changes in the underlying principles of the standard.
- IFRS 16 (new), "Leasings" (effective for annual periods beginning on or after 1 January 2019). This standard sets out recognition, presentation and disclosure of leasing contracts, defining a single accounting model. Aside from lower contracts than 12 months, leases should be accounted as an asset and a liability.
- IAS 7 (amendment), "Cash Flow Statements" (effective for annual periods beginning on or after 1 January 2017). This standard requires that the entity discloses information about changes in liabilities related to financing activities, including: (i) changes in financing cash flows; (ii) changes resulting from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in exchange rates; (iv) fair value changes; and (v) other changes.
- IAS 12 (amendment), "Recognition of deferred tax assets of unrealized losses" (effective for annual periods beginning on or after 1 January 2017). The amendments clarify when it should recognize an asset for deferred tax arising from unrealized losses.
- IAS 40 (amendment), "Investment property transfers" (effective for periods beginning on or after 1 January 2018). The amendments clarify if a property under construction or development, which was previously classified as Inventories, can be transferred to investment property when there is an evident change in use.
- IFRIC 22 (interpretation), "Foreign currency transactions and advance consideration" (effective for periods beginning on or after 1 January 2018). Interpretations clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.
- Improvements in International Financial Reporting Standards (2014-2016 cycle effective for periods beginning on or after 1 January 2017/2018). These improvements involve the review of various standards.

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

2.2 Transactions and balances in foreign currencies

Transactions in foreign currency are recorded at exchange rates on transaction 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 recognized 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 recognized in the income statement, under "Foreign exchange losses / (gains)" for all other balances or transactions.

At 31 December 2015 and 31 December 2016, 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:

	31/12/2015	31/12/2016
US Dollar	1.089	1.054

2.3 Tangible assets

Tangible 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 fixed assets are recognized 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 recognized as a cost of the asset.

The costs of current maintenance and repairs are recognized as a cost when they are incurred.

The estimated costs of dismantling and removal of the assets will be considered as part of the initial cost.

Depreciation is calculated, once the asset becomes 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 fixed assets are as follows:

	2015 (YEARS)	2016 (YEARS)
Buildings and other constructions	10	10
Basic equipment	3 - 4	3 - 4
Transportation equipment	4	4
Administrative equipment	2 - 10	2 - 10
Other tangible assets	8	8

The useful lives and depreciation method of the tangible assets are reviewed annually. The effect of any changes to these estimates is recognized 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 recognized 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 amortization and impairment losses, where applicable.

Intangible assets are recognized only when they are identifiable, generate future economic benefits for the Company and when they can be measured reliably.

Amortization of intangible assets are recognized 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:

	2015 (YEARS)	2016 (YEARS)
Computer Programs	3	3
Industrial property and other rights	3	3

The useful lives and amortization method of the various intangible assets are reviewed annually. The effect of any changes to these estimates is recognized 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 amortized 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 fixed assets 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 recognized as an impairment loss. The impairment loss is recognized immediately in the income statement under **"Depreciation, amortization and impairment losses"** unless such loss offset a revaluation surplus **recorded in shareholders' equity.**

The reversal of impairment losses recognized in previous years is recorded when there are indications that these losses no longer exist or have decreased. The reversal of impairment losses is recognized 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 recognized (net of amortization) 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 recognized in the year in which they are estimated, under the caption "**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 recognized 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 recognized at their fair value plus directly attributable transaction costs, except for assets at fair value through profit or loss where transaction costs are recognized immediately in profit or loss. These assets are derecognized 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 recognized 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 **recognized 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 recognized 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 recognized in the statement of financial position as non-current assets.

Investments are initially recognized 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 recognized directly in reserves until the financial investment is sold, received or otherwise disposed of, at which time the accumulated gain or loss previously recognized in equity is included in the statement of comprehensive income for the year. **Dividends on equity instruments classified as available for sale are recognized in results for the year under "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 recognized at fair value and subsequently valued at amortized 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 realizable 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 regained only when extinguished, i.e., 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 recognized in accordance with the accruals principle.

Accounts payable

Accounts payable are recognized initially at their fair value and subsequently at amortized cost in accordance with the effective interest rate method. Accounts payable are recognized 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 recognized in results – is removed from equity and recognized in the income statement.

Impairment losses on equity instruments recognized 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 recognized as 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 recognized 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 recognized 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 recognized in the income statement by deduction from the corresponding costs incurred.

Investment subsidies are recognized in the statement of financial position as deferred income and it is recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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 recognized in the income statement for the period to which they relate.

In the case of operating leases, the rentals due are recognized 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 recognized 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 recognized 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 recognized 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 recognized in the income statement.
- b) All the other acquired deferred tax benefits performed are recognized 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 (own shares) in accordance with their share price at the grant date.

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

The accumulated cost recognized 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 Capital

Legal reserve

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

Share premium reserves

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

Reserves for plans of medium term incentive

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

The Company recognizes in equity the responsibility of all the action plans of various companies in the NOS group, since it is responsible for its delivery to its employees, against results for the year and accounts receivable of subsidiaries when dealing with own employees or employees of subsidiary companies, respectively.

Hedging reserves

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

Own shares reserves

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

Own shares

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

Retained results

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

2.18 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 recognized 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 recognized using the effective interest method, only where they generate future economic benefits for the Company and where they can be measured reliably.

Revenue from dividends is recognized when the Company's right to receive the correspondent amount is established.

2.19 Accruals

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

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

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

2.20 Financial charges on borrowings

Financial charges related to borrowings are recognized 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.

2.21 Employee benefits

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

2.22 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.

2.23 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' 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 at 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 (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 Kwanza, and one in Republic of Mauritius whose functional currency is the Mauritian Rupee). 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 recognized 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 2016 would have resulted in an increase or decrease in annual profit before tax of approximately 1,4 million euros (2015: 1,1 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 1,702 thousand euros (2015: over 2,662 thousand euros) and down 1,711 thousand euros (2015: less 2,653 thousand euros) at 31 December 2016.

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) analyze the impairment of receivables on a regular basis.

The Company's subsidiaries do 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

4.1 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:

4.1.1 Provisions

The Company periodically reviews any obligations arising from past events which should be recognized 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 amortization / depreciation method to be applied is crucial in determining the amount of amortization / depreciation to be recognized 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 2015 and 31 December 2016, no material misstatements relating to previous years were recognized.

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:

	31/12/2015						
	LOANS AND RECEIVABLES	AVAILABLE-FOR-SALE FINANCIAL ASSETS	HEDGING DERIVATIVES	OTHER FINANCIAL LIABILITIES	TOTAL FINANCIAL ASSETS / LIABILITIES	NON FINANCIAL ASSETS / LIABILITIES	TOTAL
ASSETS							
Accounts receivable - non current (Note 9)	578,633,908	-	-	-	578,633,908	-	578,633,908
Available-for-sale financial assets (Note 11)	-	76,727	-	-	76,727	-	76,727
Accounts receivable - current (Note 9)	371,823,702	-	-	-	371,823,702	78,471	371,902,173
Cash and cash equivalents (Note 14)	4,632,810	-	-	-	4,632,810	-	4,632,810
TOTAL FINANCIAL ASSETS	955,090,420	76,727	-	-	955,167,147	78,471	955,245,618
LIABILITIES							
Accrued expenses - non current (Note 18)	-	-	-	40,968	40,968	-	40,968
Borrowings - non current (Note 16)	-	-	-	862,564,218	862,564,218	-	862,564,218
Borrowings - current (Note 16)	-	-	-	117,685,119	117,685,119	-	117,685,119
Accounts payable - current (Note 21)	-	-	-	54,491,013	54,491,013	-	54,491,013
Accrued expenses - current (Note 18)	-	-	-	2,240,398	2,240,398	-	2,240,398
Derivative financial instruments (Note 20)	-	-	3,368,942	-	3,368,942	-	3,368,942
TOTAL FINANCIAL LIABILITIES	-	-	3,368,942	1,037,021,716	1,040,390,658	-	1,040,390,658
 31/12/2016							
	LOANS AND RECEIVABLES	AVAILABLE-FOR-SALE FINANCIAL ASSETS	HEDGING DERIVATIVES	OTHER FINANCIAL LIABILITIES	TOTAL FINANCIAL ASSETS / LIABILITIES	NON FINANCIAL ASSETS / LIABILITIES	TOTAL
ASSETS							
Accounts receivable - non current (Note 9)	567,917,595	-	-	-	567,917,595	-	567,917,595
Available-for-sale financial assets (Note 11)	-	76,727	-	-	76,727	-	76,727
Accounts receivable - current (Note 9)	275,378,561	-	-	-	275,378,561	14,749	275,393,310
Derivative financial instruments (Note 20)	-	-	22,919	-	22,919	-	22,919
Caixa e equivalentes de caixa (Nota 14)	72,516	-	-	-	72,516	-	72,516
TOTAL FINANCIAL ASSETS	843,368,672	76,727	22,919	-	843,468,318	-	843,483,067
LIABILITIES							
Borrowings - non current (Note 16)	-	-	-	871,777,232	871,777,232	-	871,777,232
Accrued expenses - non current (Note 18)	-	-	-	450,181	450,181	-	450,181
Borrowings - current (Note 16)	-	-	-	184,465,926	184,465,926	-	184,465,926
Accounts payable - current (Note 21)	-	-	-	58,916,241	58,916,241	-	58,916,241
Accrued expenses - current (Note 18)	-	-	-	2,862,551	2,862,551	-	2,862,551
Derivative financial instruments (Note 20)	-	-	4,027,492	-	4,027,492	-	4,027,492
TOTAL FINANCIAL LIABILITIES	-	-	4,027,492	1,118,472,131	1,122,499,623	-	1,122,499,623

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

The Board of Directors believes that, the fair value of the breakdown of financial instruments recorded at amortized 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 2015 and 2016, 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 IN-PROGRESS	TOTAL
ASSETS							
BALANCE AS AT 1 JANUARY 2015	253,332	226,972	1,263,746	2,286,108	450,149	6,866	4,487,173
Acquisitions	-	-	810	850	-	-	1,660
Adjustments, transfers and write-offs	-	-	(785,590)	(700)	-	46	(786,244)
BALANCE AS AT 31 DECEMBER 2015	253,332	226,972	478,966	2,286,258	450,149	6,912	3,702,590
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES							
BALANCE AS AT 1 JANUARY 2015	(253,332)	(226,972)	(534,279)	(2,264,325)	(289,455)	-	(3,568,363)
Depreciation and impairment losses	-	(105,944)	(10,735)	(28,940)	(25)	-	(145,644)
Adjustments, transfers and write-offs	-	-	188,225	700	-	-	188,925
BALANCE AS AT 31 DECEMBER 2015	(253,332)	(332,916)	(356,789)	(2,292,565)	(289,480)	-	(3,525,082)
NET VALUE AT 31 DECEMBER 2015	-	(105,944)	122,177	(6,307)	160,669	6,912	177,508
ASSETS							
BALANCE AS AT 1 JANUARY 2016	253,332	226,972	478,966	2,286,258	450,149	6,912	3,702,590
Acquisitions	-	-	58,348	4,409	-	-	62,758
Disposals	-	-	-	(14,516)	-	-	(14,516)
Adjustments, transfers and write-offs	-	-	(464,437)	148,592	(148,592)	(6,867)	(471,303)
BALANCE AS AT 31 DECEMBER 2016	253,332	226,972	72,878	2,424,744	301,557	45	3,279,529
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES							
BALANCE AS AT 1 JANUARY 2016	(253,332)	(332,916)	(356,789)	(2,292,565)	(289,480)	-	(3,525,082)
Depreciation and impairment losses	-	(22,911)	106,190	(8,330)	66,080	-	141,029
Adjustments, transfers and write-offs	-	128,855	221,519	(115,492)	660	-	235,542
BALANCE AS AT 31 DECEMBER 2016	(253,332)	(226,972)	(29,080)	(2,416,387)	(222,740)	-	(3,148,511)
NET VALUE AT 31 DECEMBER 2016	-	-	43,797	8,358	78,816	45	131,017

7. Intangible assets

During the years ended at 31 December 2015 and 2016, the movements in acquisition costs and accumulated amortization in this item were as follows:

	GOODWILL	SOFTWARE	INDUSTRIAL PROPERTY AND OTHER RIGHTS	TOTAL
ASSETS				
BALANCE AS AT 1 JANUARY 2015	453,888,879	461,345	5,531,664	459,881,888
Acquisitions	-	-	-	-
BALANCE AS AT 31 DECEMBER 2015	453,888,879	461,345	5,531,664	459,881,888
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES				
BALANCE AS AT 1 JANUARY 2015	-	(461,043)	(5,531,664)	(5,992,707)
Amortisation	-	(171)	-	(171)
BALANCE AS AT 31 DECEMBER 2015	-	(461,214)	(5,531,664)	(5,992,878)
NET VALUE AT 31 DECEMBER 2015	453,888,879	131	-	453,889,010

	GOODWILL	SOFTWARE	INDUSTRIAL PROPERTY AND OTHER RIGHTS	TOTAL
ASSETS				
BALANCE AS AT 1 JANUARY 2016	453,888,879	461,345	5,531,664	459,881,888
Acquisitions	-	-	6,867	6,867
BALANCE AS AT 31 DECEMBER 2016	453,888,879	461,345	5,538,531	459,888,755
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES				
BALANCE AS AT 1 JANUARY 2016	-	(461,214)	(5,531,664)	(5,992,878)
Amortisation	-	(129)	(1,144)	(1,273)
BALANCE AS AT 31 DECEMBER 2016	-	(461,343)	(5,532,808)	(5,994,151)
NET VALUE AT 31 DECEMBER 2016	453,888,879	2	5,722	453,894,603

Goodwill

At 31 December 2015 and 2016, 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.

Impairment tests on goodwill

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

These estimates are based on the following assumptions:

Discount Rate (before taxes)	7.3%
Assessment Period	5 years
EBITDA* Growth	4.20%
Perpetuity Growth Rate	1.5%

* 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 and revenues growth of approximately 10%, from which no impairments resulted.

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

8. Financial investments – investments in group companies

At 31 December 2015 and 2016, this item was as follows:

	INVESTMENTS	SUPPLEMENTARY CAPITAL	2015	INVESTMENTS	SUPPLEMENTARY CAPITAL	2016
NOS Comunicações	486,761,600	-	486,761,600	486,761,600	-	486,761,600
NOS Technology	2,159,968	30,187,023	32,346,991	2,159,968	230,187,023	232,346,991
NOS Audiovisuais	118,471,165	-	118,471,165	118,471,165	-	118,471,165
Teliz	76,360,000	410,000	76,770,000	76,390,000	410,000	76,800,000
NOS Towering	2,094,838	26,121,692	28,216,530	2,094,838	26,121,692	28,216,530
NOS Inovação	25,317,153	-	25,317,153	25,317,153	-	25,317,153
NOS Cinemas	19,326,270	2,704,375	22,030,645	19,326,270	2,704,375	22,030,645
NOS Lusomundo SII	16,368,058	-	16,368,058	16,368,058	-	16,368,058
Sport Tv	-	34,168,978	34,168,978	2,500,000	4,666,560	7,166,560
Mstar	5,518,502	-	5,518,502	5,518,502	-	5,518,502
NOS Communicatons S.à r.l	5,000,000	-	5,000,000	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 Finance BV *	-	-	-	-	-	-
	760,620,910	94,851,246	855,472,156	763,150,910	265,348,828	1,028,499,738

*Company was liquidated during the year ended on 31 December 2016

During the years ended at 31 December 2015 and 2016, the movement in "Financial Investments" of NOS was as follows:

	INVESTMENTS	SUPPLEMENTARY CAPITAL	TOTAL
BALANCE AS AT 1 JANUARY 2015	689,040,365	162,391,791	851,432,156
Increases	59,535,586	53,800	59,589,386
Decreases	-	(59,535,586)	(59,535,586)
Reclassification from impairment of accounts receivable	12,044,959	(12,044,959)	-
Impairments (Note 29)	-	3,986,200	3,986,200
BALANCE AS AT 31 DECEMBER 2015	760,620,910	94,851,246	855,472,156
BALANCE AS AT 1 JANUARY 2016	760,620,910	94,851,246	855,472,156
Increases	25,377,377	200,000,000	225,377,377
Decreases	-	(41,547,377)	(41,547,377)
Impairments (Note 29)	(22,847,377)	12,044,959	(10,802,418)
BALANCE AS AT 31 DECEMBER 2016	763,150,910	265,348,828	1,028,499,738

During the year ended on 31 December 2015, the movements in the caption were as follows:

- NOS Audiovisuais: Supplementary capital paid in the amount of 40 million euros; Capital increase to cover losses in the amount of 40 million euros;
- NOS Cinemas: Supplementary capital paid in the amount of 19.5 million euros; Capital increase to cover losses in the amount of 19.5 million euros;
- Sport TV: a reversal of the impairment recorded in the amount of 4 million euros and reclassification of supplementary capital to investments in the amount of 12,044,959 euros;
- Teliz: Establishment of supplementary capital in the amount of 40,000 euros;
- ZON Finance: Establishment of supplementary capital in the amount of 13,800 euros and recognition of impairment on supplementary capital in the amount of 13,800 euros.

During the year ended on 31 December 2016, the movements in the caption were as follows:

- NOS Technology: Establishment of supplementary capital in the amount of 200 million euros;

vii) Sport Tv: Supplementary capital paid in the amount of 41.5 million euros through cash delivery in the amount of 25.3 million euros and the credits transfer in the amount of 16.2 million euros; Capital increase to cover losses in the amount of 25.3 million euros and an impairment recognised in the amount of 10.8 million euros. This impairment was based on the implicit valuation calculated with the entrance of Vodafone in Sport Tv share capital. On 28 July 2016, after the capital increase, NOS SGPS held a shareholding of 33.33%.

viii) On 18 January 2016, ZON Finance BV was liquidated and it had no impact on the financial statements.

Assets, liabilities and shareholder's equity, income and statutory results of Group companies at 31 December 2016 are as follows:

	ASSETS	LIABILITIES	SHAREHOLDER'S EQUITY	TOTAL INCOME	TOTAL EXPENSES	NET INCOME / (LOSS)	% HELD
NOS Comunicações	1,629,090,435	1,003,228,812	625,861,623	1,367,317,448	(1,337,776,567)	29,540,881	100%
NOS Technology	691,123,300	444,758,198	246,365,102	248,427,218	(226,938,510)	21,488,708	100%
NOS Lusomundo Audiovisuais	128,032,467	100,825,490	27,206,977	71,624,106	(47,345,708)	24,278,398	100%
Teliz Holding B.V	2,585,889	4,956	2,580,932	-	655,232	(655,232)	100%
NOS Towering	161,188,301	127,701,718	33,486,583	35,135,394	(27,916,065)	7,219,329	100%
NOS Inovação	41,877,762	15,922,399	25,955,363	10,709,176	(10,115,665)	593,511	100%
NOS Lusomundo Cinemas	32,343,795	20,695,087	11,648,708	62,349,708	(55,496,828)	6,852,879	100%
NOS Lusomundo SII	18,174,373	72,854	18,101,518	-	(122,604)	122,604	100%
Sport TV	162,218,656	155,561,358	6,657,298	150,429,452	(161,771,833)	(11,342,381)	33%
Mstar	7,148,196	9,898,220	(2,750,024)	19,946,067	(23,648,694)	(3,702,628)	30%
NOS Communicatons S.à r.l	17,140,376	8,492,211	8,648,165	26,424,688	(15,883,281)	10,541,407	100%
Sontaria	3,835,013	3,424,897	410,116	608,804	(310,257)	298,548	100%
Per-Mar	1,709,047	319,820	1,389,227	273,412	(154,116)	119,297	100%
Upstar	169,448,398	168,985,841	462,557	117,163,461	(116,675,456)	141,120	30%
Canal 20 TV	26,570	727	25,843	-	(8,946)	(8,946)	50%

Annually or whenever there are indicators of impairment, the carrying amount of financial investments is compared to its recoverable value. The existence of these indicators is determined when: i) the **affiliate's** share capital is lower than the carrying amount; or ii) there are recent transactions with implicit valuations lower than the carrying amount; or iii) the stake is located in hyper inflated countries.

The assessment of the recoverable amount is performed taking into consideration internal valuations, by revenue generating units, based on the latest approved business plans, which are prepared using discounted cash flows for 5 years periods and/or external valuations, in the specific case of companies which own real estate. In the perpetuity, the discount rates used were 19%, 17.5% and 7.3% and the growth rates used were 5.6%, 7.7% and 1.5%, for Mstar, Teliz and the other companies, respectively.

Additional disclosures regarding Telco and Audiovisuals segments are made in the consolidated financial statements of NOS SGPS.

Regarding financial investments in Mstar (Mozambique) and Teliz (owner of financial investments in Angola), the business plans include revenue average annual growth rates of 14% and 13%, respectively, meaning (i) the best estimates for customer base growth, reflecting the expectation of acquisition of new customers and churn rate estimates, and (ii) an average annual price growth of 75% of the inflation, since, considering the **companies' activity nature, in particular in Angola, and taking into account price increases in previous years**, it is not expected for companies to have the capacity to reflect, on their prices, the total inflation registered in the country.

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

During 2016, an impairment was recognized in the financial investment of Sport Tv, in the amount of 10.8 million euros (sub-paragraph vii) above).

9. Accounts receivable

At 31 December 2015 and 2016, this item was as follows:

	2015		2016	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Related parties i)	366,177,794	578,513,535	272,648,611	567,659,741
Advances to suppliers	78,471	-	14,749	-
Accrued income - interests i)	5,549,578	-	2,539,743	-
Others	96,330	120,372	190,208	257,854
	371,902,173	578,633,908	275,393,310	567,917,595

i) Amounts receivable from related parties correspond predominantly to short-term loans, shareholder medium and long term loans and interest receivable from group companies (Note 31), and the amount receivable regarding the special tax regime for company groups, in the amount of 17 million euros. At the end of the year 2016, these short-term loans and supplies, bear interest at the rate of 2.24% and 2.74%, respectively.

10. Taxes payable and receivable

At 31 December 2015 and 2016, these items were composed as follows:

	2015		2016	
	DEBIT BALANCES	CREDIT BALANCES	DEBIT BALANCES	CREDIT BALANCES
CURRENT				
Income taxes	-	3,375,556	-	1,775,139
Personnel income tax withholdings	-	72,929	-	80,468
Value-added tax	170,303	-	38,296	549,813
Social Security contributions	-	72,036	-	72,003
Others	-	4,073	-	-
	170,303	3,524,594	38,296	2,477,423
NON-CURRENT				
Tax Authorities i)	709,685	-	709,685	-
	709,685	-	709,685	-
	879,988	3,524,594	747,981	2,477,423

i) From 2003 to 2016, some subsidiaries of the NOS Group were subject to Tax Inspection for the years 2001 till 2014. Following these inspections, NOS, as parent company of the Tax Group, was notified of the corrections made by the Tax Inspection Services to income tax, VAT, stamp duties and of corresponding payments. The total amount of the notifications, not paid, plus interests, is of 24 million euros. It should be highlighted that the Company considered that the corrections made were unfounded, and contested those

corrections and amounts. NOS 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. 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 2015 and 2016, the amounts receivable and payable in respect of income tax were as follows:

	2015	2016
Current income taxes estimative	(6,603,685)	(16,983,696)
Payments on account	1,502,003	14,045,351
Withholding income taxes	1,167,259	656,393
Income tax receivable	558,867	506,812
INCOME TAX (PAYABLE) / RECEIVABLE	(3,375,556)	(1,775,139)

11. Available-for-sale financial assets

At 31 December 2015 and 2016, **the item "Available-for-sale financial assets"**, in the amount of 76,727 euros, corresponds to equity investments of low value.

12. Taxes

NOS and its associated companies are subject to IRC - Corporate Income Tax - at the rate of 21% on taxable amount (taxable profit less eventual tax losses subject to deduction), plus IRC surcharge at the maximum rate of 1.5% on taxable profit, giving an aggregate rate of approximately 22.5%.

Additionally, following the introduction of austerity measures approved by Law 66-B/2012 of 31 December, and respective addendum published by Law 2/2014 of 16 January, this rate was raised by 3% and will be **applied to the company's taxable profit between 1.5 million euros and 7.5 million euros, by 5% to the company's taxable profit which exceeds 7.5 million euros, and by 7% to the company's taxable profit above 35 million euros.**

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

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

The companies covered by the RETGS in 2016 are:

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

Under current legislation, tax declarations are subject to review and correction by tax authorities for a period of four years, except where tax losses have occurred or tax benefits have been obtained, whose term, in these cases, matches the deadline to use them. It should be noted that in the event of inspections, appeals or disputes in progress, these periods may be 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 2016.

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 to 2016 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 2012 and 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 2015 and 2016 were as follows:

	31/12/2014	NET INCOME	EQUITY	31/12/2015
DEFERRED INCOME TAX ASSETS:				
Derivatives	427,237	-	330,775	758,012
Share plans	64,676	79,386	-	144,062
Other provisions and adjustments	2,331,800	(1,895,107)	-	436,693
	3,492,344	(2,484,353)	330,775	1,338,766
	31/12/2015	NET INCOME	EQUITY	31/12/2016
DEFERRED INCOME TAX ASSETS:				
Derivatives	758,012	(5,959)	148,976	901,029
Share plans	144,062	313,474	-	457,536
Other provisions and adjustments	436,693	301,446	-	738,138
	1,338,766	608,961	148,976	2,096,703

Deferred tax assets were recognized 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 2015 and 2016, the tax rate used to calculate the deferred tax assets relating to temporary differences was 22.5%.

B) Effective tax rate reconciliation

In the years ended at 31 December 2015 and 2016, the reconciliation between the nominal and effective rates of tax was as follows:

	2015	2016
Income before taxes	52,225,783	79,231,289
Statutory tax rate	22.50%	22.50%
Estimated tax	11,750,801	17,827,040
Permanent differences (i)	(10,539,534)	(18,287,365)
Taxes from previous year	1,481,219	(439,308)
Autonomous taxation	31,789	25,650
Provisions (Note 17)	(17,004)	39,780
Other adjustments	46,480	42,686
INCOME TAXES	2,753,751	(791,519)
Effective income tax rate	5.3%	-1.0%
Income tax	269,397	182,557
Deferred tax	2,484,354	608,961
	2,753,751	791,519

(i) At 31 December 2015 and 2016, the permanent differences were composed as follows:

	2015	2016
Dividends received (Note 29)	(42,923,188)	(91,929,281)
Impairment on Financial Investments (Note 8)	(3,986,200)	10,802,418
Others	67,011	(150,317)
	(46,842,377)	(81,277,180)
	22.50%	22.50%
	(10,539,534)	(18,287,365)

13. Deferred costs

At 31 December 2015 and 2016, this item was composed as follows:

	2015	2016
Insurances	877,439	49,264
Employees	23,128	2,007
Other deferred costs	7,526	4,049
	908,093	55,320

14. Cash and cash equivalents

At 31 December 2015 and 2016, this item was composed as follows:

	2015	2016
Cash	3,971	4,031
Deposits	4,628,839	68,485
	4,632,810	72,516

15. Shareholder's equity

15.1 Share capital

At 31 December 2015 and 2016, 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 at 31 December 2015 and 2016 are:

	31/12/2016		31/12/2016	
	NUMBER OF SHARES	% SHARE CAPITAL	NUMBER OF SHARES	% SHARE CAPITAL
ZOPT, SGPS, SA ⁽¹⁾	257,632,005	50.01%	268,644,537	52.15%
Banco BPI, SA ⁽²⁾	17,516,365	3.40%	14,275,509	2.77%
Sonaecom, SGPS, SA	11,012,532	2.14%	-	-
Norges Bank	10,891,068	2.11%	10,891,068	2.11%
Blackrock, Inc	10,349,515	2.01%	10,349,515	2.01%
TOTAL	307,401,485	59.67%	304,160,629	59.04%

(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.^a 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 2.77% of the share capital and voting rights of the Company held by Banco BPI's Pension Fund and BPI Vida- Companhia de Seguros de Vida, S.A..

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 (206,064,552), 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 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 2016, there were 3,017,603 own shares, representing 0.5858% of the share capital (31 December 2015: 1,666,482 own shares, representing 0.3235% of the share capital).

Movements in the years ended at 31 December 2015 and 2016 were as follows:

	QUANTITY	VALUE
BALANCE AS AT 1 JANUARY 2015	2,496,767	11,790,900
Acquisition of own shares	1,128,664	8,022,408
Distribution of own shares - share plan	(1,901,179)	(8,979,367)
Distribution of own shares - other remunerations	(57,770)	(275,408)
BALANCE AS AT 31 DECEMBER 2015	1,666,482	10,558,533
BALANCE AS AT 1 JANUARY 2016	1,666,482	10,558,533
Acquisition of own shares	3,312,503	20,675,774
Distribution of own shares - share plan	(1,531,842)	(9,742,452)
Distribution of own shares - other remunerations	(429,540)	(2,735,623)
BALANCE AS AT 31 DECEMBER 2016	3,017,603	18,756,232

15.4 Reserves

Legal reserve

Portuguese commercial legislation requires **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.

The General Meeting of Shareholders held on 26 April 2016 approved the proposal of the Board of Directors to allocate the amount of 2,526 thousand to reserves.

Other reserves

At 31 December 2016, NOS had reserves which by their nature are considered distributable in the amount of approximately 68 million euros (net income is not included).

15.5 Dividends

The General Meeting of Shareholders held on 6 May 2015 approved a proposal by the Board of Directors for payment of an ordinary dividend per share of 0.14 euros, totaling 72,123 thousand euros. The dividend attributable to own shares totaling 80 thousand euros.

	2015
Dividends	72,122,593
Dividends of own shares	(79,987)
	72,042,607

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

	2016
Dividends	82,425,821
Dividends of own shares	(304,825)
	82,120,996

15.6 Net earnings per share

Earnings per share for the years ended on 31 December 2015 and 2016 were calculated as follows:

	2015	2016
Net income / (Loss) for the year	49,472,032	80,022,807
Number of ordinary shares outstanding during the year (weighted average)	513,964,985	512,651,058
Basic earnings per share	0.10	0.16
Diluted earnings per share	0.10	0.16

During the year ended on 31 December 2015 and 2016, 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 2015 and 2016, the detail of borrowings is as follows:

	2015		2016	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Loans - Nominal value				
Debenture loan	-	525,000,000	-	585,000,000
Commercial paper	100,000,000	235,000,000	150,000,000	200,000,000
Foreign loans	-	110,000,000	28,333,333	91,666,667
Bank Overdrafts	16,652,721	-	5,532,483	-
Loans - Accruals and deferrals	829,725	(7,435,782)	564,103	(4,889,435)
Financial leases - Nominal value	202,673	-	36,007	-
	117,685,119	862,564,218	184,465,926	871,777,232

During the year ended at 31 December 2016, the average cost of debt of the used credit lines was approximately 2.16% (2.85% in 2015).

16.1 Debenture loans

At 31 December 2015, the Company has the following bonds issued, totaling 525 million euros, with maturity after 31 December 2016:

- i) A bond loan in the amount 100 million euros organized by BPI Bank in May 2014 and maturing in November 2019. The loan bears interest at variable rates, indexed to Euribor and paid semiannually.

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

At 31 December 2016, the Company has the above obligations and has additionally contracted:

- i) A bond issue in the amount of 60 million euros, organized by ING in June 2016, whose maturity occurs in June 2023. The issue bears interest at a variable rate indexed to Euribor and paid semiannually.

At 31 December 2016, the value of these loans was deducted from the net amount of 1,606 thousand euros, corresponding to the respective interest and fees, **recorded in the item "Loans - accruals and deferrals"**.

16.2 Commercial paper

At 31 December 2016 the Company has borrowings of 350 million euros in the form of commercial paper, of which 75 million euros issued without underwriting securities. The total amount contracted, under underwriting securities, is of 470 million euros, corresponding to 9 programmes, with six banks, which bear interest at market rates. Commercial paper programmes with maturities over 1 year totaling 200 million euros are classified as non-current, since the Company has the ability to unilaterally renew current issues on or **before the programmes' maturity dates and because they are underwritten by the organizer. As such, this** amount, although having a current maturity, it was classified as non-current for presentation purposes in the financial position statement.

At 31 December 2016 an amount of 349 thousand euros, corresponding to interest and commissions, was deducted to this amount **and recorded in the item "Loans - accruals and deferrals"**.

16.3 Foreign loans

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 2016, an amount of 2,731 thousand euros was deducted from this loan, corresponding to the benefit associated with the fact that the loan is at a subsidized rate.

All bank borrowings contracted (with the exception of the EIB loan of 110 million euros and the bond loan of 50 million euros and finance leases) are negotiated at variable short term interest rates and their book value is therefore broadly similar to their fair value.

The maturities of the loans obtained are as follows:

	2015			2016		
	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS
Debenture loan	1,150,962	371,958,504	149,757,279	1,181,949	372,339,727	209,871,775
Commercial paper	99,513,657	234,882,232	-	149,651,407	200,000,000	-
Foreign loans	165,106	75,635,144	30,331,058	28,064,080	71,316,435	18,249,296
Bank overdrafts	16,652,721	-	-	5,532,483	-	-
Financial Leases	202,673	-	-	36,007	-	-
	117,685,119	682,475,881	180,088,337	184,465,926	643,656,161	228,121,071

17. Provisions

During the years ended at 31 December 2015 and 2016, the movements recorded in provisions are as follows:

	31/12/2014	INCREASES	REDUCTION	UTILIZATION	31/12/2015
Litigation and others	22,054	-	(18,969)	-	3,085
Contingencies - Other	4,814,223	3,443	(743,498)	(276,476)	3,797,692
	4,836,277	3,443	(762,467)	(276,476)	3,800,777
	31/12/2015	INCREASES	REDUCTION	UTILIZATION	31/12/2016
Litigation and others	3,085	115	-	-	3,200
Contingencies - Other	3,797,692	242,459	(812,548)	-	3,227,603
	3,800,777	242,574	(812,548)	-	3,230,803

Net movements for the years ended at 31 December 2015 and 2016, reflected in the income statement, under Provisions were as follows:

	2015	2016
Other losses / (gains) non-recurring, net (Note 27)	-	(677,885)
Provisions and adjustments	(742,020)	68,131
Income Taxes (Note 12)	(17,004)	39,780
INCREASES AND DECREASES	(759,024)	(569,974)

Additionally, during the year ended 31 December 2015 and 2016, an impairment adjustment for accounts receivable was recorded, in the amount of 15,546 euros, and an impairment for accounts receivable in the amount of 76,089 euros was reverted, respectively.

18. Accrued expenses

At 31 December 2015 and 2016, this item was as follow:

	2015		2016	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Wages and salaries	1,313,641	-	1,578,811	-
Supplies and external services	707,923	-	885,873	-
Share Plan	218,834	40,968	397,867	450,181
	2,240,398	40,968	2,862,551	450,181

19. Deferred income

At 31 December 2015 and 2016, this item was as follows:

	2015		2016	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Investment grant i)	335,462	5,259,038	632,098	4,138,440
	335,462	5,259,038	632,098	4,138,440

i) Deferred income related to the implicit subsidy calculated when the EIB loans were obtained at interest rates below market value (Note 16.3).

20. Derivative financial instruments

Interest rate derivatives

At 31 December 2016, NOS had contracted four interest rate swaps totaling of 375 million euros (31 December 2015: 375 thousand euros), whose maturities expire in 2017 (two swaps in the amount of 125 million euros) and 2019 (two swaps in the amount of 250 million euros). The fair value of interest rate swaps, in the negative amount of 4.0 million euros (31 December 2015: negative amount of 3.4 million euros) was **recorded in liabilities, against shareholder's equity**.

Own shares derivatives

At 31 December 2016, NOS had contracted three own shares derivatives, in the amount of 2,041 thousand euros maturing in March 2017, 2018 and 2019, respectively, in order to cover the delivery of share plans liquidated in cash.

	2015		
	NOTIONAL	LIABILITIES	
		CURRENT	NON CURRENT
CASH FLOW HEDGE DERIVATIVES			
Interest rate swaps	375,000,000	-	3,368,942
	375,000,000	-	3,368,942
 2016			
	NOTIONAL	LIABILITIES	
		CURRENT	NON CURRENT
CASH FLOW HEDGE DERIVATIVES			
Interest rate swaps	375,000,000	-	4,027,492
Equity Swaps	2,041,239	17,169	5,750
	377,041,239	17,169	4,033,241

Movements during the year ended on 31 December 2015 and 2016 were as follows:

	31/12/2014	INCOME	EQUITY	31/12/2015
Fair value interest rate swaps	(1,898,830)	-	(1,470,112)	(3,368,942)
CASH FLOW HEDGE DERIVATES	(1,898,830)	-	(1,470,112)	(3,368,942)
Deferred income tax assets (Note 12)	427,237	-	330,775	758,012
DEFERRED INCOME TAX	427,237	-	330,775	758,012
	(1,471,593)	-	(1,139,337)	(2,610,930)

	31/12/2015	INCOME	EQUITY	31/12/2016
Fair value interest rate swaps	(3,368,942)	-	(658,550)	(4,027,492)
Equity Swaps	-	26,485	(3,566)	22,919
CASH FLOW HEDGE DERIVATES	(3,368,942)	26,485	(662,116)	(4,004,573)
Deferred income tax assets (Note 12)	758,012	(5,959)	148,976	(901,029)
DEFERRED INCOME TAX	758,012	(5,959)	148,976	(901,029)
	(2,610,930)	20,526	(513,140)	(4,905,602)

21. Accounts payable

At 31 December 2015 and 2016, accounts payable to suppliers and other entities were as follows:

	2015	2016
Related parties i)	52,053,145	58,651,509
Suppliers	1,360,554	319,704
Fixed assets suppliers	6,289	793
Others	1,071,025	(55,765)
	54,491,013	58,916,241

i) At 31 December 2015 and 2016, the amounts payable to related parties correspond predominantly to loans and interests obtained from group companies (Note 31). At the end of 2016, these loans matured at the interest rate of 0.25%.

22. Services rendered

At 31 December 2015 and 2016, this caption corresponds to management services provided to NOS group companies (Note 31).

23. Other operating revenues

At 31 December 2015 and 2016, this caption comprises the following:

	2015	2016
Guarantees	29,032	465,527
Administrative services i)	171,683	-
Others	73,647	121,990
	274,362	587,517

i) Administrative services are all provided to NOS group companies (Note 31).

24. Wages and salaries

In the years ended on 31 December 2015 and 2016, this item was composed as follows:

	2015	2016
Remunerations	4,146,694	5,221,035
Social taxes	612,124	691,810
Social benefits	109,736	199,711
Others	(19,825)	26,345
	4,848,729	6,138,901

In the years ended on 31 December 2015 and 2016, the average number of employees of the Company was 5 and 6, respectively.

25. Supplies and external services

At 31 December 2015 and 2016, this item was composed as follows:

	2015	2016
Support services	1,618,177	1,039,041
Specialised works	634,850	297,012
Rentals	425,222	270,088
Travelling costs	156,132	108,820
Insurances	95,406	113,301
Fuels	12,877	38,604
Energy	38,239	19,098
Litigation and notaries	16,079	11,996
Cleaning, hygiene and comfort	24,151	9,220
Vigilance and security	6,916	6,881
Maintenance and repairs	17,262	3,063
Other supplies and external services	77,795	59,354
	3,123,106	1,976,478

26. Other operational losses / (gains)

At 31 December 2015 and 2016, this item was composed as follows:

	2015	2016
Contributions	76,347	8,527
Others	3,666	50,096
	80,013	58,623

27. Other losses / (gains) non-recurring

The breakdown of this caption in the years ended at 31 December 2015 and 2016 is as follows:

	2015	2016
Fines and penalties	24,210	6,079
Donations	15,160	9,000
Miscellaneous costs	(27,012)	(681,743)
	12,358	(666,664)

During the year ended on 31 December 2016, the gain on "Miscellaneous costs" corresponds to reversal of provisions (Note 17).

28. Financial costs / (revenues) and other financial expenses / (income)

During the years ended at 31 December 2015 and 2016, financial costs / (gains) and other financial expenses / (income), were as follows:

	2015	2016
FINANCIAL COSTS / (REVENUES)		
INTEREST EXPENSES		
Debenture loans	15,723,887	10,586,725
Commercial paper	5,579,779	4,922,792
Related parties (Note 31)	204,233	104,713
Derivates	1,123,739	2,180,255
Bank loans	3,106,531	2,312,040
Others	76,687	3,597
	25,814,856	20,110,122
INTEREST EARNED		
Related parties (Note 31)	(40,939,029)	(24,168,652)
Other	(2,675)	(10,608)
	(40,941,704)	(24,179,260)
	(15,126,848)	(4,069,138)
NET OTHER FINANCIAL EXPENSES / (INCOME)		
Comissions on bank loans	2,373,416	1,603,015
Comissions on debenture loans	1,950,329	1,025,361
Comissions on commercial paper	3,144,543	2,651,664
Bank services	235,961	242,963
Others	926,064	240,330
	8,630,313	5,763,333

The negative variation of interest expenses and interest earned results predominantly from the reduction in the average rates of financing (Note 16).

29. Losses / (gains) of affiliated companies

During the years ended at 31 December 2015 and 2016, this caption was as follows:

	2015	2016
DIVIDENDS RECEIVED		
NOS Comunicações	35,998,347	78,252,824
NOS Towering	4,574,409	7,268,398
NOS Cinemas	-	5,611,046
NOS Technology	2,230,724	-
NOS Inovação	-	572,688
Sontária	81,594	157,274
Per-Mar	37,414	66,652
Others	700	400
	42,923,188	91,929,281
OTHERS		
Losses / (reversals) of impairment on financial investments (Note 8)	3,986,200	(10,802,418)
	3,986,200	(10,802,418)
	46,909,388	81,126,863

30. Guarantees and financial undertakings

30.1 Guarantees

At 31 December 2015 and 2016, the Company had furnished guarantees in favor of third parties corresponding to the following situations:

	2015	2016
Financial institutions i)	110,264,275	110,264,275
Tax authorities ii)	2,210,670	4,485,360
Others	561,290	561,290
	113,036,235	115,310,925

i) At 31 December 2015 and 2016, this amount relates to guarantees furnished by NOS in connection with the loan from EIB.

ii) At 31 December of 2015 and 2016, this amount relates to the guarantees required by the tax authorities in connection with tax proceedings contested by the Company and its subsidiaries.

Other guarantees

Under the financing obtained by Upstar with the Novo Banco totaling 20 million euros, NOS signed a promissory note in the amount proportional to the shareholding of 30% of the funding, and effective as at 31 December of 2016.

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 January 2017 the supplier partially activated the guarantee in the amount of 12.5 million dollars.

Additionally, during the 2015 fiscal year, NOS issued a comfort letter to the Caixa Geral de Depósitos in the context of an issue of a bank guarantee to Sport TV, amounting to 23.1 million euros. At 31 December 2016, the active amount of bank guarantees ascends to 10.3 million euros.

During the first half of 2015 and 2016, and following the settlement notes of CLSU 2007-2009 and 2010-2011 NOS constituted guarantees in favor of the Universal Service Compensation Fund in the amount of 23.6 and 16.7 million, respectively, in order to prevent the establishment of tax enforcement proceedings in order to enforce recovery of the paid amount.

On September 2016, NOS constituted guarantees, on behalf of Sport TV, to the The Football Association League Limited in the amount of 29.1 million euros (at 31 December 2016: 19.9 million euros).

During 2016, NOS provided a guarantee to Warner Brothers, under the cinema distribution contract renewal for national territory and African Portuguese speaking countries, effective as of 1 January 2017.

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 15.3 million euros.

30.2 Operating leases

The rentals due on operating leases have the following maturities:

	2015		2016	
	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS
Vehicles	119,933	255,574	158,765	181,966
Buildings	16,200	29,700	16,226	13,522
	136,133	285,274	174,991	195,487

30.3 Other undertakings

Covenants

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

In addition, approximately 42% of the total loans obtained require that the consolidated net financial debt does not exceed 3 times consolidated EBITDA and 4% of the total loans obtained that the consolidated net financial debt does not exceed 3.5 times consolidated EBITDA and about 12% require that the consolidated net financial debt does not exceed to 4 times consolidated EBITDA.

The EIB loan totaling 100 million euros with a maturity in 2022 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.

Commitments under the merger between ZON and Optimus SGPS

On 31 December 2016, remained outstanding, following the final decision of the Competition Authority not to oppose the merger between ZON and Optimus SGPS, the following commitment was made to ensure that NOS SA negotiated with Vodafone a contract that gives the option of buying its fiber network.

This contract was celebrated within the deadline. Vodafone exercised its option and the purchase and sale agreement was established in January 2017.

Assignment agreements football broadcasting rights

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

Additional disclosures are made in consolidated financial statements of NOS SGPS.

31. Related parties

At 31 December 2015 and 2016, the balances with companies of NOS Group were as follows:

Balances with related parties

2015

	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	ACCRUED INCOME	ACCRUED EXPENSES	DEFERRED COSTS	BORROWINGS
SHAREHOLDERS						
Sonaecom	-	(18,835)	-	-	-	-
SUBSIDIARIES						
Empracine	(4,471)	-	-	-	-	101,919
Lusomundo Imobiliária 2	(19,798)	-	-	-	-	10,190,378
Lusomundo Imobiliária SII	10,793	550	-	-	-	6,030,957
Lusomundo Moçambique	602	-	-	-	-	-
NOS Açores	97,793	7,137	-	-	-	1,947,977
NOS Audiovisuais	51,516,114	(5,708)	-	-	-	326,035
NOS Cinemas	1,969,189	(12,088)	-	-	-	9,785,862
NOS Communications	5,747,894	-	4,074	-	-	-
NOS Comunicações	452,357,385	3,025,456	25,254	(145,762)	1,470	-
NOS Espanha	16	-	-	-	-	-
NOS Inovação	9,061,148	2,857	-	-	-	-
NOS Lusomundo TV	338,616	185,787	-	-	-	2,401,085
NOS Madeira	191,486	3,328	-	1,538	-	9,345,723
NOS Sistemas	1,731,251	3,132	-	-	-	-
NOS Technology	315,791,219	395,611	-	-	-	-
NOS Towering	104,173,713	63,593	-	-	-	-
NOSPUB	1,226,828	6,414	-	-	-	8,183,569
Per-mar	229,078	1	-	-	-	36,989
Sontaria	3,057,626	93	-	-	-	46,068
Teliz	(4,080)	-	-	-	-	-
Zon Finance	77	(2)	-	-	-	-
ASSOCIATED COMPANIES						
Dreamia BV	(1,020)	-	-	-	-	-
Dreamia - Serviços de televisão	40,901	-	-	-	-	-
Finstar	2,607	-	-	-	-	-
Mstar	666	-	-	-	-	-
Upstar	99,296	-	10,548	-	-	-
OTHER RELATED PARTIES						
Modelo Hiper Imobiliária	-	(742)	-	-	-	-
Público	-	-	-	-	260	-
	947,614,930	3,656,584	39,876	(144,224)	1,730	48,396,561

Balances with related parties

2016

	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	ACCRUED EXPENSES	DEFERRED COSTS	BORROWINGS	SUPPLEMENTARY CAPITAL
SHAREHOLDERS						
BPI	-	(15,491)	-	-	-	-
SUBSIDIARIES						
Empracine	(6,879)	-	-	-	115,290	-
Lusomundo Imobiliária 2	(10,681)	-	-	-	10,018,813	-
Lusomundo Imobiliária SII	8,124	-	-	-	6,193,231	-
Lusomundo Moçambique	602	-	-	-	-	-
NOS Açores	(77,556)	-	-	-	397,335	-
NOS Audiovisuais	51,906,526	-	-	-	4,930,444	-
NOS Cinemas	2,156,010	-	-	-	9,109,083	-
NOS Communications	69,211	-	-	-	5,772,090	-
NOS Comunicações	300,667,234	507,149	18,752	1,087	-	-
NOS Inovação	11,029,048	-	-	-	-	-
NOS Lusomundo TV	1,354,229	-	142	-	8,770,211	-
NOS Madeira	60,349	-	-	-	6,260,584	-
NOS PUB	788,422	-	-	-	6,062,323	-
NOS Sistemas	4,616,638	-	-	-	-	-
NOS Sistemas España	4,485	-	-	-	-	-
NOS Technology	368,792,164	38,757	160,593	-	-	-
NOS Towering	94,568,420	6,151	(19,169)	-	-	-
Per-Mar	233,337	-	-	-	65,144	-
Sontaria	3,075,475	-	-	-	310,206	-
ASSOCIATED COMPANIES						
Dreamia BV	(1,020)	-	-	-	-	-
Dreamia - Serviços de televisão	7,155	-	-	-	-	-
Finstar	2,607	-	-	-	-	-
Mstar	666	-	-	-	-	-
Sport TV	102,174	-	-	-	-	-
Upstar	113,657	-	-	-	-	-
OTHER RELATED PARTIES						
Continente Hipermercados	-	139	-	-	-	-
Público	-	-	-	27	-	-
	839,460,400	536,704	160,318	1,114	58,004,754	-

During the years ended at 31 December 2015 and 2016, transactions made with companies of NOS Group were as follows:

Transactions with related parties

2015

	REVENUE	WAGES AND SALARIES	SUPPORT SERVICES	SUPPLIES AND EXTERNAL SERVICES	OTHER EXPENSES AND LOSSES	FINANCIAL LOSSES / (GAINS)	ASSETS
SHAREHOLDERS							
Sonaecom	-	-	-	455	-	-	-
SUBSIDIARIES							
Empracine	2,574	-	(131)	(38)	-	3,090	-
Lusomundo Imobiliária 2	4,583	-	(262)	(156)	-	89,261	-
Lusomundo Espanha	-	-	-	-	-	11,833	-
Lusomundo Imobiliária SII	2,619	-	(131)	-	-	49,367	-
NOS Açores	113,466	(2,399)	(8,528)	(214)	-	55,590	-
NOS Audiovisuais	291,586	(3,835)	(1,921)	232	-	2,891,718	-
NOS Cinemas	160,189	59,931	(3,134)	(3,596)	-	36,892	-
NOS Communications	98,898	4,511	(3,762)	(1,943)	-	386,741	-
NOS Comunicações	3,988,712	(719,092)	979,160	278,073	(133,780)	19,772,535	(550)
NOS Espanha	-	-	-	-	-	16	-
NOS Inovação	53,332	(22,372)	(38,869)	-	-	38,891	-
NOS Lusomundo TV	32,035	(515)	(3,172)	(167)	-	60,718	-
NOS Madeira	182,624	(5,878)	(10,277)	(429)	-	69,517	-
NOS Sistemas	108,979	52,777	(2,438)	(316)	-	34,620	-
NOS Technology	476,828	(306,105)	(2,550)	851	-	13,039,965	-
NOS Towering	89,103	(25,370)	(2,550)	-	-	4,372,143	-
NOSPUB	45,502	(75,320)	(2,090)	-	11,250	142,632	-
Per-Mar	2,827	-	(131)	(339)	-	16,719	-
Sontaria	4,054	-	(131)	(311)	-	139,121	-
ASSOCIATED COMPANIES							
Dreamia - Serviços de televisão	171,683	-	(374)	-	-	-	-
UPSTAR	-	-	(45)	38,712	-	(68,105)	-
OTHER RELATED PARTIES							
Público	-	-	-	52	-	-	-
Solinca	-	-	-	111	-	-	-
	5,829,594	(1,043,667)	898,667	310,978	(122,530)	41,143,263	(550)

Transactions with related parties

2016

	REVENUE	WAGES AND SALARIES	SUPPLIES AND EXTERNAL SERVICES	OTHER EXPENSES AND LOSSES	FINANCIAL LOSSES / (GAINS)	ASSETS
SHAREHOLDERS						
BPI	-	-	-	-	391,043	-
SUBSIDIARIES						
Empracine	1,895	-	-	-	(287)	-
Lusomundo Imobiliária 2	3,753	-	(401)	-	(15,556)	-
Lusomundo SII	18,960	-	-	-	(25,527)	-
NOS Açores	133,554	-	(13,966)	0	(2,888)	-
NOS Audiovisuais	312,187	-	(733)	-	1,530,580	-
NOS Cinemas	199,027	-	(912)	-	(18,720)	-
NOS Communications	66,749	-	(4,149)	-	167,683	-
NOS Comunicações	4,748,836	4,032	980,367	(34,853)	9,580,205	4,409
NOS Inovação	82,682	(2,241)	-	-	242,050	-
NOS Lusomundo TV	37,788	-	16	-	(8,204)	-
NOS Madeira	204,005	-	(12,238)	0	(20,339)	-
NOS PUB	42,517	-	(912)	-	(13,835)	-
NOS Sistemas	111,627	-	(3,914)	-	56,071	-
NOS Technology	453,519	(57,889)	1,835	-	9,778,274	-
NOS Towering	113,537	-	(1,764)	-	2,726,896	-
Per-Mar	2,667	-	-	-	5,941	-
Sontaria	3,743	-	-	-	86,373	-
ZON Finance BV	-	-	-	70	-	-
ASSOCIATED COMPANIES						
Dreamia - Serviços de televisão	-	-	(297)	-	-	-
Sport TV	102,174	-	-	-	0	-
OTHER RELATED PARTIES						
Sonacom	-	(52,927)	-	-	-	-
Continente Hipermercados	-	121	1,727	-	-	-
Modelo Continente Hipermercados	-	29	667	-	-	-
Público	-	-	609	-	-	-
Sonae Centre II	-	-	92	-	-	-
	6,639,219	(108,875)	946,026	(34,783)	24,459,761	4,409

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 Action against SPORT TV and NOS

Action brought by Cogeco Cable Inc., former shareholder of Cabovisão, against Sport TV, NOS SGPS and a third, requesting, among others: (i) joint condemnation of the three institutions to pay compensation for damages caused by anti-competitive conduct, guilty and illegal, between 3 August 2006 and 30 March 2011, specifically for the excess price paid for Sport TV channels by Cabovisão, in the amount of 9.1 million euros;

(ii) condemnation for damages corresponding to the remuneration of capital unavailable, in the amount 2.4 million euros; and (iii) condemnation for damages corresponding to the loss of business from anti-competitive practices of Sport TV, in connection with the enforcement proceedings. NOS contested the action, awaiting for trial.

It is the understanding of the Board of Directors, supported by lawyers who monitor the process, that, in particularly in formal motives, it is unlikely that NOS SA is responsible in this action.

33. Remuneration earned by management

The remuneration earned by management of NOS, for the years ended at December 2015 and 2016 were as follows:

	2015	2016
Fixed remunerations	2,365,000	2,719,001
Profit Sharing / Bonus	1,013,800	1,186,010
Share-based compensation plans	1,042,800	1,206,210
	4,421,600	5,111,221

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 2017 related to 2016 performance (and assigned in 2016 related to the 2015 performance). The average number of members key of management in 2016 is 16 (16 in 2015). 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 Shareholders 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 2016, are still unvested:

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

ii) The NOS Sistemas (previously named 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 (30 September of 2014). Mainroad Plan was aimed to employees above a certain function level. The vesting occurs three years after the award of each plan, assuming that the employees are still employed in the Company, during that period.

As at 31 December 2016, the unvested plans are:

	NUMBER OF SHARES
STANDARD PLAN	
Plan - 2012	59,997
Plan - 2013	120,070
MAINROAD PLAN	
Plan - 2014	41,958
NOS PLAN	
Plan - 2014	880,134
Plan - 2015	674,491
Plan - 2016	748,389

During the year ended on 31 December 2016, the movements that occurred in the plans, are detailed as follows:

Movement in number of unvested shares

	SENIOR PLAN	STANDARD PLAN	OPTIMUS PLAN	MAINROAD PLAN	NOS PLAN
BALANCE AS AT 31 DECEMBER 2015	163,909	376,269	1,171,594	132,606	1,537,786
MOVEMENTS IN THE PERIOD:					
Awarded	-	-	-	-	757,636
Vested	(116,823)	(186,455)	(1,079,349)	(91,766)	(57,449)
Cancelled / elapsed / corrected ⁽¹⁾	(47,086)	(9,747)	(92,245)	1,118	65,041
BALANCE AS AT 31 DECEMBER 2016	-	180,067	-	41,958	2,303,014

(1) 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 attribution date of each plan or at closing date, for the plans liquidated in cash. For Mainroad plans, attribution date is the date of acquisition (the time of conversion of Sonaecom shares plans into NOS shares plans). As at 31 December 2016, the outstanding responsibility related to these plans is of 7,516 thousand euros, and is recorded in reserves, in the amount of 6,317 thousand euros, for the plans liquidated in shares, and in accrued expenses, in the amount of 1,199 thousand years, for the plans liquidated in cash.

The costs recognized in previous years and in 2016, were as follows:

	ACCRUED EXPENSES	RESERVES	TOTAL
Costs recognized in previous years related to plans as at December 31, 2015	-	10,111,143	10,111,143
Cost of vested share plans	-	(6,198,108)	(6,198,108)
Costs recognized in the period	310,274	3,749,414	4,059,688
Reclassification to accrued expenses of plans to settle in cash	889,110	(889,110)	-
Costs of plans exceptionally settled in cash and other	-	(456,590)	(456,590)
TOTAL PLANS COSTS	1,199,384	6,316,749	7,516,133
AMOUNT RECEIVABLE FROM GROUP COMPANIES	-	-	(5,528,266)
NOS SGPS TOTAL LIABILITY	1,199,384	788,483	1,987,867

35. Legally required disclosures

The fees charged for the year ended on 31 December 2016 by Statutory Auditor are detailed as follows:

	2015	2016
Statutory audit	45,157	50,810
Other guarantee and reliability services	47,000	2,500
AUDIT SERVICES	92,157	53,310
OTHERS	-	-
TOTAL	92,157	53,310

36. Subsequent events

On 31 January 2017 the purchase and sale agreement of NOS Comunicações S.A. FTTH network was signed, already classified as held-for-sale (Notes 17 and 34). The agreed sale price and already received amounted to 24.2 million euros, not having originated any gain or loss.

In addition, on 24 February 2017, after the entry of MEO into the share capital of Sport Tv, MEO, Vodafone, Olivedesportos and NOS now own an equal share of 25%.

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.

(Translation of a report originally issued in Portuguese)

Statutory Auditor's Report

REPORT ON THE AUDIT OF THE CONSOLIDATED AND INDIVIDUAL FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated and individual financial statements of NOS, S.G.P.S., S.A. (the Group), which comprise the Consolidated and Individual Statements of Financial Position as at 31 December 2016 (which show a total of 2,982,641 thousand euros and 2,328,908 thousand euros, respectively, a consolidated and individual total equity of 1,053,098 thousand euros and 1,195,930 thousand euros, respectively, including a consolidated net profit for the year attributable to the equity holders of the parent of 90,381 thousand euros and an individual net profit for the year of 80,023 thousand euros), and the Consolidated and Individual Statements of Comprehensive Income, the Consolidated and Individual Statements of Changes in Equity and the Consolidated and Individual Statements of Cash Flows for the year then ended, and accompanying notes to the consolidated and individual financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and individual financial statements present fairly, in all material respects, the consolidated and individual financial position of NOS, S.G.P.S., S.A. as at 31 December 2016, and its consolidated and individual financial performance and its consolidated and individual cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and with other standards and technical directives of the Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated and individual financial statements" section of our report. We are independent of the entities that comprise the Group in accordance with the law and we comply with the ethical requirements of the code of ethics of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters – Consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We describe below the key audit matters relevant to the current period:

1. Recognition and measurement of revenue given the complexity of systems and the existence of multiple deliverable arrangements

Description of the most significant material misstatement risks	Summary of our response to the most significant material misstatement risks
<p>The Group's revenues consist essentially of:</p> <ul style="list-style-type: none"> ▶ Revenue from telecommunications services, namely: i) Cable television services, fixed broadband and fixed voice; ii) satellite television; ii) mobile broadband and voice services; ▶ Advertising revenue; and ▶ Revenue from production and distribution of content and channels. <p>The complexity of information systems that support a significant volume of transactions, combined with the existence of multiple deliverable arrangements, represent a significant audit risk.</p> <p>The process of revenue recognition and measurement involves significant judgement on the part of Management as disclosed in note 2.3.17 to the financial statements, with particular regard to the appropriate allocation of revenue to each of the multiple deliverable arrangements and estimates of discounts and offers to be granted to customers.</p>	<p>Our approach to the risk of material misstatement included (i) a global response in the way the audit was conducted overall and (ii) a specific response involving a combined approach of assessing controls and performing substantive procedures, including:</p> <ul style="list-style-type: none"> ▶ Involvement of internal experts in the evaluation of the Group's information technology general controls and in the test of the application controls of the most relevant revenue processes; ▶ Execution of specific audit procedures to assess the operational effectiveness of the controls identified as relevant, including: i) reconciliations between systems; ii) testing the controls of the Bill Cycle Review; and iii) validation of the key controls operating throughout the end-to-end process; ▶ Analysis of the various types of contracts in order to identify the specific elements of the contracts, such as services, goods, prices, discounts and offers. Our procedures included verifying the correct allocation of revenue to the various services / goods identified; ▶ Analytical review tests of the disaggregated revenue, comparing it with the same period of the previous year and with the expectation formed based on projected and actual indicators of the Group's performance, including: i) revenue market share; ii) RGU's (Revenue Generating Units); and iii) ARPU (Average Revenue Per User); and ▶ Analysis of the disclosures included in the financial statements in Notes 2.3.17 and 28, in order to ensure that they adequately reflect the accounting policies adopted by the Group as well as the accounting records.

2. Goodwill impairment

Description of the most significant material misstatement risks	Summary of our response to the most significant material misstatement risks
<p>As at 31 December 2016, the carrying amount of Goodwill is 642 million euros, representing 20% of the Group's total assets. Goodwill is allocated to Telco and Audiovisual segments.</p> <p>The possible existence of impairment of Goodwill was considered a key audit matter due to the significance of the amounts to the Group's financial position and due to the complexity involved in the impairment assessment process, which includes assumptions such as future market and economic conditions, market share, revenue and margin evolution.</p>	<p>We assessed the assumptions used in the valuation models prepared by management, namely cash flow projections, discount rates, inflation rates, perpetuity growth rate and sensitivity analysis. We were supported, in the performance of these procedures, by internal specialists in business valuations.</p> <p>We evaluated the reliability of the assumptions used in the development of the business plan when compared to prior periods and as compared to historical data and external information. We evaluated the clerical and arithmetic accuracy of the models used.</p> <p>We focused on the sensitivity analysis of the two cash generating units, in order to validate the appropriateness of the disclosures included in Note 9 to the financial statements, reflecting the results of the impairment tests carried out.</p> <p>We verified compliance with the applicable disclosure requirements (IAS 36).</p>

3. Cost capitalization and useful lives attributable to tangible and intangible assets

Description of the most significant material misstatement risks	Summary of our response to the most significant material misstatement risks
<p>Capitalization of expenditure and determination of useful lives attributable to tangible and intangible assets are accounting estimates where management uses significant judgement, as disclosed in Notes 2.3.3, 2.3.4 and 3.1 to the financial statements. The risks identified are related to the possibility that the capitalized costs do not comply with the capitalization requirements prescribed in the applicable accounting standards or that the tangible and intangible assets' useful lives are not appropriate or consistent with the period during which economic benefits from the use of those assets will flow to the Group.</p> <p>During 2016, the Group capitalized 95.8 million Euros under tangible and intangible assets related mainly to costs incurred in raising customer loyalty contracts.</p> <p>The subsequent measurement of the amounts recognized as assets requires a continued assessment of the existence of impairment indicators.</p>	<p>We performed specific audit procedures to assess the operational effectiveness of internal controls considered relevant in order to assess whether:</p> <ul style="list-style-type: none"> ▶ The capitalization criteria are compliant with the Group's policy; and ▶ The tangible and intangible assets' useful lives are approved by management and are reviewed on a yearly basis. <p>In addition, we analyzed capitalized costs by nature and assessed whether the capitalization requirements were met.</p> <p>In what concerns useful lives, we tested their consistency and appropriateness considering the specificities of the Group's revenue recognition and the practices of the sector in which the Group operates.</p>

4. Recognition, measurement and disclosure of tax, regulatory and legal contingencies

Description of the most significant material misstatement risks	Summary of our response to the most significant material misstatement risks
<p>The Provisions account and Note 41 – Legal processes in course, contingent assets and contingent liabilities of the Notes to the financial statements, refer to obligations for tax, regulatory and legal contingencies. Management periodically evaluates potential liabilities arising from past events the probability for which implies the recognition of a provision and/or a disclosure in the financial statements. This evaluation results from a process involving significant judgment on the part of the Group's management. The risks identified are both in the assessment of the likelihood of outflows of resources from the Group as well as in the quantification of the liability or of the contingent liability.</p>	<p>Our approach to the risk of material misstatement included the following procedures:</p> <ul style="list-style-type: none"> ▶ Analysis of the controls established in the Group to identify situations likely to give rise to the recognition of provisions or the disclosure of tax, regulatory and legal contingent situations; ▶ Obtaining external confirmations from all the lawyers with whom the Group has relations; obtaining explanatory memoranda prepared by external and internal lawyers for the main proceedings in progress; reading the minutes of the Group's various Committees and Commissions; and analysis of the arguments used by management for the graduation of each contingency; ▶ Involvement in the audit of internal experts in tax matters; ▶ Evaluation of the probabilities of the outcome of contingencies taking into account not only the historical decisions as well as the conclusion of similar processes in other entities in the sector; and ▶ Validation of the disclosures included in the Notes to the financial statements related to Provisions and Legal processes, contingent assets and contingent liabilities. <p>In relation to regulatory and legal provisions, the following procedures were also performed:</p> <ul style="list-style-type: none"> ▶ Quarterly meetings with the Group's Regulatory and Financial Departments to take note of new contingencies and obtain an update on any situations known in previous periods; ▶ Analysis of the newsletters issued by the sector regulator (ANACOM) and its decisions on specific issues of regulation of the sector and assessment of their possible impact on the Group's financial statements; and ▶ Analysis of National and International Regulation Reports prepared by the Group's Regulatory Department.

5. Impairment of trade accounts receivable - recognition and measurement

Description of the most significant material misstatement risks	Summary of our response to the most significant material misstatement risks
<p>Impairment of trade receivables amounts to 157.8 million Euros as at 31 December 2016, representing approximately 31% of the total balance of trade accounts receivable.</p> <p>The impairment testing of accounts receivable is one of the key areas of judgment for management. The identification of the accounts receivable impaired and the determination of the recoverable amount is a process that involves the analysis of several assumptions and factors, including the aging of the debt, the financial condition of the debtor, the expectation of default and of collection. In specific cases, the use of complex models and assumptions may produce significantly different estimates of impairment of trade receivables, involving a significant volume of information.</p> <p>Audit risk arises from the significant judgment used in this type of calculation, and is increased by the large volume of information managed in different information systems, which requires complex calculations and various assumptions based on historical data.</p>	<p>Our approach to the risk of material misstatement included: i) a global response in the way the audit was conducted overall; and ii) a specific response involving a combined approach of assessing controls and performing substantive procedures on collections, recovery of overdue debts and the calculation of trade receivables impairment as well as the assumptions used by management in quantifying the amount of impairment losses to be recognized.</p> <p>We have analyzed the assumptions underlying the quantification of the trade receivables impairment loss, taking into account the aging of the debt, the financial capacity of the debtors and the historical trends of collections. In addition, we performed sensitivity analysis regarding the assumptions used by the Group. The disclosures included in the financial statements in Notes 2.3.8, 3.1, 4.1 and 15 have been reviewed to evaluate whether they appropriately reflect the accounting policies adopted by the Group and the accounting records.</p>

6. Recognition and measurement of broadcasting rights

Description of the most significant material misstatement risks	Summary of our response to the most significant material misstatement risks
<p>Broadcasting rights include:</p> <ul style="list-style-type: none"> ▶ Television broadcasting rights of films, series and sports content; and ▶ Rights of transmission of television channels. <p>As disclosed in Notes 2.3.4 and 2.3.10 of the Notes to the financial statements, the determination of the timing of recognition and the amount to be recognized for the rights of transmission of content in the balance sheet, as well as the selection of criteria for recognition of expenses in the financial results require the use of judgment by management.</p>	<p>Our approach to the risk of material misstatement included (i) a global response in the way the audit was conducted overall and (ii) a specific response involving a combined approach of assessing controls and performing substantive procedures, including:</p> <ul style="list-style-type: none"> ▶ Analysis of the process adopted by the Group for the review of the useful lives of the programming rights and analysis of the frequency of use of the broadcasting rights with the relevant recorded costs; ▶ Assessment of the Group's recognition and measurement policy for broadcasting rights, as well as the assertions of management regarding the use of those rights; ▶ Assessment of the impact of qualitative factors, such as the capacity for retention of subscribers due to the ownership of rights; or other factors resulting from agreements that involve the total or partial transfer of broadcasting rights acquired;

Description of the most significant material misstatement risks	Summary of our response to the most significant material misstatement risks
<p>Television broadcasting rights for films, series and sports content involve judgment because of the existence of a large number of qualitative factors, which include:</p> <ul style="list-style-type: none"> ▶ The definition of when the right and the obligation should be recorded or when contractual obligations should only be disclosed; ▶ The period during which the rights or programs are expected to be used and their frequency (linear or non-linear); and ▶ The potential benefits related to the ownership of rights. 	<ul style="list-style-type: none"> ▶ Analysis of the most significant contracts signed during the current year to verify the consistent application of the Group's adopted policy; ▶ Analysis of the accounting practices for recognition of broadcasting rights of other companies in the sector; ▶ Analytical review of expenses for broadcasting rights, by comparison with the same period of prior year and with the amounts budgeted for liabilities assumed by the Group; and ▶ Analysis of the disclosures included in the financial statements in Notes 14, 27 and 38.3 in order to evaluate whether they appropriately reflect the accounting policies adopted by the Group in the recognition and measurement of broadcasting rights, with a special focus on the disclosure of contractual liabilities assumed and shared.

Key audit matters – Individual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the individual financial statements of the current period. These matters were addressed in the context of our audit of the individual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We describe below the key audit matters relevant to the current period:

1. Goodwill and Financial investments impairment

Description of the most significant material misstatement risks	Summary of our response to the most significant material misstatement risks
<p>As at 31 December 2016, the carrying amounts of Goodwill and Financial investments are 454 million Euros and 855 million Euros, respectively. These assets represent 58% of the Company's total assets.</p> <p>The possible existence of impairment of Goodwill and Financial investments was considered a key audit matter due to the significance of the amounts on the Entity's financial position and to the complexity involved in the impairment assessment process, which includes assumptions such as future market and economic conditions, market share, revenue and margin evolution.</p>	<p>We assessed the assumptions used in the valuation models prepared by management, namely cash flow projections, discount rates, inflation rates, perpetuity growth rate and sensitivity analysis. We were supported, in the performance of these procedures, by internal specialists in business valuations.</p> <p>We evaluated the reliability of the assumptions used in the development of the business plan when compared to prior periods and as compared to historical data and external information. We evaluated the clerical and arithmetic accuracy of the models used.</p> <p>We focused on the sensitivity analysis of the two cash generating units and in the recoverability of the Financial investments located in Angola and Mozambique, in order to validate the appropriateness of the disclosures included in the Notes 7 and 8 to the financial statements, reflecting the results of the impairment tests carried out.</p> <p>We verified compliance with the applicable disclosure requirements (IAS 36).</p>

Responsibilities of management and those charged with governance for the consolidated and individual financial statements

Management is responsible for:

- ▶ the preparation of the consolidated and individual financial statements that give a true and fair presentation of the financial position, the financial performance and the cash flows of the Group, in accordance with International Financial Reporting Standards as endorsed by the European Union;
- ▶ the preparation of the Management Report, including the Corporate Governance Report, in accordance with the legal and regulatory requirements;
- ▶ the design and maintenance of an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- ▶ the adoption of the appropriate accounting policies considering the circumstances; and
- ▶ the assessment of the Group's ability to continue as a going concern, disclosing, as applicable, matters that may raise significant doubts about going concern.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated and individual financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and individual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ identify and assess the risks of material misstatement of the consolidated and individual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- ▶ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and individual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- ▶ evaluate the overall presentation, structure and content of the consolidated and individual financial statements, including the disclosures, and whether the consolidated and individual financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and individual financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion;
- communicate with those charged with governance, including the audit committee, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- from the matters communicated with those charged with governance, including the audit committee, we determine those matters that were of most significance in the audit of the consolidated and individual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and
- provide to the audit committee, a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility includes the verification of the consistency of the information included in the Management Report with the consolidated and individual 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").

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to Article 451.º, n.º 3 al. e) of the Companies Code, it is our opinion that the Management Report was prepared in accordance with applicable legal and regulatory requirements, the information contained therein is in agreement with the audited financial statements and, taking into account the knowledge and overall understanding of the Company, we have not identified any material misstatements.

On the Corporate Governance Report

Pursuant to article 451º, nº 4, of the Companies Code, it is our opinion that the Corporate Governance Report includes the elements required of the Group in accordance with article 245º-A of the Securities Market Code, no material misstatements have been identified in the information disclosed therein, and complies with the provisions of paragraph c), d), f), h), i) and m) of the aforementioned article.

On additional items set out in article 10º of Regulation (EU) nº 537/2014

Pursuant to article 10º of Regulation (EU) nº 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were appointed as auditors of the Group for the first time in the shareholders' general meeting held on 23 April 2014 for the period between 2014 and 2015, to complete the mandate of the three year period from 2013 and 2015. We were reappointed for a second mandate in the shareholders' general meeting held on 26 April 2016 for the period between 2016 and 2018.
- Management has confirmed that they are not aware of any fraud or suspicion of fraud that could have a material impact on the financial statements. In planning and executing our audit in accordance with ISAs, we have maintained our professional scepticism and we designed audit procedures to address the possibility of a material misstatement in the consolidated and individual financial statements due to fraud. As a result of our work, we have not identified any material misstatement in the consolidated and individual financial statements due to fraud.
- We confirm that our audit opinion is consistent with the additional report to the audit committee that we have prepared and delivered today to the audit committee.

- We declare that we have not provided any prohibited services pursuant to article 77º nº 8 of the Statute of the Institute of Statutory Auditors and that we have remained independent from the Group during the audit.

Lisboa, 21 March 2017

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

Ricardo Filipe Frias Pinheiro (ROC nº 739)
Registration number at the CMVM 201673

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 2016, 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, 1 March 2017

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)

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

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

Jorge Filipe Santos Graça
(Executive Member of the Board of Directors)

Manuel Ramalho Eanes
(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)

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

João Torres Dolores
(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)

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 2016.**

The Fiscal Board has regularly accompanied the evolution of 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. Moreover, the Fiscal Board verified the regularity of the accounting records, the accuracy of the individual and consolidated financial statements and the accounting policies and valuation criteria adopted by the Company in order to ensure that they lead to a correct appraisal of its assets and individual and consolidated profits, as well as its cash flow statements.

As part of its 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 on a regularly basis 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 Portuguese 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 2016, which include the individual and consolidated financial position in 31 December 2016, 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 its powers, and according to paragraph 1, subparagraph c) of the article 245.^º of the Portuguese Securities Code, the Fiscal Board declares that, to its knowledge, the Management Report, and the Individual and Consolidated Financial Statements for the financial year ended on 31 December 2016 were drawn up in accordance with the applicable accounting standards, reflecting a true and fair view of the assets and liabilities, financial position and results of NOS, SGPS, S.A. and the companies included in the consolidation as a whole. **Additionally, the Management Report faithfully states the businesses' evolution, and the** performance and position of the company and of the Group. It also complies with the applicable legal requirements and accounting standards as well as with the articles of association and, whenever deemed necessary, contains a description of the principal risks and uncertainties faced. The Fiscal Board also ensures 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.

In view of the above, 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, the Fiscal Board** opinion is as follows:

- i) The Management Report for 2016 may be approved;
- ii) The Individual and Consolidated Financial Statements for 2016 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 12th of August, may be approved.

Lisbon, 24 March 2017

The Fiscal Board

Paulo Mota Pinto
(Chairman of the Fiscal Council)

Patrícia Teixeira Lopes
(Member of the Fiscal Council)

Eugénio Ferreira
(Member of the Fiscal Council)



Corporate Governance

Report

1. Introduction

NOS, SGPS, S.A. ("NOS" or "Company") is a public company, issuer of shares admitted to trading on the Euronext Lisbon regulated market managed by Euronext Lisbon – Sociedade Gestora de Mercados Regulamentados, S.A..

NOS is firmly committed to creating sustainable value for its shareholders and remaining 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) Supervision; and
- (v) Risk assessment.

Part I - Mandatory information concerning shareholder structure, organization and corporate governance

A. Shareholder Structure

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 Euronext Lisbon regulated market.

2. and 6. Restrictions on the transfer of shares, shareholder agreements and limits on owing 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 on 14 December 2012, in which they own the following stakes ("Shareholders Agreement"):

- a) SONAECOM 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 now holds, as result of the merger, more than 50% of the share capital and voting rights of NOS. Furthermore, on 14 June 2016, ZOPT acquired to Sonaecom 11,012,532 (eleven million, twelve thousand and five hundred and thirty two) shares representing 2.14% of the share capital and voting rights of NOS (disregarding any treasury stocks that NOS may hold). Consequently, ZOPT became the direct holder of 268,644,537 (two hundred and sixty-eight million, six hundred and forty four thousand and five hundred and thirty seven) shares representing 52.15% of the share capital of NOS, as disclosed to the market on 16 June 2016.

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. SONAE COM 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 neither special rights attributed to shareholders nor rules about employees' sharing in the Company's share capital.

3. Treasury stocks

On 31 December 2016, NOS owned 3,017,603 own shares, which corresponded to 0.5858% of the share capital and 0.5858% of the voting rights.

Voting rights attached to own shares are suspended under the applicable law.

4. Significant agreements that variate 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.

NOS and its subsidiaries are parties of some financing contracts and debt issues, including provisions allowing for the change of control, typical in these types of transactions (including, tacitly, changes in the change of control as a consequence of a public takeover bid), and which are deemed necessary for the mentioned transactions.

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

The structure of qualified shareholdings in NOS that the Company was notified of - including to information rendered under article 447(5) of the Portuguese Companies Code ("CSC") was, on 31 December 2016, as follows:

Shareholders	Number of Shares	% Share Capital and Voting Rights
ZOPT, SGPS, SA ⁽¹⁾	268,644,537	52.15%
Banco BPI, SA ⁽²⁾	14,275,509	2.77%
Norges Bank	10,891,068	2.11%
Blackrock, Inc	10,349,515	2.01%
Total Identified	304,160,629	59.04%

(1) According to paragraphs b) and c) of number 1 of article 20^o and article 2^o of the Portuguese Securities Code, a qualified shareholding of 52.15% of the share capital and voting rights of NOS, SGPS, S.A. as calculated in the terms of article 20^o of the Portuguese Securities Code, is attributable to ZOPT, Sonae.com and the following companies: a. This qualified holding is attributable to the companies Kento Holding Limited ("Kento") and Unitel International Holdings, BV ("Unitel International"), as well as to M^rs. Isabel dos Santos, under the terms of articles 20(1)(b) and (c) and 21 of the Portuguese Securities Code, being (i) Kento and Unitel International directly and indirectly controlled by M^rs. Isabel dos Santos and (ii) ZOPT controlled together by its shareholders Kento, Unitel International and Sonae.com as a result of the shareholders' agreement entered into between these entities; b. The aforementioned qualified holding is also attributable to Sonae.com and all entities in a control relationship with Sonae.com, namely SONTEL, BV, Sonae Investments, BV, SONAE, SGPS, S.A., EFANOR INVESTIMENTOS, SGPS, S.A. and to M^r. Belmiro

(2) Under the terms of paragraph 1 of article 20^o of the Portuguese Securities Code, the voting rights corresponding to 2.77% of NOS' share capital, held by Banco BPI's Pension Fund, are attributable to Banco BPI.

Note: The calculation of the voting rights corresponding to each shareholder does not consider own shares held by the Company.

Note 2: On 26 October 2016, a Long Position announcement was disclosed by Lancaster Investment Management LLP, concerning 2.08% of the voting rights of NOS, SGPS, S.A.

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	Number of Shares	% Share Capital and Voting Rights
Fundo de Pensões do Banco BPI	14,275,509	2.77%
Total	14,275,509	2.77%

There is a detailed record of the communications regarding qualified shareholdings on NOS website, on www.nos.pt/ir.

Evolution of NOS/PSI 20 share prices

The share price of NOS ended 2016 at € 5.638 (five euros, sixty three comma eight cent), representing a decrease of almost 22.2% since the end of 2015, which is compared with a devaluation of the PSI 20 index of 11.9% during 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 communication events to the market over the year, such as results presentations, General Meetings of shareholders and dividend payments:

Date	Event
01-03-2016	Full Year 2015 Earnings Announcement
26-04-2016	General Shareholders Meeting
26-04-2016	First Quarter 2016 Earnings Announcement
26-04-2016	Approval of the own shares acquisition programme
19-05-2016	Dividend payment for the 2015 financial year
27-07-2016	First Half 2016 Earnings Announcement
07-11-2016	Third Quarter 2016 Earnings Announcement

During 2016, the share price of NOS reached a maximum of € 7.274 (seven euros and twenty seven comma four cents) and a minimum of € 5.134 (five euros and thirteen comma four cents).

In total, 159,662,583 NOS shares have changed hands in 2016, which corresponds to an average volume of 618,847 shares per session – which means 0.12% of the issued shares.

The main Portuguese share index, the PSI20 showed during 2016 a devaluation of 11.9%, and the Spanish index, IBEX 35, suffered a fall of 2.0% from the end of 2015.

Other international indices presented, during the year 2016 positive performances, and the FTSE100 (United Kingdom) increased by 14.4%. CAC40 (France), DAX (Germany) and the Dow Jones EuroStoxx 50 appreciated by 4.9%, 6.9% and 0.7% respectively, during the year 2016.

At the end of 2015, NOS directly held a total of 1,666,482 own shares.

During the year of 2016 the following own shares transactions occurred, as summarized in the table below:

Description	Number of Shares
Balance as at 1 January 2016	1,666,482
Acquisition of own shares under the employee share attribution plans*	3,312,503
Distribution of own shares - share incentive scheme	1,531,842
Distribution of own shares - other remunerations	429,540
Balance as at 31 December 2016	3,017,603

* Following the own share acquisition programme approval, disclosed to the market on 26 April 2016.

As a result, NOS held directly 3,017,603 own shares by the end of 2016.

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					Balance 31-12-2016
		Balance 31-12-2015	Acquisitions	Disposals	Unit Price *	Date	
Jorge Manuel de Brito Pereira	Chairman of the Board of Directors	0	-	-	-	-	0
Miguel Nuno Santos Almeida	Chairman of the Executive Committee	0	21,025	-	5.961 €	31-03-2016	21,025
José Pedro Faria Pereira da Costa	Executive Member	100,000	17,392	-	5.961 €	31-03-2016	117,392
Manuel Ramalho Eanes	Executive Member	0	9,269	-	5.961 €	31-03-2016	0
André Nuno Malheiros dos Santos Almeida	Executive Member	8,000	7,603	-	5.961 €	31-03-2016	15,603
Ana Paula Garrido de Pina Marques	Executive Member	0	7,709	-	5.961 €	31-03-2016	7,709
<i>Conjuge</i>		0	11,206	-	5.961 €	31-03-2016	11,206
Jorge Filipe Pinto Sequeira dos Santos Graça	Executive Member	0	13,716	-	5.961 €	31-03-2016	13,716
Angelo Gabriel Ribeirinho dos Santos Paupério ⁽¹⁾	Non-executive Member	0	-	-	-	-	0
Sonaecom, SGPS, SA		11,012,532	-	11,012,532	7.522 €	14-06-2016	0
ZOPT, SGPS, SA		257,632,005	11,012,532	-	7.522 €	14-06-2016	268,644,537
António Bernardo Aranha da Gama Lobo Xavier ⁽²⁾	Non-executive Member	0	-	-	-	-	0
Sonaecom, SGPS, SA		11,012,532	-	11,012,532	7.522 €	14-06-2016	0
ZOPT, SGPS, SA		257,632,005	11,012,532	-	7.522 €	14-06-2016	268,644,537
Catarina Eufémia Amorim da Luz Tavira Van-Dünem	Non-executive Member	0	-	-	-	-	0
João Pedro Magalhães da Silva Torres Dolores	Non-executive Member	0	-	-	-	-	0
Joaquim Francisco Alves Ferreira de Oliveira	Non-executive Member	0	-	-	-	-	0
Lorena Solange Fernandes da Silva Fernandes	Non-executive Member	0	-	-	-	-	0
Maria Cláudia Teixeira de Azevedo ⁽³⁾	Non-executive Member	0	-	-	-	-	0
Sonaecom, SGPS, SA		11,012,532	-	11,012,532	7.522 €	14-06-2016	0
ZOPT, SGPS, SA		257,632,005	11,012,532	-	7.522 €	14-06-2016	268,644,537
Mário Filipe Moreira Leite da Silva ⁽⁴⁾	Non-executive Member	0	-	-	-	-	0
ZOPT, SGPS, SA		257,632,005	11,012,532	-	7.522 €	14-06-2016	268,644,537
Paulo Cardoso Correia da Mota Pinto	Chairman of the Fiscal Board	0	-	-	-	-	0
Eugenio Luis Lopes Franco Ferreira	Member of the Fiscal Board	0	-	-	-	-	0
Patrícia Andrea Bastos Teixeira Lopes Couto Viana	Member of the Fiscal Board	0	-	-	-	-	0
Luis Filipe da Silva Ferreira	Substitute Member of Fiscal Board	0	-	-	-	-	0
Ernst & Young Audit & Associados, SROC, S.A.	Statutory Auditor	0	-	-	-	-	0
Ricardo Filipe de Frias Pinheiro	Statutory Auditor	0	-	-	-	-	0
Paulo Jorge Luís da Silva	Substitute Statutory Auditor	0	-	-	-	-	0

⁽¹⁾ Ângelo Gabriel Ribeirinho dos Santos Paupério is member of the Board of Directors of ZOPT, SGPS, SA, which owned, on 31 December 2016 a share correspondent to 52.15% of the share capital and voting rights of NOS and a member of the Board of Directors and Executive Committee of Sonaecom, SGPS, SA.

⁽²⁾ António Bernardo Aranha da Gama Lobo Xavier is member of the Board of Directors and Executive Committee of Sonaecom, SGPS, SA.

⁽³⁾ Maria Cláudia Teixeira de Azevedo is member of the Board of Directors of ZOPT, SGPS, SA, company holding a share, on 31 December 2016, correspondent to 52.15% of the share capital and voting rights of NOS, and member of the Board of Directors and Executive Committee of Sonaecom, SGPS, SA.

⁽⁴⁾ Mário Filipe Moreira Leite da Silva is member of the Board of Directors of ZOPT, SGPS, SA, company holding, on 31 December 2016 a share correspondent to 52.15% of the share capital and voting rights of NOS.

* Share acquisition with a 90% discount under the Short and Medium Term Variable Remuneration Regulation of NOS, SGPS, SA.

9. Special powers of the Board of Directors

The Company's Board of Directors shall exercise the powers conferred by the law and the Articles of Association.

According to article 16 of the Articles of Association, the Board of Directors is especially responsible for managing the Company business and namely:

- The acquisition, divestment, leasing and encumbering real and personal property, commercial establishments, investments in companies and vehicles;
- 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 economically significant operations or business, 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 qualifying 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 transactions and agreements with various entities within NOS group. These operations were conducted under normal market terms for similar transactions and were part of the **contracting companies' current activities**.

The Company also regularly executes transactions and financing agreements with financial institutions, which are qualifying shareholders, conducted under normal market terms for similar transactions, and which are 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 qualifying shareholders are detailed in items 89, 90 and 91 in this report.

B - Corporate bodies and committees

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 General Meeting is composed for a chairman and a secretary.

The board of the General 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 the General Meeting is three years.

The current term of office began on 26 April 2016, with the election of the corporate bodies at the Annual General Meeting for the three-year period of 2016/2018.

The current members of the board of the General Meeting were elected for the second 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 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 the General Meeting, upon request from the Board of Directors or the Fiscal Board, or by shareholders who represent at least 2% of the share capital.

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 Securities Market Commission ("CMVM" - <http://www.cmvm.pt>) and on the Euronext Lisbon website.

The board of the General Meeting is provided with all the resources needed to perform its duties, namely with the assistance from the Company's general secretary.

In 2016, the chairman and secretary were respectively paid a total sum of € 18,000 and € 5,000 as fees, 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.

To every 100 shares corresponds one 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's 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, without 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.

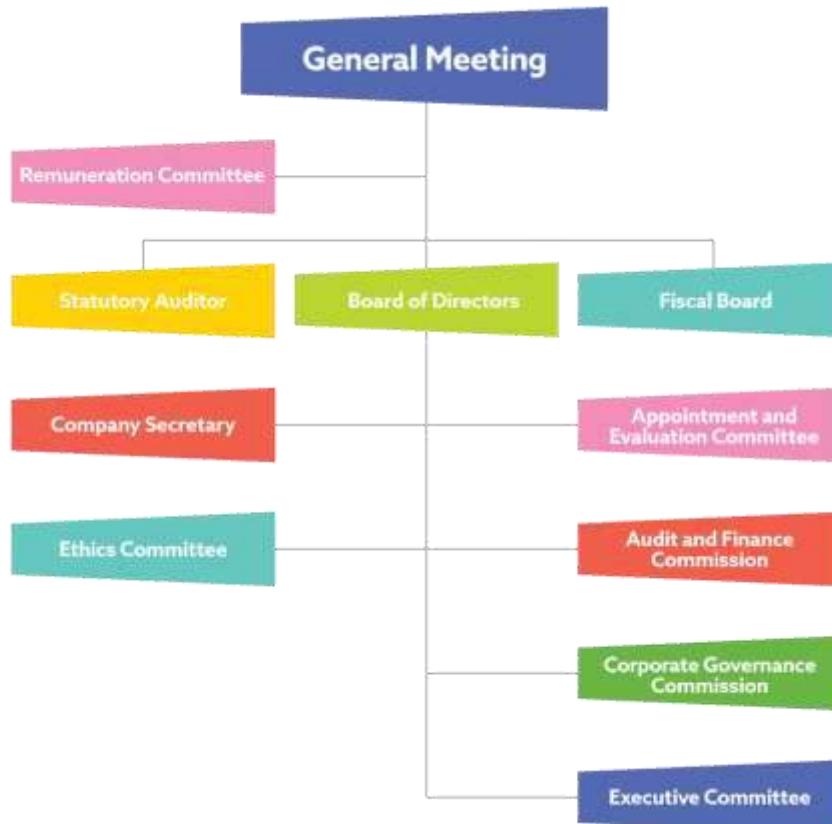
NOS' Articles of Association do not, therefore, set any qualified quorum greater than that provided by law.

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 the 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's governing 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's secretary and the alternate Company's 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 2016, the Company's secretary and alternate Company's secretary were:

- Company Secretary - Sandra Martins Esteves Aires
- Alternate Company Secretary - Francisco Xavier Luz Patrício Simas

The Company Secretary has the following powers to:

- Guarantee the formalities and conformity of the corporate acts;
- Ensure that several corporate documents are updated and disclosed;
- Provide assistance to the corporate bodies, the Company in general and the other companies of the Group in matters related with Corporate law, Securities Law and Corporate Governance, enhancing compliance with laws, regulations and recommendations;
- Guarantee the necessary assistance to the meeting of the Board of Directors, of the Executive Committee and of the General Meeting of both NOS and subsidiaries;
- Manage the administrative support to the corporate bodies.

Furthermore, under the applicable law, the Company Secretary is also empowered to:

- Act in the capacity of secretary in the meeting of the corporate bodies;
- Prepare minutes and sign them jointly with the members of the relevant corporate bodies and with the Chairman of the Board of the General Meeting whenever applicable;
- Keep in good order the books and sheets of the minutes, the presence lists, the shares record book as well as any formality related thereto;
- Send notices of meetings of the corporate bodies as required by law;
- **Certify signatures of the members of the corporate bodies included in the company's documents;**
- Certify all copies or transcriptions from the books of the Company or other archived documents as true, updated and complete;

- Satisfy, in the scope of its powers, any shareholders' requests exercising their information rights and provide information to the members of the corporate bodies performing supervisory functions over resolutions of the Board of Directors or of the Executive Committee;
- Partially or wholly certify the content of the by-laws in force, as well as the identity of the members of the several corporate bodies and their corresponding powers;
- Certify updated **copies of the Articles of Association, of the shareholders' resolutions and of the managements as well as of the entries in place as recorded in the Company's books, as well as ensure that they are delivered or sent to the shareholders that have required them and have paid the corresponding costs;**
- Certify with the corresponding initials all the documentation submitted to the General Meeting and referred to in the corresponding minutes;
- Promote the registration of corporate acts whenever required.

16. Rules of the articles of association about the appointment and replacement of 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's 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 where 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 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 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 states 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 to change 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 Annual General Meeting on 26 April 2016, for the three-year period of 2016/2018, and at the date of the election, it was composed of 17 Directors with Jorge Manuel de Brito Pereira appointed as Chairman.

Afterwards, following the resignations presented and disclosed to the market by the Directors, Isabel dos Santos and António Domingues, on 06 June, 2016, and 29 August, 2016, respectively, as Members of the Board of Directors of NOS, under the terms of article 404(2) of the CSC, effective as from 30 July, 2016 and 30 September, 2016, respectively, the Board of Directors comprised 15 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 31/12/2018
Miguel Almeida	Member	Chairman	---	01/10/2013 31/12/2018
José Pedro Pereira da Costa	Member	Member	---	21/09/2007 31/12/2018
Ana Paula Marques	Member	Member	---	01/10/2013 31/12/2018
André Almeida	Member	Member	---	01/10/2013 31/12/2018
Manuel Ramalho Eanes	Member	Member	---	01/10/2013 31/12/2018
Jorge Graça	Member	Member	---	26/04/2016 31/12/2018
Ângelo Paupério	Member	---	X	01/10/2013 31/12/2018
António Lobo Xavier	Member	---	X	01/10/2013 31/12/2018
Catarina Tavira	Member	---	X	27/11/2012 31/12/2018
Joaquim Oliveira	Member	---	X	31/01/2008 31/12/2018
Lorena Fernandes	Member	---	X	01/10/2013 31/12/2018
Maria Cláudia Azevedo	Member	---	X	01/10/2013 31/12/2018
Mário Leite da Silva	Member	---	X	19/04/2010 31/12/2018
João Dolores	Member	---	X	26/04/2016 31/12/2018

Although it is a fact that has occurred after the year ended 31 December 2016, to which the present report refers to, taking into consideration the information's completeness and accuracy, we furthermore inform that, on 1 March 2017, the Board of Directors resolved, under the terms of article 393(3)(b) of the CSC, the appointment by co-optation of António Domingues as Member of the Board of Directors until the end of the current term of office (2016-2018). In accordance with article 393(4), this co-optation is still subject to ratification by the next General Meeting.

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 Annual General Meeting on 26 April 2016, approved on its meeting held on that same day, the incorporation of an Executive Committee currently composed by 6 members.

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.

Considering the above mentioned, and based on the Company's dimension, its shareholder structure and the respective free-float, in line with the definition of independence under the Recommendation II.1.7 of the CMVM's Corporate Governance Code of 2013, the Company has, among its non-executive Directors, one independent Director.

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 2016, 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 the 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 easy, 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, on a quarterly basis, presents to the Board of Directors a summary of the most important points of its activity in the relevant period.

In practice, the agenda of the Executive Committee activity is forwarded to the members of the Fiscal Board every month.

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 **Directors' qualifications**

a. Jorge Brito Pereira: Chairman of the Board of Directors

Qualifications:

- Degree in Law from Universidade Católica Portuguesa, Faculdade de Direito;
- **Master's in Legal Sciences from Universidade de Lisboa, Faculdade de Direito;**
- MBA from IMD.

Professional Experience:

- Partner at Uría Menéndez – Proença de Carvalho, Sociedade de Advogados;
- Chairman of the Board of the Shareholders Meeting of Sport TV, S.A.;
- Chairman of the Board of the Shareholders Meeting of Banco Bic Português S.A.
- Chairman of the Board of the Shareholders Meeting of Efacec Power Solutions S.A.;
- Chairman of the Board of the Shareholders Meeting of SAPEC, SGPS, S.A.;
- Chairman of the Board of the Shareholders Meeting of Oxy Capital - Sociedade de Capital de Risco, S.A.;
- Chairman of the Board of the Shareholders Meeting of ONETIER Partners SGPS, S.A.;
- Chairman of the Board of the Shareholders Meeting of CIMINVEST – Sociedade de Investimentos e Participações S.A.;
- Chairman of the Board of the Shareholders Meeting of SANTORO FINANCE – Prestação de Serviços, S.A.;
- Chairman of the Board of the Shareholders Meeting of SANTORO FINANCIAL HOLDINGS, SGPS, S.A.;
- Chairman of the Board of the Shareholders Meeting of FIDEQUITY – SERVIÇOS DE GESTÃO S.A.;
- Member of the Board of Directors of De Grisogono S.A.;
- Member of the Remuneration Commission of Glintt, S.A..

b. Miguel Nuno Santos Almeida: Chairman of the Executive Committee

Qualifications:

- Degree in Mechanical Engineering from Universidade do Porto, Faculdade de Engenharia;
- MBA from INSEAD Business School.

Professional Experience:

- Chairman of the Board of Directors of NOS Comunicações, S.A.
- Chairman of the Board of Directors of NOS Technology - Concepção, Construção e Gestão de Redes de Comunicações S.A.;
- Chairman of the Board of Directors of NOS Towering - Gestão de Torres de Telecomunicações S.A.;
- Chairman of the Board of Directors of NOS Sistemas - Serviços em Tecnologia de Informação S.A.;
- Chairman of the Board of Directors of NOS Inovação S.A.
- Chairman of the Board of Directors of NOS Açores Comunicações S.A.;
- Chairman of the Board of Directors of NOS Lusomundo Audiovisuais S.A.;
- Chairman of the Board of Directors of NOS Lusomundo Cinemas S.A.;
- Chairman of the Board of Directors of NOS Lusomundo TV S.A.;
- Chairman of the Board of Directors of NOS Madeira Comunicações S.A.;
- Chairman of the Board of Directors of NOSPUB Publicidade e Conteúdos S.A.;
- Former Chairman of the Executive Committee of OPTIMUS Comunicações, S.A.;
- Former Executive Director and Member of the 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;
- MBA from INSEAD Business School.

Professional Experience:

- 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.;
- Vice-Chairman of the Board of Directors of Mstar S.A.;
- Vice-Chairman of the Board of Directors of NOS Lusomundo Audiovisuais S.A.;
- Vice-Chairman of the Board of Directors of NOS Lusomundo Cinemas S.A.;
- Vice-Chairman of the Board of Directors of NOS Lusomundo TV S.A.;
- Vice-Chairman of the Board of Directors of NOSPUB Publicidade e Conteúdos S.A.;
- Vice-Chairman of Finstar - Sociedade de Investimentos e Participações, S.A.;

- Member of the Board of Directors of NOS Comunicações S.A.;
- Member of the Board of Directors of NOS Technology – Concepção, Construção e Gestão de Redes de Comunicações, S.A.;
- Member of the Board of Directors of NOS Towering – Gestão de Torres de Telecomunicações, S.A.;
- Member of the Board of Directors of Dreamia Holding B.V.;
- Member of the Board of Directors of Dreamia Serviços de Televisão S.A.;
- Member of the Board of Directors of Lusomundo Imobiliária 2 S.A.;
- Member of the Board of Directors of Lusomundo Sociedade de Investimentos Imobiliários SGPS S.A.;
- Member of the Board of Directors of NOS Sistemas Serviços em Tecnologia de Informação S.A.;
- Member of the Board of Directors of NOS Sistemas España S.L.;
- Member of the Board of Directors of NOS Inovação S.A.
- Member of the Board of Directors of NOS Açores Comunicações S.A.;
- Member of the Board of Directors of NOS Communications S.à.r.l.;
- Member of the Board of Directors of NOS Madeira Comunicações 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.;
- Manager of Empracine Empresa Promotora de Atividades Cinematográficas, Lda.;
- Former Member of the Board of Directors of Group Portugal Telecom acting as CFO and responsible for PT Comunicações, PT.COM e 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. Ana Paula Garrido de Pina Marques: Executive Member

Qualifications:

- Degree in Economy from Universidade do Porto, Faculdade de Economia;
- 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 NOS Technology - Concepção, Construção e Gestão de Redes de Comunicações S.A.;
- Member of the Board of Directors of NOS Towering - Gestão de Torres de Telecomunicações S.A.;
- Member of the Board of Directors of NOS - Sistemas Serviços em Tecnologia de Informação S.A.;
- Member of the Board of Directors of NOS Inovação S.A.
- Member of the Board of Directors of NOS Communications S.à.r.l.;
- 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 Açores Comunicações, 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.;
- Member of the Board of Directors of Per-Mar, Sociedade de Construções S.A.;
- Member of the Board of Directors of Sontária - Empreendimentos Imobiliários S.A.;
- Member of the Board of Directors of Lusomundo Imobiliária 2 S.A.;
- Member of the Board of Directors of Lusomundo Sociedade de Investimentos Imobiliários SGPS, S.A.;
- Manager of Empracine Empresa Promotora de Atividades Cinematográficas, Lda.;
- Member of the Board of Directors of Sport TV Portugal, S.A.;
- Former Executive Director of OPTIMUS - Comunicações, responsible for Home Service, Customer Service, Operations and Terminals Management;
- **Former Chairman of APRITEL ("Associação dos Operadores de Comunicações Eletrónicas");**

- Former Manager of Marketing and Sales Private Mobile Service Business Unit of Optimus. Manager of Branding and Communication, as well as Director of the Data Business Unit of Optimus;
- Started her career in the Marketing Department of Procter & Gamble.

e. André Nuno Malheiro dos Santos Almeida: Executive Member

Qualifications:

- Degree in Engineering and Industrial Management from Instituto Superior Técnico;
- MBA from INSEAD Business School, Henry Ford II Award.

Professional experience:

- Member of the Board of Directors of NOS Comunicações S.A.;
- Member of the Board of Directors of NOS Technology – Concepção, Construção e Gestão de Redes de Comunicações S.A.;
- Member of the Board of Directors of NOS Towering – Gestão de Torres de Telecomunicações S.A.;
- Member of the Board of Directors of Dreamia B.V.;
- Member of the Board of Directors of NOS Sistemas Serviços em Tecnologia de Informação S.A.;
- Member of the Board of Directors of NOS Inovação 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 NOSPUB Publicidade e Conteúdos S.A.;
- Member of the Board of Directors of NOS Açores Comunicações 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 Finstar – Sociedade de Investimentos e Participações S.A.;
- Former Executive Director of ZON TVCabo, ZON Lusomundo Audiovisuais, ZAP Angola and ZAP Mozambique, responsible for Business Development, International Business, Planning and Control, and Corporate Finance of ZON Multimédia;
- Former Executive Director of ZON TVCabo, responsible for Product and Marketing; Manager of Product Management and Coordination of ZON TVCabo;
- Former Manager of Wireline Business Development of PT;

- Former Manager of Strategy and Business Development of PT and Project Manager of PT SGPS; Associate of The Boston Consulting Group.

f. Manuel António Neto Portugal Ramalho Eanes: Executive Member

Qualifications:

- Degree in Management from Universidade Católica Portuguesa;
- 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 NOS Technology – Concepção, Construção e Gestão de Redes de Comunicações, S.A.;
- Member of the Board of Directors of NOS Towering – Gestão de Torres de Telecomunicações S.A.;
- Member of the Board of Directors of NOS - Sistemas Serviços em Tecnologia de Informação S.A.;
- Member of the Board of Directors of NOS Inovação 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 NOSPUB Publicidade e Conteúdos S.A.;
- Member of the Board of Directors of Finstar – Sociedade de Investimentos e Participações, S.A.;
- Member of the Board of Directors of NOS Sistemas España S.L.;
- Former Executive Director of Optimus – Comunicações, SA, responsible for Companies and Operators;
- Former Director at Optimus of Home Wireline, Central Marketing, Data Service, Particular Sales, **SME's and Business Development**;
- Started his career in McKinsey & Co.

g. Jorge Filipe Pinto Sequeira dos Santos Graça: Executive Member

Qualifications:

- Degree in Business Management and Administration from Universidade Católica Portuguesa;
- MBA from Kellogg School of Management at Northwestern University.

Profissional experience:

- Member of the Board of Directors of NOS Comunicações S.A.;
- Member of the Board of Directors of NOS Technology - Concepção, Construção e Gestão de Redes de Comunicações S.A.;
- Member of the Board of Directors of NOS Towering - Gestão de Torres de Telecomunicações S.A.;
- Member of the Board of Directors of NOS - Sistemas Serviços em Tecnologia de Informação S.A.;
- Member of the Board of Directors of NOS Inovação S.A.
- Member of the Board of Directors of NOS Açores Comunicações S.A.;
- Member of the Board of Directors of NOS Madeira 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 NOSPUB Publicidade e Conteúdos S.A.;
- Former Director of NOS Comunicações S.A. responsible for the Residential Product, Product Development and negotiation of contents;
- Former Director of ZON TV Cabo responsible of Product and Marketing, Director of Product TV of ZON TV Cabo;
- Former Project Leader at The Boston Consulting Group.

h. Ângelo Gabriel Ribeirinho dos Santos Paupério: Non-Executive Member

Qualifications:

- Degree in Civil Engineering from Universidade do Porto, Faculdade de Engenharia;
- MBA from Escola de Gestão do Porto-UPBS.

Profissional experience:

- Executive Chairman of the Board of Directors of Sonaecom, SGPS, S.A.;

- Chairman of the Board of Directors of Sonaerp – Retail Properties, S.A.;
- Chairman of the Board of Directors of Sonaegest – Sociedade Gestora de Fundos de Investimento, S.A.;
- Chairman of the Board of Directors of Sonae, RE, S.A.;
- Chairman of the Board of Directors of Sonae Investment Management – Software and Technology, SGPS, S.A. (former Sonaecom – Sistemas de Informação, SGPS, S.A.)
- Chairman of the Board of Directors of Sonaecom, Serviços Partilhados, S.A.;
- Chairman of the Board of Directors of Público – Comunicação Social, S.A.;
- Chairman of the Board of Directors of MDS, SGPS, S.A.;
- Chairman of the Board of Directors of MDS AUTO, Mediação de Seguros, S.A.;
- Chairman of the Board of Directors of APGEI;
- Vice Chairman of the Board of Directors of Sonae MC – Modelo Continente, SGPS, S.A.;
- Vice Chairman of the Board of Directors of Sonae – Specialized Retail, SGPS, S.A.;
- Member of the Board of Directors and Co-CEO of Sonae, SGPS, S.A.;
- Member of the Board of Directors of Sonae Center Serviços II, S.A.;
- Member of the Board of Directors of Sonae Investimentos, SGPS, S.A.;
- Member of the Board of Directors of Sonae Sierra, SGPS, S.A.;
- Member of the Board of Directors of Sonae Financial Services, S.A.;
- Member of the Board of Directors of Sonae Investments, B.V.;
- Member of the Board of Directors of Sontel B.V.;
- Member of the Board of Directors of ZOPT, SGPS, S.A.;
- Member of the Board of Directors of Love Letters – Galeria de Arte, S.A.;
- Member of the Superior Board of Universidade Católica Portuguesa.

i. António Bernardo Aranha da Gama Lobo Xavier: Non-Executive Member

Qualifications:

- Degree in Law and **Master's in Economic Law from Universidade de Coimbra.**

Experiência Profissional:

- Partner and Board Member of Morais Leitão, Galvão Teles, Soares da Silva & Associados;

- Chairman of General Meeting of Textil Manuel Gonçalves S.A.;
- Chairman of General Meeting of Ascendum, S.A.;
- Chairman of Fiscal Board of Tabaqueira II, S.A.;
- 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 – Publico, 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;
- Member of the Board of Directors of Fundação Casa da Música;
- Member of the Board of Directors of Fundação Francisco Manuel dos Santos;
- Member of the Fiscal Board of Fundação Belmiro de Azevedo;
- Ordinary Member of the Superior Board of Universidade Católica;
- Member of the Fiscal Board of Tabaqueira – Empresa Industrial de Tabacos, S.A..

j. Catarina Eufémia Amorim da Luz Tavira Van-Dúnem: Non-Executive 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, the company engaged with the distribution of TV channels via satellite in Angola and Mozambique;
- Led the Products and Services team of Unitel, the leading telecommunications operator in Angola;
- **Created the client's new services area of Unitel, the leading telecommunications operator in Angola;**

- Started her career in the USA as assistant manager in Sentis and Coral, partners of Shell Oil USA.

K. Joaquim Francisco Alves Ferreira de Oliveira: Non-Executive Member

Professional experience:

- Chairman of the Board of Directors of Controlinveste, SGPS, S.A.;
- Chairman of the Board of Directors of Controlinveste Media, SGPS, S.A.;
- Chairman of the Board of Directors of Olivedesportos, SGPS, S.A.;
- Chairman of the Board of Directors of Olivedesportos - Publicidade, Televisão e Media, S.A.;
- Chairman of the Board of Directors of PPTV - Publicidade de Portugal e Televisão, S.A.;
- Chairman of the Board of Directors of Sport TV Portugal, S.A.;
- Chairman of the Board of Directors of Sportinveste Multimédia, SGPS, S.A.;
- Chairman of the Board of Directors of Sportinveste Multimédia, S.A.;
- Chairman of the Board of Directors of Gripcom, SGPS, S.A.;
- 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);
- 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, chairing today to its Board of Directors. He also chairs, since its foundation in 2001, the Board of Directors of Sportinveste Multimedia SGPS, S.A. and Sportinveste Multimedia, S.A., joint venture, created to run multimedia content linked to sporting events;
- In 2005, he acquired Grupo Lusomundo Media (currently Global Media Group), which currently holds 27.5% of the capital following the shareholder restructuring of that business sector, with the entry of new shareholders.

I. Lorena Solange Fernandes da Silva Fernandes: Non-Executive Member

Qualifications:

- Degree in Business Management from the Economy and Management faculty at Universidade Lusíadas de Angola and 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:

- Store manager at Unitel S.A.;
- Responsible for stores and agent departments at Unitel, S.A..

m. Maria Cláudia Teixeira de Azevedo: Non-Executive Member

Qualifications:

- Degree in Management from Universidade Católica Portuguesa;
- MBA from INSEAD Business School.

Professional experience:

- Chairwoman of the Board of Directors of SONAE COM – Serviços Partilhados, S.A.;
- Chairwoman of the Board of Directors of SONAE COM - CYBER SECURITY AND INTELLIGENCE, SGPS, S.A.;
- Chairwoman of the Board of Directors of S21SEC PORTUGAL - CYBERSECURITY SERVICES, S.A.;
- Chairwoman of the Board of Directors of WeDo Consulting, Sistemas de Informação, S.A.;
- Chairwoman of the Board of Directors of Saphety Level – Trusted Services, S.A.;
- Chairwoman of the Board of Directors of Digitmarket – Sistemas de Informação, S.A.;
- Chairwoman of the Board of Directors of PCJ – Público, Comunicação, e Jornalismo, S.A.;
- Chairwoman of the Board of Directors of BRIGHT DEVELOPMENT STUDIO, S.A.;
- Chairwoman of the Board of Directors of TLANTIC PORTUGAL – Sistemas de Informação, S.A.;
- Chairwoman of the Board of Directors of GRUPO S 21 SEC GESTIÓN, S.A.;
- Chairwoman of the Board of Directors of WeDo Technologies Americas Inc.;
- Chairwoman of the Board of Directors of SC, SGPS, S.A.;
- Chairwoman of the Board of Directors of SC HOSPITALITY, SGPS, S.A.;
- Chairwoman of the Board of Directors of Troiaresort, SGPS, S.A.;
- Chairwoman of the Board of Directors of CAPWATT, SGPS, S.A.;
- Chairwoman of the Board of Directors of SISTAVAC, SGPS, S.A.;
- Chairwoman of the Board of Directors of EFANOR – SERVIÇOS DE APOIO À GESTÃO, S.A.;
- Chairwoman of the Board of Directors of LINHACOM, SGPS, S.A.;
- Member of the Board of Directors of Sonaecom – Sistemas de Información España, S.L.;

- Member of the Board of Directors of Público - Comunicação Social, S.A.;
- Member of the Board of Directors of SONAE COM - SGPS, S.A.;
- Member of the Board of Directors of ZOPT, SGPS, S.A.;
- Member of the Board of Directors of SONAE INVESTMENT MANAGEMENT - SOFTWARE AND TECHNOLOGY, SGPS, S.A.;
- Member of the Board of Directors of Armilar Venture Partners - Sociedade de Capital de Risco, S.A.;
- Member of the Board of Directors of EFANOR -INVESTIMENTOS, SGPS, S.A.;
- Member of the Board of Directors of IMPARFIN, SGPS, S.A.;
- Member of the Board of Directors of SEKIWI, SGPS, S.A.;
- Member of the Board of Directors of Praça Foz - Sociedade Imobiliária, S.A.;
- Member of the Board of Trustees of FUNDAÇÃO BELMIRO DE AZEVEDO;
- General Manager of SAPHETY - TRANSACCIONES ELECTRONICAS, S.A.;
- General Manager of WeDo Technologies Egypt;
- General Manager of WeDo Technologies (UK) Limited;
- Manager of Praesidium Services Limited (UK);
- Diretor of WeDo Technologies Australia PTY Limited;
- Diretor of WeDo Technologies Mexico, S. De R.L. De C.V..

n. Mário Filipe Moreira Leite da Silva: Non-Executive Member

Qualifications:

- Degree in Economics from Universidade do Porto, Faculdade de Economia.

Professional experience:

- Chairman of the Board of Directors of Fidequity - Serviços de Gestão S.A.;
- Chairman of the Board of Directors of Santoro Finance - Prestação de Serviços, S.A.;
- Chairman of the Board of Directors of Santoro Financial Holding SGPS, S.A.;
- Chairman of the Board of Directors of BFA - Banco de Fomento de Angola, S.A.;
- Chairman of the Board of Directors of Efacec Power Solutions SGPS S.A.;
- Member of the Board of Directors of Banco BPI S.A.;

- Member of the Board of Directors of Nova Cimangola, S.A.;
- 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 Kento Holding Limited;
- Member of the Board of Directors of Victoria Holding Limited.

o. João Pedro Magalhães da Silva Torres Dolores: Non-Executive Member

Qualifications:

- Degree in Economics from Universidade do Porto, Faculdade de Economia;
- MBA from London Business School.

Professional experience:

- Manager of Strategic Planning and Management Control of Sonae, SGPS, S.A.;
- Manager of Cloud Business Unit of Portugal Telecom, SGPS, S.A.;
- Sub-Manager of Innovation Management of Portugal Telecom, SGPS, S.A.;
- Senior Associate at McKinsey & Company;
- Brand Manager of JW Burmester & Ca, S.A..

20. Relationship between Directors and Shareholders with a qualified shareholding over 2%

- Jorge Brito Pereira: Chairman of the Board of Directors

As partner of a law firm, he acts as attorney of Isabel dos Santos (to whom a qualified holding of the share capital and voting rights of the Company is attributable to, as explained in depth in item 7 of this report) and companies controlled by her.

- Ângelo Gabriel Ribeirinho dos Santos Paupério: Member of the Board of Directors

He is a member of the Board of ZOPT, a company which shareholding, on 31 December 2016, corresponds to 52.15% of the share capital and voting rights of NOS (disregarding own shares).

- António Bernardo Aranha da Gama Lobo Xavier: Member of the Board of Directors

He is a member of the Board of Directors of Banco BPI, S.A., a company which shareholding, on 31 December 2016, corresponds to 2.77% of the share capital and voting rights of NOS (disregarding own shares).

- Mário Leite da Silva: Member of the Board of Directors

He is a member of the Board of Directors of ZOPT, a company which shareholding, on 31 December 2016, corresponds to 52.15% of the share capital and voting rights of NOS (disregarding own shares) and member of the Board of Directors of Banco BPI, S.A., which shareholding, on 31 December 2016, corresponds to 2.77% of the share capital and voting rights of NOS (disregarding own shares).

- Maria Cláudia Teixeira de Azevedo: Member of the Board of Directors

She is a member of the Board of Directors of ZOPT, a company which shareholding, on 31 December 2016, corresponds to 52.15% of the share capital and voting rights of NOS (disregarding own shares).

21. Organograms and competence maps

Under the Articles of Association, the General Meeting, the Board of Directors, the Fiscal Board and the Statutory Auditor are corporate bodies of the Company.

NOS General Meeting has, notably, the following duties:

- a) To elect the members of the board of the General Meeting, the members of the Board of Directors, the members of the Fiscal Board and the Statutory Auditor;
- b) **To pass resolutions on the management report, accounts for the financial year and the company's corporate governance report;**
- c) To pass resolutions on the application of profits for the financial year;
- d) To pass resolutions on any amendments to the Articles of Association, including share capital increases;
- e) To resolve on any other items to which it was convened.

NOS Board of Directors is responsible for **managing the Company's activity and their responsibilities are defined in the Company's Articles of Association and the respective Regulations.**

As previously stated above, under article 16 of the Articles of Association, the Board of Directors has the following duties:

- a) To acquire, dispose, encumber and lease movable and immovable property, commercial establishments, stakeholdings and car vehicles;
- b) To sign financing contracts and credit agreements, including internal or external medium and long term contracts;
- c) To represent the company, including in legal proceedings, both actively and passively, with the faculty to admit, settle and withdraw in any proceedings and also to conclude arbitration agreements;

- d) To establish proxies with such powers as it may deem fit, including those to appoint substitutes;
- e) To approve activity plans as well as investment and operational budgets;
- f) To replace the directors who are definitively absent, by co-optation;
- g) To draw up and submit to the General Meeting for approval a stock option plan for the members of the Board of Directors, as well as for company workers with high responsibility positions;
- h) To appoint any other natural or legal persons to be part of the corporate bodies of companies in which the company owns a shareholding;
- i) To decide that the company shall provide technical and/or financial support to the companies in which it has a shareholding;
- j) To execute further duties assigned by the General Meeting.

Members of the Board of Directors which do not perform executive duties shall promote the adequate supervision and surveillance of the performance of the members of the Executive Committee.

The Board of Directors, pursuant to article 17(1) and (3) of the Company's Articles of Association, created and delegated the day-to-day management of the Company to an Executive Committee for the three-year period of 2016/2018, setting out the respective composition, operation and delegation of management powers.

Therefore, the Board of Directors delegated to the Executive Committee the necessary powers to develop and execute the day-to-day management of the Company.

The following items were not delegated:

- a) Election of the Chairman of the Board of Directors;
- b) Co-optation and, where appropriate, election of members of the corporate bodies of the Company and its subsidiaries;
- c) Convening General Meetings;
- d) Approval of annual reports and financial statements, to be submitted to the General Meeting, as well as the half-yearly and quarterly reports and financial statements and the results to be disclosed to the market;
- e) Approval of the activity plans, budgets and annual investment plans of the Company, as well as any substantial amendments and which cause relevant impacts on those plans;
- f) Definition of the general goals and fundamental principles of the Company's policies, as well as the options that shall be deemed strategic due to their amount, risk or special characteristics;
- g) Posting bonds or secured or personal guarantees;
- h) **Important extensions or reductions of the Company's activity or internal organization**, as well as that of the other companies of the same group;
- i) **Changing the Company's head offices and capital increases;**

- j) Approval of merger, demerger and transformation projects of the Company or which involve Group companies, except if, in these cases, such operations constitute mere internal restructures within the framework of the global goals and the fundamental principles that were approved;
- k) Appointing the Secretary of the Company and its alternate;
- l) Incorporating companies and subscribing, acquiring, encumbering and disposing of stakeholdings, when such transactions involve amounts higher than 2,500,000 Euros;
- m) Acquisition, disposal and encumbrance of rights, movable and immovable property, including any kind of securities, financial instruments, shares and bonds, when involving amounts higher than 2,500,000 Euros;
- n) Signing contracts in order to pursue the corporate object, when such contracts involve amounts higher than 50,000,000 Euros;
- o) Enter into any transactions between the company and the shareholders of qualifying holdings of 2% or more of the voting rights (Qualifying Holders) and/or related entities under article 20 of the Portuguese Securities Code (Related Party) when such transactions exceed the individual amount of 75,000 Euros or the annual aggregate amount by the service provider of 150,000 Euros (regardless of the approval of such transactions, in general or structural terms by the Board of Directors);
- p) Resolving, pursuant to the law and the Articles of Association, on the issue of bonds and commercial paper as well as the obtaining loans on the national and international financial market, once or more, when it involves amounts higher than that of the net financial debt of the Company on the EBITDA of 2 and up until the limit of 25,000,000 Euros per contract or issue.

Alongside the day-to-day management of the Company, the Executive Committee is responsible, in particular for:

- a) Proposing to the Board of Directors the strategic guidelines of the Group and the fundamental policies of the Company and its subsidiaries;
- b) Cooperating with the Board of Directors and its Committees regarding what is deemed necessary for the performance of the respective goals;
- c) Defining the internal rules regarding the organization and functioning of the Company and its subsidiaries, notably concerning hiring, definition of remuneration categories and conditions and other employee benefits;
- d) Issuing instructions to companies of the same group under total control, and controlling the implementation of the guidelines and policies under the previous paragraphs;
- e) Exercising disciplinary authority and deciding on the application of any sanctions regarding the employees of the Company.

The Board of Directors, when defining the functioning of the Executive Committee, especially delegated to the Chairman of the Executive Committee, the following duties:

- a) Coordinating the activity of the Executive Committee;

- b) Convening and conducting the meetings of the Executive Committee;
- c) Providing for the proper implementation of the resolutions of the Board of Directors;
- d) Providing for the proper implementation of the resolutions of the Executive Committee;
- e) Ensuring the compliance with the limitations on the delegation of duties, on the strategy of the Company and the duties of cooperation with the Chairman of the Board of Directors and other members of the Board of Directors as well as other company bodies;
- f) Ensuring that the Board of Directors is informed of the actions and relevant decisions of the Executive Committee as well as guaranteeing that all the clarifications requested by the Board of Directors are provided in a timely and appropriate manner;
- g) Ensuring that the Board of Directors is informed, on a quarterly basis, of the transactions that, within the duties delegated to the Executive Committee, have been entered into between the Company and shareholders owing a qualified shareholding equal or above 2% of the voting rights (Qualifying Shareholders) and/or any entities in a relationship of article 20 of the Portuguese Securities Code with them (Related Entities), when such transactions exceed the individual amount of 10,000 Euros.

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.

At the present time, the organizational and operational structure of the Company is the following:



As previously referred, the Company adopted a one-tier governance model where a Fiscal Board and a Statutory Auditor are responsible for Company oversight, as detailed in items 30 to 47 below.

22. Regulation for the operation of the Board of Directors

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 26 April 2016**, 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) Representing the Board of Directors and the Company;
- b) Co-ordinating the activity of the Board of Directors;
- c) Convening and chairing meetings of the Board of Directors;
- d) Ensuring, in conjunction with the Chief Executive Officer, proper implementation of the resolutions of the Board of Directors;
- e) Ensuring together 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;
- f) Oversee the relation between the Company and the shareholders.

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, at least 5 days in advance, 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 Regulation 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 noted urgency, may excuse the attendance of that majority if their participation 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 the 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 2016, the current Board of Directors met 7 times in person and the presence of the members was as follows:

	Board of Directors	Executive Committee	Non-executive Directors	Attendance of meetings of the Board of Directors
Jorge de Brito Pereira	Chairman	---	X	7 P
Miguel Almeida	Vice-Chairman	Chairman	---	7 P
José Pedro Pereira da Costa	Member	Vice-Chairman	---	7 P
Ana Paula Marques	Member	Member	---	7 P
André Almeida* ¹	Member	Member	---	4 P and 1 R
Manuel Ramalho Eanes	Member	Member	---	7 P
Jorge Graça* ²	Member	Member	---	5 P
Ângelo Paupério	Member	---	X	7 P
António Lobo Xavier	Member	---	X	6 P e 1 A
António Domingues* ³	Member	---	X	3 P e 2 R
Catarina Tavira	Member	---	X	4 P, 2 R e 1 A
Fernando Martorell* ⁴	Member	---	X	2 P
Isabel dos Santos* ⁵	Member	---	X	5 PR
Joaquim Oliveira	Member	---	X	6 P e 1 R
Lorena Fernandes	Member	---	X	7 P
Maria Cláudia Azevedo	Member	---	X	6 P e 1 R
Mário Leite da Silva	Member	---	X	5 P e 2 R
João Dolores* ⁶	Member	---	X	5 P

P - Present R - Represented A - Absent

* 1 Under article 400(1) (b) of the CSC, the Supervisory Board accepted André Almeida suspension request, with effect from 1 October 2016, lasting 6 months.

* 2 Elected at the 26 April 2016 General meeting for three-year period 2016 – 2018 and, for that reason, did not attend the first two meetings of the year.

* 3 Under article 404 (2) of the CSC, and since an election or appointment of an alternate director did not take place, the resignation of António Domingues took effect on 30 September 2016.

* 4 The term ended on 31 dezember 2015 and stayed in office until 26 April 2016.

* 5 Under article 404 (2) of the CSC, and since an election or appointment of an alternate director did not take place, the resignation of Isabel dos Santos, took effect on 30 July 2016.

* 6 Elected at the 26 April 2016 General Meeting for three-year period 2016 – 2018 and, for that reason, did not attend the first two meetings of the year.

Possible absences of the Directors, consecutive or not, were always 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).

The Board of Directors, at the begining of the new term of office corresponding to the three-year period 2016/2018, from 26 April 2016 to 31 December 2018, 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, notably 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 two Members, who are:

Chairman: Ângelo Paupério

Member: Mário Leite da Silva

Member: 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-defined, 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 better 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 26 April 2016, 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 2016/2018.

In compliance with the applicable legal or regulatory requirements – always with merely ancillary duties and the resolutions to be taken only by the Board of Directors – NOS Board of Directors created, in addition to the Executive Committee:

- a. A Corporate Governance Committee;
- b. An Audit and Finance Committee;
- c. An Appointment and Evaluation Committee;
- d. An Ethics Committee.

The Corporate Governance, Audit and Finance and Appointment and Evaluation committees as well as the **Ethics Committee have operating regulations, available for consultation on the Company's website.**

28. Composition of the Executive Committee

The Board of Directors of NOS, at its meeting on 26 April 2016, 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 2016/2018.

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.

The Executive Committee is composed by the Chairman, the Vice-Chairman and 4 members, whose professional profiles ensure their recognised reputation 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, refer 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 notably 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 may not 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, as detailed in item 21 of this Report, where an informative table presents the composition of the Executive Committee as well as the respective allocation of powers.

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 Regulation of the Board of Directors and in the Regulation 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 (notably, pursuant to Regulation 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 allow the flow of information among the executive members and the members of other corporate 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 quarterly 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 26 April 2016, the Board of Directors, in the pursuit of best corporate governance practices and in compliance with the CMVM Recommendations, concerning the need 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, for the three-year period of 2016/2018, a Corporate Governance Committee (CGC), made up of a Chairman and four Members:

Chairman: António Lobo Xavier

Member: Jorge Brito Pereira

Member: Lorena Fernandes

Member: 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 the applicable legal and regulatory provisions as well as **those of the Articles of Association's , 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 operation 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 26 April 2016, the Board of Directors, in the pursuit of best corporate governance practices, created for the three-year period of 2016/2018, an Audit and Finance Committee (AFC), made up of a Chairman and five Members:

Chairman: António Domingues

Member: Ângelo Paupério

Member: Jorge Brito Pereira

Member: Catarina Tavira

Member: Mário Leite da Silva

Member: João Dolores

Subsequently, following the resignation of Mr. António Domingues as member of the Board of Directors as well as Chairman of the Audit and Finance Committee which, under article 404(2) of the CSC, took effect from 30 September 2016, the Board of Directors on 7 November 2016 resolved to appoint Mr. Mário Leite da Silva to fill in the vacant Chairman position. The Audit and Finance Committee is composed accordingly as follows:

Chairman: Mário Leite da Silva

Member: Ângelo Paupério

Member: Jorge Brito Pereira

Member: Catarina Tavira

Member: João Dolores

The powers of the AFC are the following:

- a) **to follow the Executive Board's activities;**
- b) to review and examine, at the end of the year, the NOS Group Budget for the following year;
- c) to review and examine, at the end of the year, the NOS Group strategic plan;
- d) to review the annual, half-yearly, quarterly and similar financial statements to be published, and to report its findings to the Board of Directors;
- e) 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;

- f) to advise the Fiscal Board, on behalf of the Board of Directors, on the appointment, duties and remuneration of the External Auditor;
- g) 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;
- h) to review the scope of the Internal Audit and Risk Management functions, as well as their relationship with the work of the External Auditor;
- i) 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;
- j) **to supervise the Company's risk management policy, in connection with the Fiscal Board, regarding, notably, the risk control policies, the assessment of key risk indicators (KRI) and comprehensive risk evaluation;**
- k) to suggest to the Executive Committee **financial information internal control system's improvement measures;**
- l) to review, discuss and advise the Board of Directors on the accounting policies, criteria and practices adopted by the Company;
- m) to establish, execute and supervise the receipt and processing of the accounting complaints, the internal accounting and auditing controls;
- n) **to assess Company's communication proceedings regarding shareholders and investors;**
- o) **to acknowledge rating agencies reports concerning the Company's rating;**
- p) to issue a **binding opinion on profits' advancing during the year;**
- q) to review and issue a prior opinion on 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 Portuguese Securities Code (Related Parties).

The AFC shall meet at least four times a year and may additionally meet whenever convened by its Chairman or by any of its members.

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 in 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 Regulation.

The Regulation of the AFC is available for consultation on the Company's website.

Appointment and Evaluation Committee

As in the aforementioned committees, by resolution taken on 26 April 20116, the Board of Directors, created for the three-year period of 2016/2018, the 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:

Chairman: Ângelo Paupério

Member: Jorge Brito Pereira

Member: Mário Leite da Silva

The AEC is responsible in particular for the following:

- a) Assist the Board of Directors; when appointing Directors to be appointed by co-optation to join the **Company's Board of Directors**, under Article 393(3)(b) of the CSC;
- b) In its duties of assisting the Board of Directors, in the event of a vacancy in the Board of Directors or in the **Company's Executive Committee**, to draft, when asked, a reasoned opinion, identifying the people with the most suited profile to fulfill such vacancy, regarding the set of skills, knowledge and professional experience required to perform such tasks;
- c) Conducting the annual process of evaluation of the members of the Executive Committee, ensuring further harmonization with the Remuneration Committee;
- d) Within the annual process of evaluation of the members of the Executive Committee, propose to the Remuneration Committee the criteria which will be regarded when establishing the floating remuneration, namely the individual performing goals;
- e) Performing an overall evaluation of the Board of Directors and of its specialised committees existing within the Board of Directors;
- f) Whenever requested by the Board of Directors or by the Remuneration Committee, issue an opinion on the **Executive Committee's general remuneration policy, as well as on the floating remuneration programs based on the allocation of NOS' shares or stock options.**

Within its scope of activity, AEC must uphold the long-term interests of shareholders, investors and general public's.

The AEC meets whenever it is convened by initiative of its Chairman or by any of its members.

The resolutions taken by the AEC 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

Through the resolution adopted on 26 April 2016, the Board of Directors resolved, for the three-year period of 2016/2018, the incorporation of an Ethics Committee composed by a Chairman (Non-executive Director) and two Members (Executive Director in charge of Human Resources and the Chairman of the Fiscal Board) as follows:

Chairman: António Lobo Xavier

Member: Ana Paula Marques

Member: 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 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 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;
- **Under sustainability area's proposal and whenever deemed suitable**, making a review of the Code of Ethics and respective procedures concerning the needs of the Company and submit it for the approval of CGC;
- 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;
- Send to CGC, whenever relevant for the purposes of corporate governance, a report of the executed actions;
- Reporting and annually submit to the Board of Directors an activity report;
- 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 concerns related with the Code of Ethics and its compliance, presented by employees, partners, suppliers, customers or third parties, in person or in writing, by the email comitedeetica@nos.pt. The Ethics Committee also analyses the requests for clarification and concerns relating with possible breaches of the Code of Ethics.

The Ethics Committee meets whenever it is convened by initiative of its Chairman, or by any of its members and 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 the 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 or an Audit Firm;

Their duties correspond to those assigned by law.

31. Composition of the Fiscal Board

Fiscal Board

Pursuant to article 22(1) of the Company's Articles of Association, the Fiscal Board is made up of three 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 is considered a full year.

At the General Meeting, on 26 April 2016, the following members were elected as members of the Fiscal Board, for the three-year period of 2016/2018:

Chairman: Paulo Cardoso Correia da Mota Pinto

Member: Eugénio Luís Lopes Franco Ferreira

Member: Patrícia Andrea Bastos Teixeira Lopes Couto Viana

Alternate: Luís Filipe da Silva Ferreira

The Fiscal Board members were elected for the three-year period of 2016/2018; hence, their term of office ends on 31 December, 2018 (nonetheless, being kept in office until new election).

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 26 April 2016, the following were elected as full and alternate Statutory Auditors, to complete the current three-year period:

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 three-year period of 2016/2018; hence their term of office ends on 31 December 2018 (nonetheless, they may be kept in office until new election).

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.

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, 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. 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);
- 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;
- Corresponding member of the International Academy of Portuguese Culture, elected in 2012;
- A Member of Parliament, Chairman of the Parliamentary Budget and Finance Committee of the 11th Legislature, from November 2009 to April 2011, and Chairman of the European Affairs Committee, of the 12th Legislature, from June 2011 to October 2015;
- 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);
- 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.

Patrícia Andrea Bastos Teixeira Lopes Couto Viana

Qualifications:

- Ph.D. in Business Science from Universidade do Porto, Faculdade de Economia (FEP), 2007, **Doctoral Thesis regarding "Accounting for Financial Instruments. Empirical evidence from Europe";**
- **Master's in Business Science, with an expertise in Financing (FEP), 1999;**
- **Degree in Management (FEP), 1994 ("Fundação Eng. António de Almeida Award" for the graduate in Management from the Universidade do Porto, Faculdade de Economia, with the higher rank in 1994).**

Professional experience:

- Porto Business School Vice-Dean;
- Member of the Remuneration Committee of Caixa Geral de Depósitos;
- Auxiliar Professor at the Universidade do Porto, Faculdade de Economia;
- Chairman of the Fiscal Board of the Fundação Instituto Marques da Silva;
- Pro-Dean of Universidade do Porto, in charge of strategic planning and management (from April 2008 to April 2015);
- Former Member of the General Council INESC – TEC;
- Former Member of the Fiscal Board of the Fundação Ciência e Desenvolvimento;
- Former Member of the Board of UPTEC – Associação para o Desenvolvimento do Parque de Ciência e Tecnologia da Universidade do Porto;
- Former Director of the Instituto Mercado de Capitais da Euronext Lisboa from November 1999 to September 2002;
- Joined the Gabinete de Estudos e Desenvolvimento da BDP - Bolsa de Derivados do Porto, from September 1994 to November 1999;
- Former Member of INTACCT, european project on adoption of IAS/IFRS in the EU Member States;
- Author of several papers on national and international professional and academic magazines, regular speaker in conferences regarding IAS/IFRS adoption.

Eugénio Luís Lopes Franco Ferreira

Qualifications:

- Degree in Economics from the Universidade do Porto, Faculdade de Economia in 1976, where he taught as assistant Financial Mathematics on 1976/77. During his professional career, he had attended numerous training courses in several European countries and the United States.
- Member of the Portuguese Association of Economists and member of the Portuguese Institute of Corporate Governance. Em 2016 he voluntarily cancelled its membership on the Statutory Auditors Association and on the Certified Accountants Association.

Professional experience:

- Member of the Fiscal Board of Corticeira Amorim, SGPS, S.A.;
- Freelance consultant since 2009;
- 1977-2008: joined Price Waterhouse (PW), now PriceWaterhouseCoopers (PwC), on their Porto offices. Following a brief period on their Paris offices (1986), he became a Partner in 1991, and afterward was transferred to the Lisbon offices in 1996. Initially he joined the Auditing Department, and afterwards Transaction Services, taking part in numerous audits of companies and other entities and consultancy projects, notably in the area of transactions and company restructuring. As an auditor, the scope of his responsibilities mostly included the performance of duties as member of the Fiscal Board or as Statutory Auditor;

- 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");
- 1966-1976: he began his activity on a small car company, which was interrupted during 1971-1974 during the course of military service.

Luís Filipe da Silva Ferreira (Alternate)

Professional experience:

- He 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);
- Currently, he provides strategy and operations consulting services, in the areas in which he is specialized - Energy, Mobility, Utilities for both public and private sectors;
- He holds responsibilities on corporate bodies of Águas do Vouga, SA, Águas do Norte, S.A., Águas do Centro, S.A., Águas de Lisboa e Vale do Tejo, S.A., e Águas do Algarve, S.A.;
- 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;
- Participation in the innovation and development of products arising of social and civic saving projects;
- Through partnerships, develops business activities regarding business development in Portugal and Mozambique;
- 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;
- 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

The Fiscal Board, under its duties pursuant to the Articles of Association, approved a new version of the **Fiscal Board Regulation, on 22 September 2016, available for consultation on the Company's website.**

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 board of the General Meeting fails to do so;
- i) Supervising the process of preparation and disclosure of financial information and issue recommendations or proposals to assure its integrity;
- j) **Assist the supervision of the auditing of the Company's financial individual and consolidated statements, notably its execution, bearing in mind possible conclusion of Portuguese Securities Market Commission (CMVM);**

- 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) Appointing the statutory auditor or audit firm to propose to the General Meeting and reasonably recommend its preference, under article 16 of Regulation 537/2014 (EU), 16 April 2016;
- q) Supervising and assessing the independence of the Statutory Auditor, including obtaining written formal confirmations under Articles 63 and 78 of the Statutory Auditors Bar Statute, in particular to assess the suitability and to approve the provision of other services besides audit services, under Article 5 of Regulation 537/2017 (EU), 16 April 2014;
- r) Issuing a prior opinion on relevant business activities with qualifying shareholders, or entities with whom they are in any relationship, according to article 20 of the Portuguese Securities Code;
- s) Confirming whether the corporate governance report disclosed includes the information listed in article 245-A of the Portuguese Securities Code;
- t) Carrying out any other duties required by law or by the Articles of Association.

The Fiscal Board must also:

- a) **Supervise and issue its opinion on the Company's annual report and accounts, including, in particular, the scope, the process of preparation and disclosure as well as the accuracy and integrality of the accounting documents, and other financial information for which the law determines the involvement of the Fiscal Board;**
- b) Inform the Board of Directors on the legal audit results and explain the way it contributed to the integrity of the process of preparation and disclosure of the financial information, as well as the role the Fiscal Board played in such process;
- c) Whenever it deems appropriate, make a decision, in advance and in good time, and give a prior opinion, 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, notably the preliminary announcements of the quarterly accounts, 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 the 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 the following:

- 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 Board of Directors in which the annual accounts and the preliminary announcements of the quarterly 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 the 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.

In its functions, the Fiscal Board will be assisted by the General Secretary, Audit and Internal Control, Financial and Administrative Department and may ask the Board of Directors, when deemed necessary, the occasional cooperation of one or more of its members within their expertises for information release and execution of tasks regarding the reasoning of its analysis and conclusions.

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 2016, the Fiscal Board met 8 times in person and once via telematics means. Concerning the meetings in person, the presence of the members was as follows:

Attendance at the meetings of the Audit Committee	
Paulo Cardoso Correia da Mota Pinto	8/8 P
Eugénio Luís Lopes Franco Ferreira	8/8 P
Nuno Tiago Bandeira de Sousa Pereira *1	3/3 P
Patrícia Teixeira Lopes *2	5/5 P

P - Present

* 1 The term ended on 31 December 2015, having remained in office until 26 April 2016 and attending every meeting while a member of this board.

* 2 Elected on 26 April 2016 at General Meeting for the three-year period 2016-2018, attending every meeting following its election

The Fiscal Board meeting via telematics means under article 410(8) (applicable by virtue of article 423(1)) of the CSC and under article 6(6) of the Regulations of the Fiscal Board, occurred on 30 March 2016 and went on with all the Fiscal Board members, at the time.

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:

- 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 22 September 2016 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 several adudit services ("Non Audit") 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 Regulation for Services Rendered by External Auditors, approved on September 2016 by the Fiscal Board, the provision of non audit services by the External Auditor, requires prior approval and authorization of the Fiscal Board.

Despite of its occurrence after the end of the financial year covered this report, it should be noted that on 17 January 2017 the Fiscal Board approved a new version of the Regulation on the Service Provisions by External Auditors which determined, among other amendments, in addition to the provision of the Non Audit Services by the External Auditor requiring the prior approval and authorization of the Fiscal Board the provision of audit related services also requires such prior approval and authorization. Moreover, the new version determined **that the annual fees of diverse audit services ("Non Audit") cannot exceed the amount corresponding to 30% of the total fees for auditing services ("Audit" and "Non audit") provided annually to the company and its subsidiaries, included in the consolidation perimeter using the full consolidation method**

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 qualifying 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 report and accounts, including, in particular, the scope, the process of preparation and disclosure as well as the accuracy and integrality of the accounting documents, and other financial information for which the law determines the involvement of the Fiscal Board;**
- Informs the board of directors of the legal audit results and explains the way it helped to assess the integrity of the preparation and disclosure of the financial information process, as well as the role which the Fiscal Board played in such process; and

- Whenever it deems appropriate, 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, notably the preliminary announcements of the quarterly accounts, or submitted by the Company to any competent supervisory authority.

IV. 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 26 April 2016, the following were elected as full and alternate Statutory Auditors for the three-year period 2016/2018:

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

The Statutory Auditors, full and alternate, were elected for the first time on the 23 April 2014 General Meeting, to fulfil the term concerning 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 2016, Ernst & Young Audit & Associados, SROC, SA, also played the functions of External Auditor of the Company.

V. 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 2016, 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

Pursuant 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 for the first time in the Board of Directors' Meeting on 24 March 2014.

Thus, the current External Auditor and the respective partner started their functions at the Company in 2014.

44. Rotation of the External Auditor and partner

Pursuant to the Regulations of the AFC, the 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, with the new Statutory Audit Bar Statute (EOROC), approved by Law no. 140/2015, 7 September, and with the Audit Supervision Framework (RJSA), approved by Law no. 148/2015, 9 September.

45. Body responsible for assessment of the External Auditor and periodicity

In light 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, in December 2014 and January and September 2016 and January 2017, the Fiscal Board, respectively approved and updated 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 regulation, the hiring of non-audit or audit-related services must be previously approved by the Fiscal Board. 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.

No non-audit services were hired in 2016 by NOS or its Group companies.

47. Remuneration paid to the Auditor and its network

In 2016, 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		
		%	%	%	%	
Statutory audit and other auditing services	53,310	96%	139,032	97%	192,342	97%
Other reliability assurance services	2,500	4%	4,100	3%	6,600	3%
Auditing services	55,810	100%	143,132	100%	198,942	100%
Tax advisory services	-	0%	-	0%	-	0%
Other services	-	0%	-	0%	-	0%
NOS	55,810	100%	143,132	100%	198,942	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. In 2016, the auditing services represented 100% 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 in 2014, ensuring the compliance with the Recommendation IV.3 of the CMVM Corporate Governance Code (2013), with the Articles of Association of the Association of Chartered Accountants (*Estatuto da Ordem dos Revisores Oficiais de Contas - EOROC*), approved by Law no. 140/2015, of 7 September.

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 depends 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 the 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) and (4) of the 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, 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 concludes 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. Whilst performing their** duties, carried out in the public interest, the external auditor is responsible for verifying the accounts of the Company and for the respective issue of the legal certification of accounts and of an audit report, among other duties.

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 system, the implementation management of the certification to ISO20000 – Service management system, 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 endow the organization of adapted procedures and the respective internal controls which will allow for the risk management. They also ensure 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 and information systems 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.

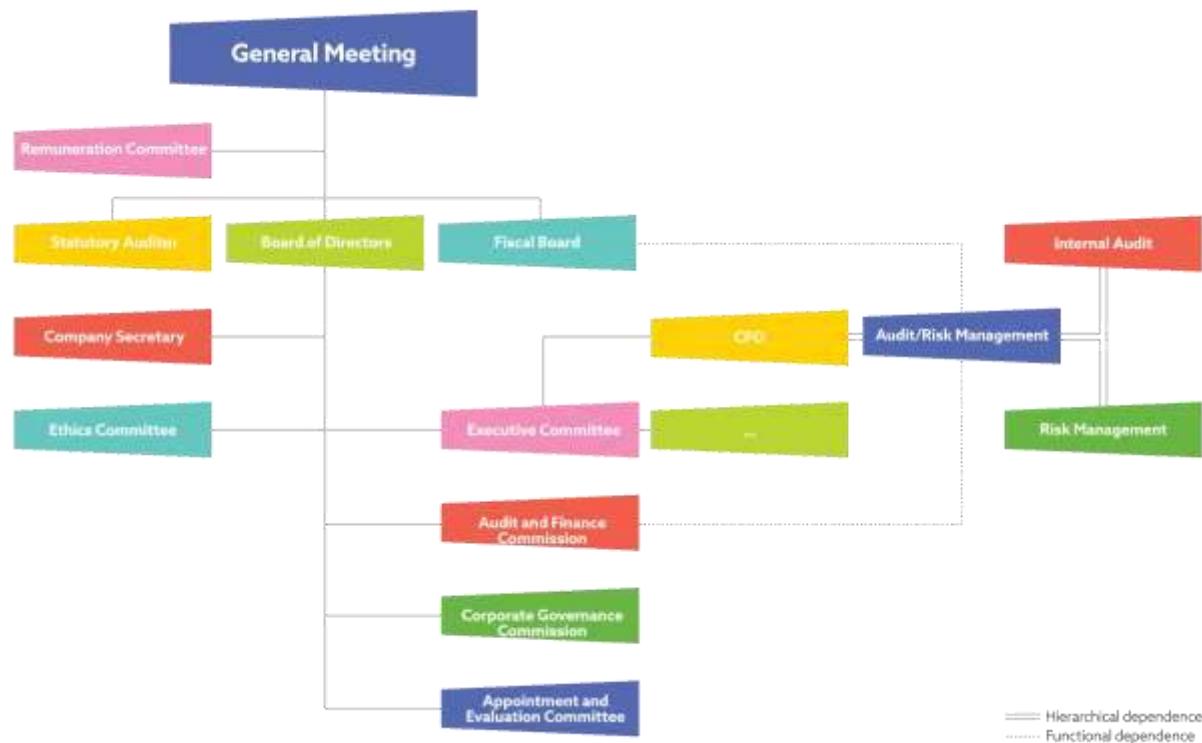
In accordance with good international practices, the Internal Auditing and Risk Management teams have the majority of their staff certified in audit norms and risk management methods, involving in total more 30 certifications. These include the *Certified Internal Auditor* (CIA), the *Certified in Control Self Assessment* (CCSA), the *Certified Information System Auditor* (CISA), the *ISO 27001 ISMS Lead Auditor*, *Certified Fraud Examiner* (CFE), the *ISO 31000 Lead Risk Manager*, the *Certified Continuity Manager* (CCM), the *Associated Business Continuity Professional* (ABCP), *ISO 22301 BCMS Lead Implementer*, the *Certified Information System Security Manager* (CISM), the *Certified Information System Security Professional* (CISSP), the *ISO 27001 ISMS Lead Implementer*, the *Certified in Risk and Information Systems Control* (CRISC), the *Certified in the Governance of Enterprise IT* (CGEIT), 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 evidenced;
- The different areas of business have processes and indicators to monitor operations and KPIs;
- 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 the communications business;

- The technical areas, including Networks and Information Systems, 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 biannually, on average. In these cycles the major risks are reviewed and prioritised, updating them and subjecting them to an evaluation 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, identified within the scope of NOS BRM, and the corresponding strategies that have been adopted for their management will now be described.

Economic risks

- Economic Environment - The Company is still, although in a lower degree, exposed to the challenging social and economic environment experienced in Portugal during the last years and consequently to a general reduction in consumption. In this context, there is a risk of the market share, in clients and/or revenue, may 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 have been helping the increase of clients and counter the drop in revenue visible in the Portuguese telecommunications market until the end of 2016. NOS has also been paying attention to the identification of other 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, distinctiveness and innovation for the products and services provided, as well as in its protection from competition, diversification of supply, combination of offers related with different businesses of NOS and the strengthening of the portfolio of broadcasting rights and

the respective provision of contents as well as the constant monitoring of customer preferences and/or needs. In addition, the synergies and complementarities resulting from the process of operational integration of the companies that led to the current composition of NOS Group has been a structuring factor to mitigate the risk of competition in the communication business and they have been allowing the growth acceleration in several segments of clients, particularly the attainment of major clients in the business segment and for the strong increase of share in mobile phone clients. These factors also allow the reinforcement of the competitive position of NOS Group before the eventual movements of consolidation or acquisition in the industry of electronic communication by the competitors.

- **Technological Innovation** – This risk is associated with the need for investment in increasingly competitive services (multimedia services, messaging services, multiplatform TV services, cloud services, infrastructure and information technology services, etc.), which are subject not only to accelerated changes in technology but also to the actions of the players which act outside of the traditional communications market, like the OTT (over-the-top players) Operators. 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. NOS has also been developing the coordination with external official entities for catastrophic scenarios, critical infrastructure protection and communication in crisis, including the cooperation with the National Authority for Civil Protection.

- 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 security risks, such as availability, integrity, confidentiality and privacy. Just like other operators, NOS is increasingly exposed to cybersecurity risks, related to external threats to the electronic communications networks and to the surrounding cyberspace. 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, 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, as well as through communication and sensitization actions and holding of specialized training internal courses on security and privacy. 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 NOS Sistemas (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 communications 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 GSMA Association (GSMA), including the GSMA Fraud Forum and the GSMA Security Group.

- Revenue and Cost Assurance (Enterprise Business Assurance) - Electronic communications 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 integrity (underinvoicing or overinvoicing) 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 external 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 electronic communications business, subject to the abovementioned specific rules, as well as new regulations (examples: pre-contractual and contractual information within electronic communications, safety and integrity of **networks and electronic communications services, etc...**) mainly imposed by the sector regulator ANACOM (National Communications Authority). On an European level there are also regulations that have a relevant effect on the market, notably those measures established under the strategy of the Digital Single Market, including reviewing directives that transversely affect business (examples: audiovisual services, **e-commerce, etc...**), **the effectiveness of new regulations on access and connectivity** (examples: elimination of roaming charges, net neutrality protection, etc.), the new directives and specific regulations on cybersecurity and privacy (examples: safety of networks and information, personal data protection, electronic communication safety, etc.) and, mostly, the future of European Electronic Communications Code, which intends to hold in a single document the main leading regulations on the electronic communications market (examples: spectrum, 5G implementation, universal service, level playing field OTT, consumer protection, and governance of national and European authorities, etc.). 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 communications 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 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 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 also 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.



Risk Management Cycle
(ERM - Enterprise Risk Management)

In line with this general methodology, the management and control of risks are achieved using the main approaches and methods presented below:

Enterprise Risk Management (ERM)

Approach: 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.

Method: 1. Identify and assess business risks >> 2. Explore risks and identify causes >> 3. Measure triggers >> 4. Manage risks >> 5. Monitor risks

Business Continuity Management (BCM)

Approach: 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**.

Method: 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

Information Security Management (ISM)

Approach: 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.

Method: 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, proactive 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 in the Annexes of the financial statements notably on the section regarding accountancy Policies, 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;
- The relationship between the risks and headings in the financial statements is considered in order to assess the impact on them as a result of fluctuations in risk levels.
- Indexing is maintained between 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 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 shall prepare, for the most significant situations, 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 Annexes of 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 Annexes of 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;
- Review and improvement of design of controls – These include the review of the procedures of control and the strengthening of business cycles and financial flows with levels of relevant materiality, to improve the control environment and the control and perception of current risks (operational and financial). This reinforcement includes the creation of an aggregating vision of the life cycles of the assets or the associated financial flows, as well as the respective processes and systems that support them.

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).

In the Annexes of 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, notably on the section regarding accountancy Policies.

IV. Investor Information

56. Department responsible for investor information

The Investor Relations Department aims at ensuring the 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 and remaining stakeholders can access this information

on the Company's website (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 2016, the main Investor Relations events were:

DATE	FORMAT	LOCATION
13 January	Roadshow	Lisbon
14 January	Haitong Iberian Conference	London
21/22 January	Roadshow	NY
28/29 January	Roadshow	London
03 March	Roadshow	Geneva
15/16 March	Citigroup European and Emerging Telecoms Conference	London
07 April	29th ESN European Conference	Paris
03 May	Roadshow	Madrid
05 May	Roadshow	Lisbon
11 May	Roadshow	Paris
12/13 May	Roadshow	London
18 May	UBS Pan European Small & Mid-Cap Conference	London
24 May	Berenberg European Conference USA 2016	NY
25 May	Roadshow	Chicago
07/08 June	Euronext Pan European Days	NY
1/2 September	Credit Suisse Conference	London
6 September	Barclays TMT Forum	London
9 September	BPI Iberian Conference	Porto
13 September	BBVA Iberian Conference	London
20 September	Goldman Sachs Communacopia	NY
16/17 November	Morgan Stanley TMT Conference	Barcelona

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

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 2016, 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 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 the Annual General Meeting, on 26 April 2016, a Remuneration Committee was appointed for the three-year period 2016/2018.

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 2016, was the following:

Chairman: Ângelo Paupério

Member: Mário 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 2016, the Remuneration Committee did not engage any services to support the performance of its duties.

The Remuneration Committee met 3 times in 2016, 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 26 April 2016**, in compliance with article 2 of Law no. 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 allocation plans.

The components of NOS compensation scheme for Executive Directors are in line with practices in other comparable companies.

The variable remuneration associated with the achievement of management goals is applied through the following components: Profit Sharing and Share Allocation Plan.

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 –Profit Sharing 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 2016, Telecommunications Market Share Revenues, EBITDA ("Earnings Before Interest, Taxes, Depreciation and Amortization"), Free Cash after interest and taxes and before dividends and Financial Investments and Acquisition of Treasury Stock aggregates have been considered.

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 Profit Sharing, 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, during the course of 2016, the plans of the companies prior to the merger were in force: one called "Senior Executive", another called "Standard", and the Optimus and Mainroad Plans. In other words, it was still possible, after the merger, to deliver these shares under these plans.

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 deferred in time *de facto* (the Share Allocation Plans approved at the General Meeting on 23 April 2014 and the Senior Executive, Standard plans and the Optimus and Mainroad Plans), the Remuneration Committee limited, regarding the executive members, 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 (irrespectively 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 was deferred for three years and its payment will 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.

75. Annual bonuses and other non-cash benefits

In 2016, no significant other non-cash benefits were given.

76. Supplementary pension or retirement schemes

There are neither supplementary pensions nor early retirement schemes for Directors.

IV. Disclosure of remunerations

77. Remuneration of directors

During the course of 2016, the Directors' remuneration was as follows:

NAME	FIXED REMUNERATION	COMPANY'S PROFIT SHARING	TOTAL
EXECUTIVE DIRECTORS			
MIGUEL NUNO SANTOS ALMEIDA	549,150	327,003	876,153
JOSE PEDRO FARIA PEREIRA DA COSTA	419,558	239,642	659,200
ANA PAULA GARRIDO PINA MARQUES	312,755	185,067	497,822
ANDRE NUNO MALHEIRO DOS SANTOS ALMEIDA (1)	237,309	120,938	358,247
MANUEL ANTONIO PORTUGAL RAMALHO EANES	312,755	185,067	497,822
JORGE FILIPE PINTO SEQUEIRA DOS SANTOS GRACA (2)	214,796	128,293	343,089
NON-EXECUTIVE DIRECTORS			
JORGE MANUEL DE BRITO PEREIRA	134,558	-	134,558
ANGELO GABRIEL RIBEIRINHO SANTOS PAUPERIO	73,639	-	73,639
ANTONIO DOMINGUES (3)	39,800	-	39,800
ANTONIO BERNARDO ARANHA GAMA LOBO XAVIER	55,918	-	55,918
CATARINA EUFEMIA AMORIM DA LUZ TAVIRA	52,279	-	52,279
FERNANDO FORTUNY MARTORELL (4)	16,375	-	16,375
ISABEL JOSE DOS SANTOS (5)	27,996	-	27,996
JOAQUIM FRANCISCO ALVES FERREIRA DE OLIVEIRA	52,279	-	52,279
JOAO PEDRO MAGALHAES DA SILVA TORRES DOLORES (6)	41,637	-	41,637
LORENA SOLANGE FERNANDES DA SILVA FERNANDES	52,279	-	52,279
MARIA CLAUDIA TEIXEIRA AZEVEDO	52,279	-	52,279
MARIO FILIPE MOREIRA LEITE DA SILVA	73,639	-	73,639
	2,719,001	1,186,010	3,905,011

(1) Executive director whose term was suspended from 1 October, for a period of 6 months.

(2) Executive director nominated on 26 Abril 2016.

(3) Non-executive director resigned on 30 September 2016.

(4) Non-executive director resigned on 26 April 2016.

(5) Non-executive director resigned on 31 July 2016.

(6) Non-executive director nominated on 26 April 2016.

The amounts shown in the table above were calculated on an accruals basis.

Additionaly and regarding the performance during the financial year of 2016, rights will be allocated under NOS 2016-2019 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 estimated⁽¹⁾ number of shares to be given to each Director is detailed below:

NAME	NR OF SHARES
EXECUTIVE DIRECTORS	
MIGUEL NUNO SANTOS ALMEIDA	67,197
JOSE PEDRO FARIA PEREIRA DA COSTA	49,697
ANA PAULA GARRIDO PINA MARQUES	38,030
ANDRE NUNO MALHEIRO DOS SANTOS ALMEIDA	28,551
MANUEL ANTONIO PORTUGAL RAMALHO EANES	38,030
JORGE FILIPE PINTO SEQUEIRA DOS SANTOS GRACA	26,363
	247,868

(1) The final number of shares to be allocated will be calculated based on the average closing price in the 15 sessions prior to 31 March or before the resolution of the Remuneration Committee.

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 2016 performance, including the Company's profit sharing or the payment of other components of the variable remuneration, are described in item 77.

80. Compensation to former executive Directors

In 2016, 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 2016, was as follows:

NAME	FIXED REMUNERATION
FISCAL BOARD	
PAULO CARDOSO CORREIA DA MOTA PINTO	60,000
EUGENIO LUIZ LOPES FRANCO FERREIRA	30,000
NUNO TIAGO BANDEIRA DE SOUSA PEREIRA (1)	9,643
PATRICIA ANDREA BASTOS TEIXEIRA LOPES COUTO VIANA (2)	20,476
	120,119

(1) Term ended on 31 December 2015, remained in Office until 26 April 2016.

(2) Appointed at the General Meeting of 26 April 2016 for the three-year period of 2016-2018.

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 2016, was as follows:

NAME	FIXED REMUNERATION
BOARD OF THE COMPANY'S GENERAL MEETING	
PEDRO CANASTRA DE AZEVEDO MAIA	18,000
TIAGO ANTUNES DA CUNHA FERREIRA DE 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 Regulation, 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 at the Company's **website**.

Through the Share Allocation Plan a number of shares will be allocated, which 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 **"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 to the executive members, 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 allocation 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 Executives" Share Plan

Share allocation plan and/or options aimed at employees, qualified 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 vesting period for the shares in this plan is three years from the allocation date, meaning that its actual delivery, and consequent availability, will only occur after 3 years from its allocation.

The vesting of the allocated shares to the executive members of NOS, under this plan, besides the deferral of 3 years, is conditioned upon 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. 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 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. The specific number of shares to be given will be, therefore, the result of the division of the value provided by the average closing price in the 15 trading sessions prior to the Executive Committee 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. The final amount depends on the overall success of the Company during this 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 2016, the plans that allow the delivery of shares are the following:

	NUMBER OF SHARES
STANDARD PLAN	
Plan 2012	59,997
Plan 2013	120,070
MAINROAD PLAN	
Plan 2014	41,958
NOS PLAN	
Plan 2014	880,134
Plan 2015	674,491
Plan 2016	748,389

During the financial year ended on 31 December 2016, the movements under the Plans are detailed as follows:

	SENIOR PLAN	STANDARD PLAN	OPTIMUS PLAN	MAINROAD PLAN	NOS PLAN
BALANCE AS AT 31 DECEMBER 2015:	163,909	376,269	1,171,594	132,606	1,537,786
MOVEMENTS IN THE PERIOD:					
Awarded	-	-	-	-	757,636
Vested	(116,823)	(186,455)	(1,079,349)	(91,766)	(57,449)
Cancelled / elapsed / corrected (1)	(47,086)	(9,747)	(92,245)	1,118	65,041
BALANCE AS AT 30 SEPTEMBER 2016:	-	180,067	-	41,958	2,303,014

⁽¹⁾ It mainly includes corrections introduced by virtue of the dividend paid, shares related to plans exceptionally settled in cash and shares related with termination of relationships with collaborators, not benefitting from the vesting of the shares.

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 and at the date of acquisition, respectively (time of the conversion of the Sonaecom share plans into NOS shares). As at 31 December 2016, liabilities for these plans are 6,317 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 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 executive members 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 them 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 3(g) of its regulations determines that, its powers include, in particular, the power to analyse and issue its prior opinion on the 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)(r) of the Regulations of the Fiscal Board, this body is responsible, in particular, for issuing a prior opinion on relevant business activities with qualifying 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 laid 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 e 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 lays 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 related with 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/Recomendacao/Recomendacoes/Documents/C%C3%B3digo%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 245A 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, as at 31 December 2016; 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.	NA	NA	

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.	NA	NA
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
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:	Adopted	Number 18
a. Having been an employee at the company or at a company holding a controlling or group relationship within the last three years;		
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;		
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;		
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;		
e. Being a qualifying shareholder or representative of a qualifying shareholder.		
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.	Adopted	Number 18

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.	Adopted	Numbers 18, 28
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.	NA	NA
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 I.4; II.1.3; II.1.10; II.3.5 of the aforementioned code, which it deems not to be applicable.



Rua Actor António Silva
nº9, Campo Grande
1600-404 Lisboa
www.nos.pt/ir