



Consolidated Management Report 1H17



1H17

Highlights

4

Governing

Bodies

6

Management

Report

7

Capital Markets

7

Business Review

13

Consolidated Financial Review

18

Risks and Uncertainties for Future Periods

26

Consolidated Financial

Statements

32

1H17 Highlights

1H17 Highlights	1H16	1H17	1H17 / 1H16
Financial Highlights			
Operating Revenues	743.1	769.4	3.5%
Telco Revenues	710.4	731.8	3.0%
EBITDA	286.5	300.3	4.8%
EBITDA Margin	38.6%	39.0%	0.5pp
Net Income Before Associates & Non-Controlling Interests	60.6	63.3	4.4%
Net Income	50.9	71.8	41.1%
EBITDA - Total CAPEX	90.5	127.5	41.0%
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	23.9	102.1	n.a.
Operational Highlights (EoP)			
Total RGUs	8,746.4	9,254.3	5.8%
Mobile	4,270.3	4,549.1	6.5%
Pay TV	1,574.4	1,613.3	2.5%
Fixed Voice	1,665.0	1,751.1	5.2%
Broadband	1,206.4	1,308.0	8.4%
Convergent RGUs	3,155.6	3,585.9	13.6%
Convergent Customers	644.0	710.8	10.4%
Convergent Customers as % of Fixed Access Customers	44.4%	47.1%	2.7pp
Residential ARPU / Unique Subscriber With Fixed Access (Euros)	43.4	44.4	2.3%
Operational Highlights (Net Adds)			
Total RGUs	281.6	177.5	(37.0%)
Mobile	147.2	93.4	(36.6%)
Pay TV	30.6	12.7	(58.3%)
Fixed Voice	41.7	26.4	(36.6%)
Broadband	61.7	43.4	(29.6%)
Convergent RGUs	301.8	198.7	(34.2%)
Convergent Customers	53.1	30.6	(42.4%)

Strong year over year Revenue and Cash Flow growth in 1H17 led by solid operational performance with growth still coming through in core RGUs;

- + 177.5 thousand **RGU** net adds of which:
 - + 12.7 thousand pay TV, +16.7 thousand fixed, -4.0 thousand DTH;
 - + 26.4 thousand fixed voice;
 - + 43.4 thousand fixed broadband;
 - + 93.4 thousand mobile.
- + 3.5% growth in Consolidated **Revenues**; 769.4 million euros
- +4.8% growth in Consolidated **EBITDA**; 300.3 million euros
- + 41.1% yoy in **Net Income**; 71.8 million euros
- + 41% **EBITDA–CAPEX**; 127.5 million euros
- **Free Cash Flow Before Dividends, Financial Investments and Own Shares Acquisition**; 102.1 million euros; +4.3x
- Consolidated **CAPEX** – 11.9%; 172.8 million euros

Governing Bodies

As at the date of this report, 20 July 2017, NOS' Governing Bodies had the following composition:

Board of Directors

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

Fiscal Board

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

Officials of the General Meeting of Shareholders

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

Statutory Auditor

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

Management Report

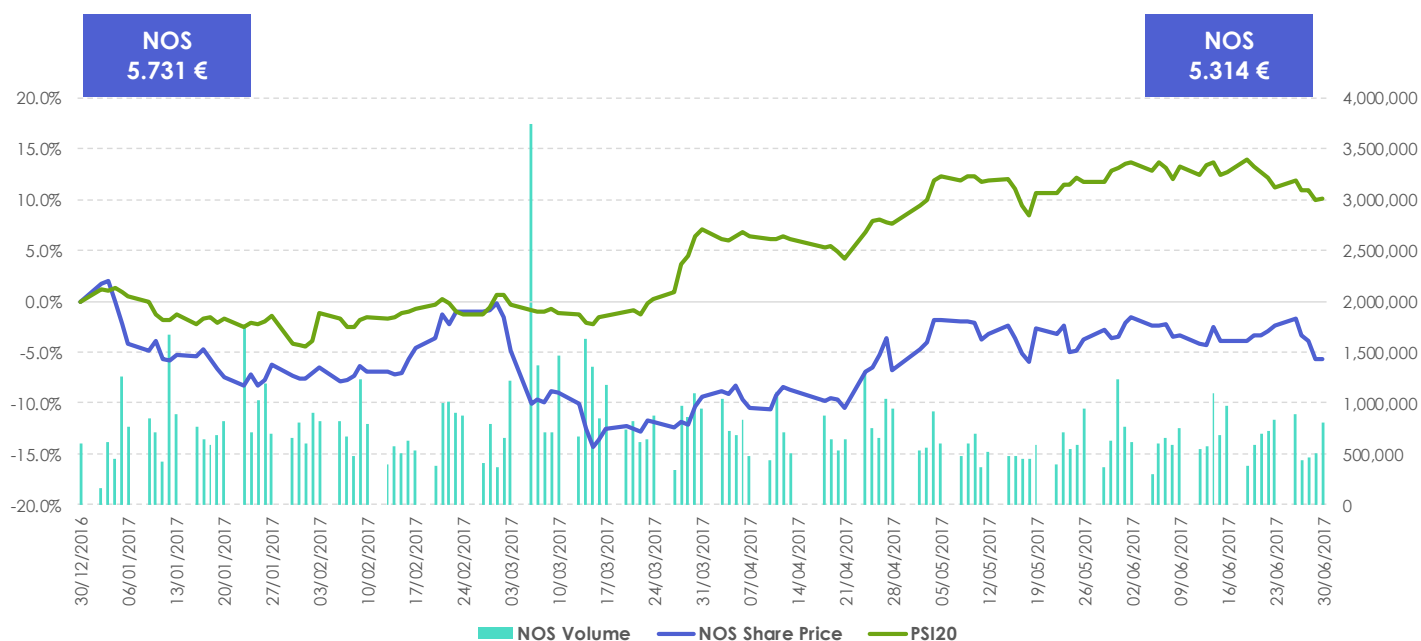
Capital Markets

NOS' Share Performance

On 30 June 2017, the close price of NOS' shares was 5.314 euros, which represents a 5.7% decline since the beginning of the year, and which compares with a 10.1% improvement of the main Portuguese share index, PSI20.

Taking into account the payment of a dividend of 0.20 euros per share, which took place on 26 May 2017, NOS' Total Shareholder Return in 1H17 amounted to -2.2%.

In 1H17 more than 97.7 million NOS shares were traded, which translates to an average daily volume of 769.7 thousand shares per market session.



As such, the daily average volume of NOS in 1H17 represents 0.15% of its total number of shares outstanding.

The highest price at which NOS shares were traded this semester was 5.816 euros (on 3 January 2017), while their lowest trade price was 4.771 euros (on 16 March 2017).

As previously mentioned, the main Portuguese share index, PSI20, posted in 1H17 an increase of 10.1%. Additionally, the Spanish index, IBEX35, increased by 11.7%. FTSE100 (United Kingdom) posted an increase of 2.4%, while other main European indexes had a slightly less positive performance than PSI20, with CAC40 (France) and DAX (Germany) improving by 5.3% and 7.4%, respectively, during 1H17.

1H17 Market Announcements

Below we present the major Investor Relation Events which took place in 1H17. The activity developed by the Investor Relations Office also provides permanent and updated information to the financial community about the activities of NOS, through regular press releases, presentations and communications on the quarterly, half-yearly and annual results, as well as any other relevant events that may occur.

19 January	NOS informs on Qualified Shareholding of Blackrock Inc.
02 March	NOS informs on FY16 Earnings Announcement
03 March	NOS informs on FY16 Earnings Presentation
07 March	NOS informs on co-optation of Member of the Board of Directors
27 March	NOS informs on 2016 Annual Report
27 March	NOS informs on General Shareholders Meeting
31 March	NOS informs on shares vested to Board Members and employees of the NOS Group
12 April	NOS informs on Qualified Shareholding of MFS Investment Management
18 April	NOS informs on Qualified Shareholding of Citadel GP LLC
27 April	NOS informs on 1Q17 Consolidated Results
27 April	NOS informs on calendar for dividend payment
27 April	NOS informs on Shareholders' Meeting Deliberations
28 April	NOS informs on 1Q17 Results Presentation
11 May	NOS informs on Qualified Shareholding of Lancaster Investment Management LLP
23 May	NOS informs on Qualified Shareholding of Citadel GP LLC
26 May	NOS informs on 1Q17 Consolidated Management Report
29 June	NOS informs on co-optation of Member of the Board of Directors

1H17 Main Investor Relations Events

It also provides all clarifications to the financial community in general - shareholders, investors (both institutional and retail) and analysts, also assisting and supporting the exercise of the shareholders rights. The Investor Relations Office promotes regular meetings of the executive management team with the financial community through the participation in specialized conferences, roadshows, both in Portugal or in major international financial centers, and often meets with investors who visit Portugal.

12 January	Haitong Iberian Conference in London
02 February	Santander Iberian Conference in Madrid
09/10 March	Roadshow in London
16 March	Roadshow in Madrid
22 March	Citigroup Telecoms Conference in London
30/31 March	Roadshow in Paris
24/25 May	Roadshow in NY
01 June	Berenberg TMT Conference in Zurich
02 June	Roadshow in Dublin
26 June	Roadshow in London

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

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

Rua Actor António Silva, nº 9

1600-404 Lisboa

Ph. / Fax: +(351) 21 782 47 25 / +(351) 21 782 47 35

E-mail: ir@nos.pt

Governing Bodies Shareholdings

Under the terms and for the purposes of Article 9, Paragraph a) and numbers 6 and 7 of Article 14 of CMVM Regulation 5/2008, and according to the information provided to the Company by the Governing Bodies, NOS hereby informs on the shareholdings of the members of its Governing Bodies, including the Audit and Finance Committee and the Alternate and In Office Statutory Auditors, at 30 June 2017:

Name	Position/Job	Shares				
		Balance 31-12-2016	1H17 Transactions			Balance 30-06-2017
			Acquisitions *	Disposals	Unit Price *	Date
Jorge Manuel de Brito Pereira	Chairman of the Board of Directors	0	-	-	-	-
Miguel Nuno Santos Almeida	Chairman of the Executive Committee	21,025	18,000	-	5.413 €	04/05/2017
José Pedro Faria Pereira da Costa	Executive Member	117,392	18,327	-	5.413 €	04/05/2017
			-	18,327	5.500 €	04/05/2017
Manuel Ramalho Eanes	Executive Member	0	10,501	-	5.413 €	04/05/2017
			-	10,501	**	05/05/2017
André Nuno Malheiro dos Santos Almeida	Executive Member	15,603	10,930	-	5.413 €	04/05/2017
Ana Paula Garrido de Pina Marques	Executive Member	7,709	10,501	-	5.413 €	04/05/2017
Cônjuge		11,206	6,435	-	5.413 €	04/05/2017
Luís Moutinho do Nascimento ⁽¹⁾	Executive Member	80	-	-	-	-
Jorge Filipe Pinto Sequeira dos Santos Graça	Executive Member	13,716	4,706	-	5.413 €	04/05/2017
			-	18,422	**	05/05/2017
Ângelo Gabriel Ribeirinho dos Santos Paupério ⁽²⁾	Non-executive Member	0	-	-	-	-
ZOPT, SGPS, SA		268,644,537				
António Domingues	Non-executive Member	0	-	-	-	-
António Bernardo Aranha da Gama Lobo Xavier ⁽³⁾	Non-executive Member	0	-	-	-	-
BPI, SA		14,275,509				
ZOPT, SGPS, SA		268,644,537				
Catarina Eufémia Amorim da Luz Távira Van-Dúnem	Non-executive Member	0	-	-	-	-
João Pedro Magalhães da Silva Torres Dolores	Non-executive Member	0	-	-	-	-
Joaquim Francisco Alves Ferreira de Oliveira	Non-executive Member	0	-	-	-	-
Lorena Solange Fernandes da Silva Fernandes	Non-executive Member	0	-	-	-	-
Maria Cláudia Teixeira de Azevedo ⁽⁴⁾	Non-executive Member	0	-	-	-	-
ZOPT, SGPS, SA		268,644,537				
Mário Filipe Moreira Leite da Silva ⁽⁵⁾	Non-executive Member	0	-	-	-	-
ZOPT, SGPS, SA		268,644,537				
Paulo Cardoso Correia da Mota Pinto	Chairman of the Fiscal Board	0	-	-	-	-
Eugénio Luís Lopes Franco Ferreira	Member of the Fiscal Board	0	-	-	-	-
Patrícia Andrea Bastos Teixeira Lopes Couto Viana	Member of the Fiscal Board	0	-	-	-	-
Luís Filipe da Silva Ferreira	Substitute Member of Fiscal Board	0	-	-	-	-
Ernst & Young Audit & Associados, SROC, S.A.	Statutory Auditor	0	-	-	-	-
Ricardo Filipe de Frias Pinheiro	Statutory Auditor	0	-	-	-	-
Paulo Jorge Luís da Silva	Substitute Statutory Auditor	0	-	-	-	-

(1) Luís Moutinho do Nascimento was co-opted as Executive Member of the Board of Directors on 29 June 2017.

(2) Ângelo Gabriel Ribeirinho dos Santos Paupério is member of the Board of Directors of ZOPT, SGPS, SA., which owned, on 30 June 2017 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 Sonaeocom, SGPS, SA.

(3) António Bernardo Aranha da Gama Lobo Xavier is member of the Board of Directors and Executive Committee of Sonaeocom, SGPS, SA.

(4) Maria Cláudia Teixeira de Azevedo is member of the Board of Directors of ZOPT, SGPS, SA., company holding a share, on 30 June 2017, correspondent to 52.15% of the share capital and voting rights of NOS, and member of Board of Directors and Executive Committee of Sonaeocom, SGPS, SA.

(5) Mário Filipe Moreira Leite da Silva is member of the Board of Directors of ZOPT, SGPS, SA., company holding, on 30 June 2017 a share correspondent to 52.15% of the share capital and voting rights of NOS.

* Share acquisitions with a 90% discount under the Short and Medium Term Variable Remuneration Regulation of NOS, SGPS, SA.

** Please refer to the announcement made on NOS' institutional website at www.nos.pt/ir for further detail.

Qualified Shareholdings

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

The structure of NOS' Social Qualified Shareholdings disclosed to the company, was, in 30 June 2017, 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%
Blackrock, Inc	11,562,497	2.24%
MFS Investment Management	11,049,477	2.14%
Norges Bank	10,891,068	2.11%
Total Identified	316,423,088	61.42%

(1) According to paragraphs b) and c) of number 1 of article 20º and article 2º 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 20º of the Portuguese Securities Code, is attributable to ZOPT, Sonaecom and the following companies: a. This qualified holding is attributable to the companies Kento Holding Limited ("Kento") and Unitel International Holdings, BV ("Unitel International"), as well as to Mrs. Isabel dos Santos, under the terms of articles 20(1)(b) and (c) and 21 of the Portuguese Securities Code, being (i) Kento and Unitel International directly and indirectly controlled by Mrs. Isabel dos Santos and (ii) ZOPT controlled together by its shareholders Kento, Unitel International and Sonaecom as a result of the shareholders agreement entered into between these entities; b. The aforementioned qualified holding is also attributable to Sonaecom and all entities in a control relationship with Sonaecom, namely SONTTEL, BV, Sonae Investments, BV, SONAE, SGPS, S.A., EFANOR INVESTIMENTOS, SGPS, S.A. and to Mr. Belmiro

(2) Under the terms of paragraph 1 of article 20º 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.

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

Transactions of Own Shares

By the end of 1H17, NOS held, within the scope of its Employee Share Plan and the Regulation on Short and Medium Term Variable Remuneration, aimed at NOS employees, 2,047,752 own shares.

The table below summarizes NOS' own shares transactions, which took place until 30 June 2017:

Description	Number of Shares
Balance as at 1 January 2017	3,017,603
Share Incentive Scheme - Distribution	969,851
Balance as at 30 June 2017	2,047,752

Business Review

NOS continues to strengthen market share in almost all of its core services as reflected in the most recent data published by ANACOM, for end 1Q17. NOS' share of mobile subscribers was 24.4%, 1.6 pp greater than last year. Share of fixed internet and voice services grew by 0.8pp and 1.6pp to 37.7% and 35.1%, respectively whilst pay TV market share remained stable at 43.5%.

Total RGUs grew by 5.8% yoy to 9.25 million services with net adds of 177.5 thousand in 1H17. The primary source of RGU growth for NOS is the network expansion project that NOS initiated in 2014, together with marginal growth in the HFC footprint. By the end of 1H17 NOS covered a total of 3.787 million households with its fixed network, of which 449 thousand with FttH and the remaining 3.338 million with its Docsis 3.0 HFC network. NOS covered an additional 23.2 thousand households in 1H17.

The Pay TV base continued to post healthy growth to 1,613 thousand subscribers, +2.5% yoy. During 1H17, fixed access customers grew by 16.7 thousand subscribers to 1.282 million, representing 34% penetration of NOS' total network coverage. In new network geographies covered since the merger, penetration now stands at 24%, with some locations reaching close to 50%¹.

Fixed network rollout of own and competitors' fttH networks in areas previously covered only by satellite is, as anticipated, starting to reflect on the DTH customer base, with NOS posting negative net adds of 4.0 thousand in 1H17. Offers based on DTH are more vulnerable to fixed NGN solutions given their higher Internet speeds and quality and interactivity of TV solutions. This is a trend that is set to continue although mitigated by customer migration wherever possible to NOS' own fixed network.

Customers continue to take up convergent solutions, albeit at a slower pace due to the already high level of penetration at 47.1% of the fixed network and 44.1% of the total customer base. Progressively more households are upgrading to the higher end UMA interface with its more sophisticated features amongst which its voice controlled remote, advanced search functionalities, NOS' cloud sharing service and 4K viewing capabilities amongst others, acting as key differentiators versus other offers in the market.

Fixed Broadband and Voice services continued to post good growth of 43.4 thousand RGUs and 26.4 thousand RGUs respectively. By the end of 1H17, penetration of fixed broadband services measured as a proportion of

¹ The penetration rate refers to customer activations in new FttH geographies.

the fixed customer base was 76.7% and penetration of fixed voice services was 86.7%, reflecting the maturity of the market in terms of bundled offers.

Growth in convergence, stand-alone mobile segment, and B2B services are the main drivers of mobile RGU growth with an additional 93.4 thousand net adds during 1H17. Demand for speed and higher data allowances increases quarter after quarter with the growth in the number of smartphones, 72% at the end of 1H17, and particularly of 4G enabled devices which stood at 59%. Monthly average data usage on smartphones has grown by 77% to 1,540MB and by 69% to 1,910MB for 4G enabled devices.

Residential fixed access revenues per user (ARPU) grew by 2.3% yoy to 44.4 euros, reflecting continued growth in average RGUs per account, increased traffic revenues and primarily the annual price increase implemented at the end of 2016. Somewhat dampening these positive effects, ARPU comparison with the previous year was impacted primarily by lower termination rates (this effect will no longer be material going forward), lower revenues from discretionary subscription to premium services and lower contribution of VoD, amongst others. Adjusting for these impacts, base ARPU would have grown by 3.8% yoy.

RGU yoy growth in B2B was 8.0% in 1H17 reaching 1.453 million services. NOS' strategy for the business segment is to continue to acquire its fair share of new accounts coming to the market whilst at the same time seeking to protect the value of legacy accounts and increase share of wallet of telecom and IT spend in existing accounts with full service solutions for the various subsegments. Although still a relatively small source of business revenues, yoy growth in IT service revenues has been very strong. A number of transformational projects are being implemented which are supportive of more value driven growth albeit slower than in previous years. The operational model in B2B sub segments has been revisited to guarantee that NOS is present in the most margin relevant stages of the customer relationship, becoming a producer rather than a pure reseller of services where relevant. NOS is well positioned to capture value from innovative services developing technological solutions supported by leading network assets and service platforms and strong institutional partnerships when appropriate. Continuous and open product and service innovation and excellence in service delivery are the foundations upon which NOS differentiates itself in the market. Total B2B and Wholesale revenues posted a 3.5% increase yoy. Business customer revenues posted growth of 2.9% and revenues from wholesale improved yoy by 4.4%. The Wholesale business has a different revenue and margin profile from the Corporate and Mass Business Segment, tending to present material volatility over the course of the year.

A source of revenues that has been diminishing in past periods is Mass Calling Services (MCS) due to the marketwide decline of this business.

However solid growth in voice and data traffic and also roaming with the increase in tourism to Portugal is helping to mitigate the negative impact of MCS.

Operating Indicators ('000)	1H16	1H17	1H17 / 1H16
Telco ⁽¹⁾			
Aggregate Indicators			
Homes Passed	3,701.0	3,787.2	2.3%
Total RGUs	8,746.4	9,254.3	5.8%
Mobile	4,270.3	4,549.1	6.5%
Pre-Paid	2,048.3	2,027.3	(1.0%)
Post-Paid	2,222.0	2,521.8	13.5%
ARPU / Mobile Subscriber (Euros)	8.5	8.5	0.1%
Pay TV	1,574.4	1,613.3	2.5%
Fixed Access ⁽²⁾	1,240.0	1,282.4	3.4%
DTH	334.4	331.0	(1.0%)
Fixed Voice	1,665.0	1,751.1	5.2%
Broadband	1,206.4	1,308.0	8.4%
Others and Data	30.4	32.7	7.8%
3,4&5P Subscribers (Fixed Access)	1,018.2	1,096.6	7.7%
% 3,4&5P (Fixed Access)	82.1%	85.5%	3.4pp
Convergent RGUs	3,155.6	3,585.9	13.6%
Convergent Customers	644.0	710.8	10.4%
Fixed Convergent Customers as % of Fixed Access Customers	44.4%	47.1%	2.7pp
% Convergent Customers	40.9%	44.1%	3.2pp
IRIS & UMA Subscribers	927.3	1,024.4	10.5%
IRIS & UMA as % of 3,4&5P Subscribers (Fixed Access)	91.1%	93.4%	234.3%
Net Adds			
Homes Passed	100.9	23.2	(77.0%)
Total RGUs	281.6	177.5	(37.0%)
Mobile	147.2	93.4	(36.6%)
Pre-Paid	(27.2)	(44.0)	61.7%
Post-Paid	174.4	137.4	(21.2%)
Pay TV	30.6	12.7	(58.3%)
Fixed Access	24.7	16.7	(32.1%)
DTH	5.9	(4.0)	n.a.
Fixed Voice	41.7	26.4	(36.6%)
Broadband	61.7	43.4	(29.6%)
Others and Data	0.5	1.6	235.5%
3,4&5P Subscribers (Fixed Access)	49.8	34.7	(30.3%)
Convergent RGUs	301.8	198.7	(34.2%)
Convergent Customers	53.1	30.6	(42.4%)
IRIS & UMA Subscribers	62.3	41.8	(32.9%)

⁽¹⁾ Portuguese Operations

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

Operating Indicators ('000)	1H16	1H17	1H17 / 1H16
Telco ⁽¹⁾			
Indicators per Segment			
Consumer			
Total RGUs	7,400.6	7,801.2	5.4%
Pay TV	1,458.1	1,487.1	2.0%
Fixed Access	1,152.1	1,185.0	2.9%
DTH	306.0	302.1	(1.3%)
IRIS & UMA Subscribers	883.3	970.5	9.9%
Broadband	1,093.3	1,182.9	8.2%
Fixed Voice	1,365.6	1,408.6	3.1%
Mobile	3,483.7	3,722.6	6.9%
% 1P (Fixed Access)	6.4%	4.8%	(1.6pp)
% 2P (Fixed Access)	12.0%	10.1%	(1.9pp)
% 3,4&5P (Fixed Access)	81.5%	85.0%	3.5pp
ARPU / Unique Subscriber With Fixed Access (Euros)	43.4	44.4	2.3%
Net Adds			
Total RGUs	220.1	142.3	(35.4%)
Pay TV	22.5	8.8	(60.9%)
Fixed Access	17.7	13.0	(26.7%)
DTH	4.8	(4.2)	n.a.
IRIS & UMA Subscribers	54.8	37.2	(32.1%)
Broadband	54.1	39.3	(27.3%)
Fixed Voice	28.7	15.3	(46.6%)
Mobile	114.7	78.8	(31.3%)
Business			
Total RGUs	1,345.8	1,453.1	8.0%
Pay TV	116.3	126.2	8.5%
IRIS & UMA Subscribers	44.1	53.8	22.1%
Broadband	143.5	157.9	10.0%
Fixed Voice	299.4	342.5	14.4%
Mobile	786.6	826.5	5.1%
ARPU per RGU (Euros)	16.6	15.7	(5.8%)
Net Adds			
Total RGUs	61.5	35.2	(42.7%)
Pay TV	8.1	3.9	(51.2%)
IRIS & UMA Subscribers	7.5	4.6	(38.9%)
Broadband	8.0	5.6	(29.6%)
Fixed Voice	12.9	11.1	(14.5%)
Mobile	32.5	14.6	(55.1%)

Cinemas and Audiovisuals

Operating Indicators ('000)	1H16	1H17	1H17 / 1H16
Cinema ⁽¹⁾			
Revenue per Ticket (Euros)	4.7	4.8	0.4%
Tickets Sold	4,115.9	4,742.6	15.2%
Screens (units)	215	215	0.0%

(1) Portuguese Operations

NOS' Cinema ticket sales posted yoy growth of 15.2% to 4.743 million tickets in 1H17, slightly below the performance of the market as a whole which improved by 15.7%^[1]. Average revenue per ticket posted a slight yoy increase of 0.4% to 4.8 euros in 1H17.

The most successful films exhibited in 1H17 were "The Fate of the Furious", "Beauty and the Beast", "Fifty Shades Darker", "The Boss Baby" and "Pirates of the Caribbean: Dead Men Tell No Tales".

NOS' gross box-office revenues grew by 15.7% in 1H17, which compares with 16.8% yoy growth for the market as a whole. NOS continues to maintain its leading market position, with a market share of 61.6% in terms of gross revenues in 1H17. Cinema Exhibition revenues improved by 15.3% yoy in 1H17 to 31.5 million euros.

Revenues in the Audiovisuals division increased by 11.9% yoy to 37.0 million euros in 1H17. This improvement in revenues was driven primarily by the positive yoy performance in Cinema Distribution and VoD, partially offset by a decline in the Homevideo area. Of the top 10 cinema box-office hits in 1H17, NOS distributed 5, "The Fate of the Furious", "Beauty and the Beast", "Fifty Shades Darker", "Pirates of the Caribbean: Dead Men Tell No Tales", and "Guardians of the Galaxy Vol. 2", therefore maintaining its leading position.

^[1] Source: ICA – Portuguese Institute For Cinema and Audiovisuals

Consolidated Financial Review

Consolidated Income Statement

Profit and Loss Statement (Millions of Euros)	1H16	1H17	1H17 / 1H16
Operating Revenues	743.1	769.4	3.5%
Telco	710.4	731.8	3.0%
Consumer Revenues	444.6	464.5	4.5%
Business and Wholesale Revenues	205.9	213.1	3.5%
Equipment Sales	23.1	21.3	(7.7%)
Others and Eliminations	36.8	32.8	(10.6%)
Audiovisuals	33.0	37.0	11.9%
Cinema ⁽¹⁾	27.3	31.5	15.3%
Others and Eliminations	(27.7)	(30.9)	11.4%
Operating Costs Excluding D&A	(456.6)	(469.0)	2.7%
W&S	(45.7)	(42.9)	(6.2%)
Direct Costs	(219.2)	(240.1)	9.5%
Commercial Costs ⁽²⁾	(44.4)	(40.6)	(8.4%)
Other Operating Costs	(147.3)	(145.4)	(1.3%)
EBITDA	286.5	300.3	4.8%
EBITDA Margin	38.6%	39.0%	0.5pp
Telco	263.4	275.6	4.6%
EBITDA Margin	37.1%	37.7%	0.6pp
Cinema Exhibition and Audiovisuals	23.1	24.7	7.1%
EBITDA Margin	42.1%	40.7%	(1.4pp)
Depreciation and Amortization	(193.8)	(206.7)	6.7%
(Other Expenses) / Income	(6.0)	(7.9)	30.9%
Operating Profit (EBIT) ⁽³⁾	86.7	85.7	(1.1%)
Share of results of associates and joint ventures	(9.7)	9.0	n.a.
(Financial Expenses) / Income	(12.2)	(11.8)	(3.3%)
Income Before Income Taxes	64.8	82.9	27.9%
Income Taxes	(13.9)	(10.7)	(23.3%)
Net Income Before Associates & Non-Controlling Interests	60.6	63.3	4.4%
Income From Continued Operations	50.9	72.2	41.9%
o.w. Attributable to Non-Controlling Interests	(0.0)	(0.4)	n.a.
Net Income	50.9	71.8	41.1%

⁽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 3.5% yoy to 769.4 million euros, with telco revenues growing by 3.0%, Audiovisuals by 11.9% and Cinema revenues by 15.3%.

In the telco operation, Consumer Revenues grew by 4.5% in 1H17 to 464.5 million euros, reflecting a combination of higher growth in Residential revenues driven by continued take-up of convergent bundles and the full impact of the price increases and a pick-up in the pace of growth of stand alone personal revenues that have consolidated the inflection of the negative growth trend of past quarters reflecting less migration to integrated bundles with the slowdown in convergent take-up and the impact of the price increases.

Business and Wholesale Revenues grew by 3.5% yoy to 213.1 million euros. Excluding Wholesale revenues, Business revenues grew by 3.0%, driven by good RGU performance, acquisition of new accounts and the price increase at the start of the year. Wholesale Revenues posted growth of 4.4% yoy due to strong performance of wholesale voice, data and roaming traffic volumes, offsetting in full the continued decline of the low margin mass calling service business which represented just 2% of total Business and Wholesale Revenues in 1H17, compared with almost 5% in 1H16.

Year on year telco revenue comparisons should be adjusted to reflect the regulatory impacts of lower MTRs which have been progressively coming down over the past years. The last relevant cut occurred in April 2016 when SMS MTRs declined 32.5% to €0.0083. The most recent cut to voice MTRs occurred already at the start of July 2017 with a reduction of 7.4% to €0.0075 per minute. Adjusting for MTR cuts in yoy telco revenue comparison in 1H17, growth would have been 3.6%. In addition, midway through 1Q17, and as a result of the implementation of a remedy imposed at the time of the merger, NOS sold Optimus' FttH network to Vodafone, and consequently has ceased to receive a wholesale revenue stream.

Movie going has been very strong yoy in 2017 to date, with revenues for the first six months up by 15.3% in the cinema business and by 11.9% in the audiovisuals division.

Consolidated Operating Costs

Total Operating Costs increased by 2.7% to 469.0 million euros in 1H17, representing 61.0% of Total Revenues, down 0.4 p.p. in comparison with 1H16 despite the significant yoy increase in premium sports content costs.

Excluding Direct Costs, Operating Costs were down 3.6% yoy reflecting a combination of operating leverage from topline growth, efficiencies being achieved across the board and the release of a provision as explained below.

The 6.2% decline in 1H17 Wages and Salaries is explained essentially by differences in employee variable remuneration and by a temporary reduction in headcount.

Direct costs posted a significant increase of 9.5% yoy to 240.1 million euros due to higher programming costs as a result of more expensive premium sports content and the revision of the Sport TV distribution model from the start of the new football season in 2H16. In addition, Wholesale traffic related costs increased significantly yoy along with the higher volume of activity over last year.

Commercial costs declined by 8.4% to 40.6 million euros, reflecting a combination of higher advertising costs due to more advertising activity and a lower level of equipment costs driven by fewer handsets sold, as reflected in the level of revenues generated and due to a lower yoy level of non-capitalized commissions.

Other Operating Costs were down 1.3% on 1H16, with an increase in support services and maintenance and repairs costs partially offsetting the reduction in supplies and external services and the release of a provision in the amount of close to 7 million euros during 2Q17 after the courts decided in favour of NOS in 2Q17 in a pending legal dispute regarding fixed termination terms with ANACOM.

Consolidated EBITDA posted yoy growth of 4.8% yoy to 300.3 million euros representing an EBITDA margin of 39.0% compared with 38.6% in 1H16 and despite the aforementioned increase in premium sports content costs as from 2H16.

Telco EBITDA recorded growth of 4.6% to 275.6 million euros representing an EBITDA margin as a percentage of revenues of 37.7%, up 0.6 pp over 1H16. Audiovisuals and Cinemas EBITDA grew by 7.1% yoy to 24.7 million euros led by the strong revenue growth as explained above.

Net Income

Net Income grew by 41.1% in 1H17 to 71.8 million euros.

In addition to the EBITDA growth described above, the most material contribution to the yoy variation remains the more positive contribution to results from NOS' share of Associates and Joint Ventures which grew to 9.0 million euros in 1H17 compared with negative 9.7 million euros in 1H16. This improvement in contribution is the result of a combination of the better exchange rate environment at ZAP together with a price increase and cost savings that helped drive improved results of the operation and also due to the change to the distribution model in 2H16 in Sport TV driving more positive financial results. The increase in Depreciations and Amortizations is explained, as in previous periods, primarily by the large investments made in network assets and customer acquisition costs and also by write-offs driven by investment in network renewal. Net Financial Expenses were down by 3.3% yoy, thanks to the decline of the all-in average cost of NOS' Net Financial Debt to 2.1% in 1H17 from 2.3% in 1H16. Income Tax provision amounted to 10.7 million euros in 1H17 representing an effective tax rate of 12.9%. The volatility in tax rate varies due to a combination of factors of which the most relevant being accounting of deferred taxes and the contribution of the Share of Associates and Joint Ventures line.

CAPEX

CAPEX (Millions of Euros)	1H16	1H17	1H17 / 1H16
Telco	177.6	155.3	(12.6%)
o.w. Technical CAPEX	87.8	78.4	(10.7%)
% of Telco Revenues	12.4%	10.7%	(1.6pp)
Baseline Telco	62.4	62.8	0.5%
Network Expansion / Substitution and Integration Projects and Others	25.4	15.6	(38.4%)
o.w. Customer Related CAPEX	89.8	76.9	(14.4%)
% of Telco Revenues	12.6%	10.5%	(0.2pp)
Audiovisuals and Cinema Exhibition	18.4	17.5	(5.0%)
Total Group CAPEX	196.1	172.8	(11.9%)
% of Total Group Revenues	26.4%	22.5%	(0.1pp)

Total Group CAPEX declined by 11.9% yoy to 172.8 million euros in 1H17, representing 22.5% of Consolidated Revenues.

Telco CAPEX fell by 12.6% to 155.3 million euros, representing 21.2% of Telco Revenues, down from 25.0% in 1H16. Technical CAPEX which includes network expansion, upgrade and integration related investments, was 78.4 million euros in 1H17, down by 10.7% yoy and representing 10.7% of telco revenues. Technical CAPEX does not follow a linear pattern quarter on quarter due to the specifics and phasing of projects underway. The second half of the year is set to be more intense in terms of execution, the main expansionary or non recurrent projects in the pipeline being mobile investments to meet additional coverage and capacity requirements, the Docsis 3.1 upgrade of the HFC network and some IT investment projects, namely the development of a new CRM system and integration related projects.

Customer Acquisition CAPEX of 76.9 million euros, down 14.4% yoy, represented 10.5% of telco revenues, compared with 12.6% in 1H16. The decline in Customer Related CAPEX is mainly a result of the lower level of commercial activity driving a lower level of gross adds as explained in the operational section of this report.

Cash Flow

Cash Flow (Millions of Euros)	1H16	1H17	1H17 / 1H16
EBITDA	286.5	300.3	4.8%
Total CAPEX	(196.1)	(172.8)	(11.9%)
EBITDA - Total CAPEX	90.5	127.5	41.0%
% of Revenues	12.2%	16.6%	4.4pp
Non-Cash Items Included in EBITDA - CAPEX and Change in Working Capital	(38.8)	(20.9)	(46.2%)
Operating Cash Flow	51.7	106.7	106.3%
Long Term Contracts	(8.3)	(6.7)	(19.0%)
Cash Restructuring Payments	(5.7)	(11.3)	96.2%
Interest Paid	(9.7)	(11.6)	20.4%
Income Taxes Paid	(5.4)	(0.3)	(93.9%)
Disposals	0.8	25.3	n.a.
Other Cash Movements	0.4	0.0	(100.0%)
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	23.9	102.1	n.a.
Acquisition of Own Shares	(20.7)	0.0	(100.0%)
Dividends	(82.1)	(102.6)	25.0%
Free Cash Flow	(78.9)	(0.5)	(99.3%)
Debt Variation Through Financial Leasing, Accruals & Deferrals & Others	(8.9)	(1.4)	(84.3%)
Change in Net Financial Debt	87.8	1.9	(97.8%)

EBITDA – CAPEX increased by 41% to 127.5 million euros in 1H17, representing 16.6% as a percentage of revenues, a very material increase led by the 4.8% increase in EBITDA and the lower yoy level of CAPEX, as discussed previously. Investment in working capital and non cash items in the quarter was lower than that of 1H16 and as such the increase in EBITDA-CAPEX was almost entirely passed through to Operating Cash Flow which grew by 106.3% to 106.7 million euros.

Total FCF before dividends, financial investments and own shares acquisitions was 102.1 million euros in 1H17, representing a very material increase from the 23.9 million euros recorded in 1H16. Due to the FY16 dividend payment made in 2Q17 of 102.6 million euros, total FCF was negative by 0.5 million euros in 1H17.

Consolidated Balance Sheet

Balance Sheet (Millions of Euros)	2016	1H17
Non-current Assets	2,453.0	2,425.8
Current Assets	529.6	496.3
Total Assets	2,982.6	2,922.1
Total Shareholders' Equity	1,053.1	1,025.8
Non-current Liabilities	1,168.7	1,210.5
Current Liabilities	760.8	685.8
Total Liabilities	1,929.5	1,896.3
Total Liabilities and Shareholders' Equity	2,982.6	2,922.1

Capital Structure

At the end of 1H17, Net Financial Debt stood at 1,114.2 million euros.

Total financial debt was 1,116.3 million euros, which was offset with a cash and short-term investment position on the balance sheet of 2.0 million euros. At the end of 1H17, NOS also had 285 million euros of unissued commercial paper programmes. For 1H17, the all-in average cost of NOS' Net Financial Debt amounted to 2.1%, which compares with 2.3% in 1H16.

During the 1H17 NOS executed two financing deals to refinance existing lines:

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

Net Financial Gearing was 52.1% at the end of 1H17 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 1H17 was 3.1 years.

Taking into account the loans issued at a fixed rate, the interest rate hedging operations in place, and the negative interest rate environment, as at 30 June 2017, the proportion of NOS' issued debt paying interest at a fixed rate is approximately 67%.

Net Financial Debt (Millions of Euros)	2016	1H17	1H17 / 2016
Short Term	213.9	153.6	(28.2%)
Bank and Other Loans	196.4	138.7	(29.4%)
Financial Leases	17.5	15.0	(14.2%)
Medium and Long Term	900.7	962.6	6.9%
Bank and Other Loans	871.8	939.4	7.8%
Financial Leases	28.9	23.2	(19.8%)
Total Debt	1,114.6	1,116.3	0.1%
Cash and Short Term Investments	2.3	2.0	(13.1%)
Net Financial Debt	1,112.3	1,114.2	0.2%
Net Financial Gearing ⁽¹⁾	51.4%	52.1%	0.7pp
Net Financial Debt / EBITDA	2.0x	2.0x	n.a.

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

Risks and Uncertainties for Future Periods

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 sensibilization 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 GSM 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.

Lisbon, 20 July 2017

The Board of Directors

Consolidated Financial Statements

Consolidated statement of financial position

at 31 December 2016 and 30 June 2017

(Amounts stated in thousands of euros)

	NOTES	31-12-2016	30-06-2017
ASSETS			
NON - CURRENT ASSETS			
Tangible assets	7	1,158,181	1,137,717
Investment property		663	662
Intangible assets	8	1,158,779	1,149,008
Investments in jointly controlled companies and associated companies	9	7,888	16,612
Accounts receivable - other	10	6,489	6,761
Tax receivable	11	3,617	1,029
Available-for-sale financial assets		77	77
Deferred income tax assets	12	117,302	113,938
Derivative financial instruments	17	6	-
TOTAL NON - CURRENT ASSETS		2,453,002	2,425,804
CURRENT ASSETS:			
Inventories	13	51,043	35,937
Accounts receivable - trade	14	348,926	362,955
Accounts receivable - other	10	15,814	18,277
Tax receivable	11	2,861	1,326
Prepaid expenses	15	84,391	75,821
Non-current assets held-for-sale	16	24,237	-
Derivative financial instruments	17	54	17
Cash and cash equivalents	18	2,313	2,010
TOTAL CURRENT ASSETS		529,639	496,343
TOTAL ASSETS		2,982,641	2,922,147
SHAREHOLDER'S EQUITY			
Share capital	19.1	5,152	5,152
Capital issued premium	19.2	854,219	854,219
Own shares	19.3	(18,756)	(12,728)
Legal reserve	19.4	1,030	1,030
Other reserves and accumulated earnings	19.4	112,031	96,911
Net income		90,381	71,827
EQUITY BEFORE NON - CONTROLLING INTERESTS		1,044,057	1,016,411
Non-controlling interests	20	9,041	9,440
TOTAL EQUITY		1,053,098	1,025,851
LIABILITIES			
NON - CURRENT LIABILITIES			
Borrowings	21	972,003	1,031,437
Provisions	22	146,287	133,474
Accounts payable	26	21,551	19,842
Tax payable	11	1,298	1,298
Accrued expenses	23	9,185	9,069
Deferred income	24	4,138	3,922
Derivative financial instruments	17	4,027	2,709
Deferred income tax liabilities	12	10,206	8,737
TOTAL NON - CURRENT LIABILITIES		1,168,696	1,210,488
CURRENT LIABILITIES:			
Borrowings	21	224,692	167,087
Accounts payable - trade	25	238,828	209,682
Accounts payable - other	26	68,733	54,897
Tax payable	11	23,957	32,983
Accrued expenses	23	174,514	194,980
Deferred income	24	30,123	26,144
Derivative financial instruments	17	-	35
TOTAL CURRENT LIABILITIES		760,847	685,808
TOTAL LIABILITIES		1,929,543	1,896,296
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		2,982,641	2,922,147

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

The Notes to the Financial Statements form an integral part of the consolidated statement of financial position as at 30 June 2017.

Chief Accountant

Board of Directors

Consolidated statement of income by nature

for the quarters and semesters ended on 30 June 2016 and 2017

(Amounts stated in thousands of euros)

	NOTES	2 ^o QUARTER 16	6M 16	2 ^o QUARTER 17	6M 17
REVENUES:					
Services rendered		353,785	702,870	370,296	732,546
Sales		13,996	31,086	15,037	29,870
Other operating revenues		5,030	9,158	3,038	6,954
	27	372,811	743,114	388,371	769,370
COSTS, LOSSES AND GAINS:					
Wages and salaries	28	21,896	45,721	20,698	42,888
Direct costs	29	110,380	219,204	126,296	240,114
Costs of products sold	30	10,745	24,916	10,596	21,466
Marketing and advertising		5,202	13,526	8,105	14,544
Support services	31	21,965	45,662	22,928	46,455
Supplies and external services	31	46,218	90,892	44,221	89,034
Other operating losses / (gains)		152	270	184	354
Taxes		7,304	14,342	7,873	15,659
Provisions and adjustments	32	290	2,050	(9,270)	(1,485)
Depreciation, amortisation and impairment losses	7, 8 and 34	98,536	193,829	103,450	206,738
Reestructuring costs		2,980	5,344	2,232	3,840
Losses / (gains) on sale of assets, net		(48)	(85)	111	70
Other losses / (gains) non recurrent net		647	748	2,171	3,954
		326,267	656,419	339,594	683,631
INCOME BEFORE FINANCIAL RESULTS AND TAXES		46,544	86,695	48,777	85,739
Net losses / (gains) of affiliated companies	9 and 33	3,288	9,653	(3,622)	(8,971)
Financial costs	35	4,682	8,137	6,058	10,969
Net foreign exchange losses / (gains)		508	413	104	107
Net other financial expenses / (income)	35	1,680	3,684	(941)	754
		10,158	21,887	1,599	2,859
INCOME BEFORE TAXES		36,386	64,808	47,178	82,880
Income taxes	12	9,931	13,899	6,355	10,658
NET CONSOLIDATED INCOME		26,455	50,909	40,823	72,222
ATTRIBUTABLE TO:					
NOS Group Shareholders		26,480	50,896	40,392	71,827
Non-controlling interests	20	(25)	13	431	395
EARNINGS PER SHARES					
Basic - euros	36	0.05	0.10	0.08	0.14
Diluted - euros	36	0.05	0.10	0.08	0.14

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

The Notes to the Financial Statements form an integral part of the consolidated statement of income by nature for the semester ended on 30 June 2017.

Chief Accountant

Board of Directors

Consolidated statement of comprehensive income

for the quarters and semesters ended on 30 June 2016 and 2017

(Amounts stated in thousands of euros)

	NOTES	2 nd QUARTER 16	6M 16	2 nd QUARTER 17	6M 17
NET CONSOLIDATED INCOME		26,455	50,909	40,824	72,223
OTHER INCOME					
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO THE INCOME STATEMENT:					
Accounting for equity method	9	(247)	(978)	(5)	(49)
Fair value of interest rate swap	17	(495)	(2,507)	607	1,367
Deferred income tax - interest rate swap	17	111	564	(137)	(308)
Fair value of equity swaps	17	-	-	123	90
Deferred income tax - equity swap	17	-	-	(28)	(20)
Fair value of exchange rate forward	17	246	66	-	-
Deferred income tax - exchange rate forward	17	(71)	(19)	-	-
Currency translation differences and others		(88)	(682)	(20)	(35)
INCOME RECOGNISED DIRECTLY IN EQUITY		(544)	(3,556)	540	1,045
TOTAL COMPREHENSIVE INCOME		25,911	47,353	41,364	73,268
ATTRIBUTABLE TO:					
NOS Group Shareholders		25,962	47,366	40,933	72,873
Non-controlling interests		(51)	(13)	431	395
		25,911	47,353	41,364	73,268

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

The Notes to the Financial Statements form an integral part of the consolidated statement of comprehensive income for the semester ended on 30 June 2017.

Chief Accountant

Board of Directors

Consolidated statement of changes in shareholders' equity

for the semesters ended on 30 June 2016 and 2017

(Amounts stated in thousands of euros)

	ATTRIBUTABLE TO THE SHAREHOLDERS OF THE NOS GROUP								
	NOTES	SHARE CAPITAL	CAPITAL ISSUED PREMIUM	OWN SHARES DISCOUNTS AND PREMIUMS	LEGAL RESERVE	OTHER RESERVES AND ACUMULATED EARNINGS	NET INCOME	NON - CONTROLLIN G INTERESTS	TOTAL
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	19.3	-	-	(20,676)	-	-	-	-	(20,676)
Distribution of own shares - share incentive scheme	19.3	-	-	9,518	-	(10,279)	-	-	(761)
Distribution of own shares - other remunerations	19.3	-	-	2,745	-	(211)	-	-	2,534
Share plan - costs incurred in the period and others	40	-	-	-	-	1,429	-	(7)	1,422
Comprehensive Income		-	-	-	-	(3,556)	50,896	13	47,353
BALANCE AS AT 30 JUNE 2016		5,152	854,219	(18,971)	1,030	109,512	50,896	9,436	1,011,274
BALANCE AS AT 1 JANUARY 2017		5,152	854,219	(18,756)	1,030	112,031	90,381	9,041	1,053,098
Result appropriation									
Transfers to reserves		-	-	-	-	90,381	(90,381)	-	-
Dividends paid		-	-	-	-	(102,617)	-	-	(102,617)
Distribution of own shares - share incentive scheme	19.3	-	-	5,743	-	(5,406)	-	-	337
Distribution of own shares - other remunerations	19.3	-	-	285	-	(79)	-	-	206
Share plan - costs incurred in the period and others	40	-	-	-	-	1,388	-	3	1,391
Comprehensive Income		-	-	-	-	1,045	71,827	395	73,267
Others		-	-	-	-	168	-	-	168
BALANCE AS AT 30 JUNE 2017		5,152	854,219	(12,728)	1,030	96,911	71,827	9,440	1,025,851

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

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

Chief Accountant

Board of Directors

Consolidated statement of cash flows

for the semesters ended on 30 June 2016 and 2017

(Amounts stated in thousands of euros)

	NOTES	6M 16	6M 17
OPERATING ACTIVITIES			
Collections from clients		898,806	895,570
Payments to suppliers		(628,172)	(512,984)
Payments to employees		(58,707)	(60,089)
Receipts / (Payments) relating to income taxes		(5,983)	(407)
Other cash receipts / (payments) related with operating activities		46,067	(38,242)
CASH FLOW FROM OPERATING ACTIVITIES (1)		252,011	283,848
INVESTING ACTIVITIES			
CASH RECEIPTS RESULTING FROM			
Financial investments	9	25,347	-
Tangible assets		982	1,904
Intangible assets		10	39
Available-for-sale financial assets	16	-	29,776
Interest and related income		4,921	2,769
		31,260	34,488
PAYMENTS RESULTING FROM			
Financial investments	9	(25,347)	-
Tangible assets		(128,217)	(107,245)
Intangible assets		(90,399)	(87,823)
		(243,963)	(195,068)
CASH FLOW FROM INVESTING ACTIVITIES (2)		(212,703)	(160,580)
FINANCING ACTIVITIES			
CASH RECEIPTS RESULTING FROM			
Borrowings		303,507	150,000
		303,507	150,000
PAYMENTS RESULTING FROM			
Borrowings		(215,000)	(145,027)
Lease rentals (principal)		(9,924)	(14,394)
Interest and related expenses		(16,152)	(15,552)
Dividends	19.4	(82,121)	(102,617)
Aquisition of own shares	19.3	(20,676)	-
		(343,873)	(277,590)
CASH FLOW FROM FINANCING ACTIVITIES (3)		(40,366)	(127,590)
Change in cash and cash equivalents (4) = (1) + (2) + (3)		(1,058)	(4,322)
Effect of exchange differences		(200)	56
Cash and cash equivalents at the beginning of the period		(29,348)	(13,877)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		(30,606)	(18,143)
Cash and cash equivalents	18	1,261	2,010
Bank overdrafts	21	(31,867)	(20,153)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		(30,606)	(18,143)

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

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

Chief Accountant

Board of Directors

Notes to the consolidated financial statements as at 30 June 2017

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

1. Introductory note

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

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

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

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

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

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

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

NOSPUB and NOS Lusomundo TV operate in the television and content production business, and currently produce films and series channels, which are distributed, among other operators, by NOS SA and its

subsidiaries. NOS PUB also manages the advertising space on Pay TV channels and in the cinemas of NOS Cinemas.

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

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

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

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

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

The consolidated financial statements for the semester ended on 30 June 2017 were approved by the Board of Directors and their issue authorised on 20 July 2017.

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

2. Accounting policies

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

2.1. Principles of presentation

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

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

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

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

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

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

Changes in accounting policies and disclosures

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

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

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

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

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

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

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

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

- IFRS 15 (clarification), "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 January 2018). The clarifications presented are about the transition and not about changes in the underlying principles of the standard.
- IFRS 16 (new), "Leasings" (effective for annual periods beginning on or after 1 January 2019, with early application option). This standard sets out recognition, presentation and disclosure of leasing contracts, defining a single accounting model. Aside from contracts shorter than 12 months, leases should be accounted as an asset and a liability.
- IFRS 17 (new), "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021). IFRS 17 establishes the principles for the recognition and measurement of insurance contracts to ensure consistency across companies who issue insurance contracts globally.
- IAS 40 (amendment), "Investment property transfers" (effective for annual periods beginning on or after 1 January 2018). The amendments clarify if a property under construction or development, which was previously classified as Inventories, can be transferred to investment property when there is an evident change in use.
- IFRIC 22 (interpretation), "Foreign currency transactions and advance consideration" (effective for periods beginning on or after 1 January 2018). Interpretations clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.
- IFRIC 23 (interpretation), "Uncertainty over income tax treatments" (effective for annual periods beginning in or after 1 January 2019). The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

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

2.2. Bases of consolidation

Controlled companies

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

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

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

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

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

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

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

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

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

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

Jointly controlled companies

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

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

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

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

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

Associated companies

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

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

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

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

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

Balances and transactions between group companies

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

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 Note 7).

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

Non-current assets held for sale

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

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

From the time that certain tangible assets become deemed as "held for sale", the depreciation of such assets ceases and they are classified as non-current assets held for sale. Gains and losses on disposals of tangible

assets, corresponding to the difference between the sale price and the net book value, are recognised in results in "Losses / (gains) on disposals of assets".

Depreciation

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

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

	2016 (YEARS)	2017 (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 8) in the case of a controlled company or in the case in which the excess of cost has been originated by a merger, and in "Financial investments in group companies" (Note 9) in the case of a jointly controlled company or an associated company.

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

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

Internally generated intangible assets

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

Industrial property and other rights

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

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

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

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

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

Intangible assets in-progress

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

Amortisation

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

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

	2016 (YEARS)	2017 (YEARS)
Rights of using capacities	Period of the contract	Period of the contract
Telecom licences	30 to 33	30 to 33
Software licences	1 to 8	1 to 8
Customer portfolios	5 to 6	5 to 6
Costs incurred in raising costumers loyalty contracts	Loyalty contract period	Loyalty contract period
Content utilization rights	Period of the contract	Period of the contract
Others	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 37), NOS considered the

recognition of the costs, excluding those divided by the remaining operators, on a systematic basis, given the pattern of economic benefits obtained through their commercial exploration.

2.3.11. Subsidies

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

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

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

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

2.3.12. Provisions and contingent liabilities

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

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

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

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

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

Provisions for potential future operating losses are not covered.

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

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

2.3.13. Leases

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

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

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

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

2.3.14. Income tax

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

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

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

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

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

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

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

2.3.15. Share-based payments

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

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

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

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

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

2.3.16. Equity

Legal reserve

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

Share premium reserves

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

Reserves for plans of medium term incentive

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

Hedging reserves

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

Own shares reserves

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

Own shares

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

Other reserves and retained results

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

2.3.17. Revenue

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

i) Revenues of Telecommunications Services:

Cable television, fixed broadband and fixed voice: The revenues from services provided using the fibre optic cable network result from: (a) basic channel subscription packages that can be sold in a bundle with fixed broadband/fixed voice services; (b) premium channel subscription packages and S-VOD; (c)

terminal equipment rental; (d) consumption of content (VOD); (e) traffic and voice termination; (f) service activation; (g) sale of equipment; and (h) other additional services (ex: firewall, antivirus).

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

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

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

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

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

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

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

Revenue related with traffic, roaming, data usage, audiovisual content and others is recognised when the service is rendered. The Group also offers various personalised solutions, particularly to its corporate customers

in telecom management, access, voice and data transmission services. These personalised solutions are also recognised when the service is rendered.

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

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

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

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

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

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

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

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

2.3.18. Accruals

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

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

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

2.3.19. Assets, liabilities and transactions in foreign currencies

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

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

- The exchange rate obtained on the date of the statement of financial position for the conversion of assets and liabilities;
- The average exchange rate in the period for the conversion of items in the income statement;
- The average exchange rate in the period, for the conversion of cash flows (in cases where the exchange rate approximates to the real rate, and for the remaining cash flows the rate of exchange at the date of the operations is used);
- The historical exchange rate for the conversion of equity accounts.

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

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

Portugal:

	31-12-2016	30-06-2017
US Dollar	1.0541	1.1412
Angolan Kwanza	184.4750	184.4900
British Pound	0.8562	0.8793
Mozambican Metical	74.5400	68.9500
Canadian Dollar	1.4188	1.4785
Swiss Franc	1.0739	1.0930
Real	3.4305	3.7600

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

	6M 16	6M 17
Angolan Kwanza	179.7303	184.9362
Mozambican Metical	59.6117	71.3583

2.3.20. Financial charges and borrowings

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

2.3.21. Investment property

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

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

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

2.3.22. Fair value measurement

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

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

- On the main market of the assets and liabilities, or

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

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

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

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

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

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

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

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

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

2.3.23. Assets and liabilities offsetting

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

2.3.24. Employee benefits

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

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

- b) Holiday, holiday allowances and bonuses. According to the labor law, employees are entitled to 22 days annual leave, as well as one month of holiday allowances, rights acquired in the year preceding payment. These liabilities of the Group are recorded when incurred, independently of the moment of payment, and are reflected under the item "Accounts payable and other".
- c) Labor Compensation Fund (FCT) and the Labour Compensation Guarantee Fund (FGCT). Based on the publication of Law No 70/2013 and subsequent regulation by Order No. 294-A / 2013, entered into force on 1 October the Labor Compensation Fund schemes (FCT) and the Guarantee Fund Compensation of Labor (FGCT). In this context, companies that hire a new employee are required to deduct a percentage of the respective salary for these two new funds (0.925% to 0.075% and the FCT for FGCT), in order to ensure, in the future, the partial payment of compensation for dismissal. Considering the characteristics of each Fund, the following is considered:
- The monthly deliveries to FGCT, made by the employer are recognised as expense in the period to which they relate.
 - The monthly deliveries to FCT, made by the employer are recognised as a financial asset of the entity, measured at fair value with changes recognised in the respective results.

2.3.25. Statement of cash flows

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

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

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

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

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

2.3.26. Subsequent events

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

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

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

Intangible and tangible assets

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

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

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

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

Provisions

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

Deferred income tax assets

Deferred income tax assets are recognised only where there is strong assurance that there will be future taxable income available to use the temporary differences or where there are deferred tax liabilities whose

reversal is expected in the same period in which the deferred tax assets are reversed. The assessment of deferred income tax assets is undertaken by management at the end of each period taking account of the expected future performance of the Group.

Impairment of account receivables

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

Fair value of financial assets and liabilities

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

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

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

3.2. Errors, estimates and changes to accounting policies

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

4. Changes in the consolidation perimeter

During the semester ended on 30 June 2016, the changes in the consolidated perimeter were as follow:

- 1) On 18 January 2016, ZON Finance BV was liquidated, which had no impact on the Group's consolidated financial statements.

During the semester ended on 30 June 2017, the changes in the consolidated perimeter were as follow:

- 1) On 24 February 2017, MEO became part of Sport TV's shareholders, NOS SGPS owns a share of 25% of Sport TV;

- 2) On 29 March 2017, the companies NOS Internacional, SGPS ("NOS Internacional SGPS") and NOS Audiovisuais, SGPS ("NOS Audio SGPS") were constituted, being 100% owned by NOS SGPS.

5. Segment reporting

The business segments are as follows:

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

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

	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
Prepaid expenses	81,993	2,398	-	84,391
Other current assets	26,560	1,010	(418)	27,152
Cash and cash equivalents	798	1,515	-	2,313
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

	30-06-2017			
	TELCO	AUDIOVISUALS	ELIMINATIONS	GROUP
ASSETS				
NON - CURRENT ASSETS:				
Tangible assets	1,125,868	11,849	-	1,137,717
Intangible assets	1,051,529	97,479	-	1,149,008
Investments in jointly controlled companies and associated companies	103,438	16,244	(103,070)	16,612
Accounts receivable - other	51,566	24,584	(69,389)	6,761
Deferred income tax assets	100,205	13,733	-	113,938
Other non-current assets	1,106	662	-	1,768
TOTAL NON - CURRENT ASSETS	2,433,712	164,551	(172,459)	2,425,804
CURRENT ASSETS:				
Inventories	35,009	928	-	35,937
Account receivables	367,619	76,120	(62,507)	381,232
Prepaid expenses	73,588	2,320	(87)	75,821
Other current assets	400	943	-	1,343
Cash and cash equivalents	630	1,380	-	2,010
TOTAL CURRENT ASSETS	477,246	81,691	(62,594)	496,343
TOTAL ASSETS	2,910,958	246,242	(235,053)	2,922,147
SHAREHOLDER'S EQUITY				
Share capital	5,152	32,749	(32,749)	5,152
Capital issued premium	854,219	-	-	854,219
Own shares	(12,728)	-	-	(12,728)
Legal reserve	1,030	1,087	(1,087)	1,030
Other reserves and accumulated earnings	49,238	75,748	(28,075)	96,911
Net income	91,540	21,029	(40,742)	71,827
EQUITY BEFORE NON - CONTROLLING INTERESTS	988,451	130,613	(102,653)	1,016,411
Non-controlling interests	9,381	21	38	9,440
TOTAL EQUITY	997,832	130,634	(102,615)	1,025,851
LIABILITIES				
NON - CURRENT LIABILITIES:				
Borrowings	1,052,567	48,258	(69,388)	1,031,437
Provisions	127,219	6,255	-	133,474
Accrued expenses	9,069	-	-	9,069
Other non-current liabilities	27,313	458	-	27,771
Deferred income tax liabilities	8,245	492	-	8,737
TOTAL NON - CURRENT LIABILITIES	1,224,413	55,463	(69,388)	1,210,488
CURRENT LIABILITIES:				
Borrowings	190,949	14,026	(37,888)	167,087
Accounts payable	263,602	19,021	(18,044)	264,579
Tax payable	31,875	1,108	-	32,983
Accrued expenses	176,673	25,336	(7,029)	194,980
Other current liabilities	25,614	654	(89)	26,179
TOTAL CURRENT LIABILITIES	688,713	60,145	(63,050)	685,808
TOTAL LIABILITIES	1,913,126	115,608	(132,438)	1,896,296
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	2,910,958	246,242	(235,053)	2,922,147

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

	TELCO		AUDIOVISUALS		ELIMINATIONS		GROUP	
	2 ^o QUARTER 16	6M 16	2 ^o QUARTER 16	6M 16	2 ^o QUARTER 16	6M 16	2 ^o QUARTER 16	6M 16
REVENUES:								
Services rendered	342,721	678,780	23,126	48,094	(12,062)	(24,004)	353,785	702,870
Sales	10,456	23,133	3,555	7,974	(15)	(21)	13,996	31,086
Other operating revenues	5,040	9,256	285	498	(295)	(596)	5,030	9,158
	358,217	711,169	26,966	56,566	(12,372)	(24,621)	372,811	743,114
COSTS, LOSSES AND GAINS:								
Wages and salaries	19,349	40,731	2,547	4,990	-	-	21,896	45,721
Direct costs	114,839	226,835	5,611	12,362	(10,070)	(19,993)	110,380	219,204
Costs of products sold	10,697	24,812	51	113	(3)	(9)	10,745	24,916
Marketing and advertising	5,742	14,061	1,159	2,816	(1,699)	(3,351)	5,202	13,526
Support services	21,878	45,514	466	895	(379)	(747)	21,965	45,662
Supplies and external services	41,315	81,001	5,123	10,411	(220)	(520)	46,218	90,892
Other operating losses / (gains)	123	229	29	41	-	-	152	270
Taxes	7,275	14,279	30	64	(1)	(1)	7,304	14,342
Provisions and adjustments	202	1,218	88	832	-	-	290	2,050
	221,420	448,680	15,104	32,524	(12,372)	(24,621)	224,152	456,583
EBITDA	136,797	262,489	11,862	24,042	-	-	148,659	286,531
Depreciation, amortisation and impairment losses	88,876	173,820	9,660	20,009	-	-	98,536	193,829
Other losses / (gains), net	3,530	5,905	49	102	-	-	3,579	6,007
INCOME BEFORE FINANCIAL RESULTS AND TAXES	44,391	82,764	2,153	3,931	-	-	46,544	86,695
Net losses / (gains) of affiliated companies	3,480	10,209	(192)	(556)	-	-	3,288	9,653
Financial costs	4,548	7,878	134	259	-	-	4,682	8,137
Net foreign exchange losses / (gains)	185	(4)	323	417	-	-	508	413
Net losses / (gains) on financial assets	(5,611)	(5,611)	(4,592)	(4,592)	10,203	10,203	-	-
Net other financial expenses / (income)	1,663	3,648	17	36	-	-	1,680	3,684
	4,265	16,120	(4,310)	(4,436)	10,203	10,203	10,158	21,887
INCOME BEFORE TAXES	40,126	66,644	6,463	8,367	(10,203)	(10,203)	36,386	64,808
Income taxes	9,426	12,927	505	972	-	-	9,931	13,899
NET INCOME	30,699	53,716	5,958	7,395	(10,203)	(10,203)	26,455	50,909
CAPEX	7,838	92,734	(1,973)	8,227	-	-	5,865	100,961
EBITDA - CAPEX	128,959	169,755	13,835	15,815	-	-	142,794	185,570

	TELCO		AUDIOVISUALS		ELIMINATIONS		GROUP	
	2 ^o QUARTER 17	6M 17	2 ^o QUARTER 17	6M 17	2 ^o QUARTER 17	6M 17	2 ^o QUARTER 17	6M 17
REVENUES:								
Services rendered	348,515	704,219	26,826	52,963	(12,234)	(24,636)	370,296	732,546
Sales	10,517	21,343	4,585	8,665	(65)	(138)	15,037	29,870
Other operating revenues	3,050	7,049	290	506	(302)	(601)	3,038	6,954
	369,271	732,611	31,701	62,134	(12,601)	(25,375)	388,371	769,370
COSTS, LOSSES AND GAINS:								
Wages and salaries	18,147	37,927	2,551	4,961	-	-	20,698	42,888
Direct costs	127,602	243,738	8,718	16,622	(10,024)	(20,246)	126,296	240,114
Costs of products sold	10,522	21,345	74	130	-	(9)	10,596	21,466
Marketing and advertising	7,902	14,372	2,083	3,914	(1,880)	(3,742)	8,105	14,544
Support services	22,778	46,170	544	1,069	(393)	(783)	22,928	46,455
Supplies and external services	39,245	79,260	5,280	10,369	(304)	(595)	44,221	89,034
Other operating losses / (gains)	171	330	13	24	-	-	184	354
Taxes	7,579	15,319	294	340	-	-	7,873	15,659
Provisions and adjustments	(8,747)	(951)	(523)	(534)	-	-	(9,270)	(1,485)
	225,199	457,510	19,034	36,895	(12,601)	(25,375)	231,631	469,029
EBITDA	144,072	275,101	12,667	25,239	-	-	156,740	300,341
Depreciation, amortisation and impairment losses	94,098	188,074	9,352	18,664	-	-	103,450	206,738
Other losses / (gains), net	4,438	7,653	76	212	-	-	4,514	7,864
INCOME BEFORE FINANCIAL RESULTS AND TAXES	45,536	79,374	3,239	6,363	-	-	48,776	85,739
Net losses / (gains) of affiliated companies	(3,369)	(8,458)	(252)	(513)	-	-	(3,622)	(8,971)
Financial costs	5,913	10,695	145	274	-	-	6,058	10,969
Net foreign exchange losses / (gains)	108	111	(4)	(4)	-	-	104	107
Net losses / (gains) on financial assets	(25,113)	(25,113)	(15,629)	(15,629)	40,742	40,742	-	-
Net other financial expenses / (income)	(949)	733	7	21	-	-	(941)	754
	(23,410)	(22,032)	(15,733)	(15,851)	40,742	40,742	1,599	2,859
INCOME BEFORE TAXES	68,946	101,406	18,972	22,214	(40,742)	(40,742)	47,177	82,880
Income taxes	5,927	9,472	427	1,186	-	-	6,355	10,658
NET INCOME	63,019	91,934	18,545	21,028	(40,742)	(40,742)	40,822	72,222
CAPEX	77,598	155,296	8,078	17,503	-	-	85,676	172,799
EBITDA - CAPEX	66,474	119,805	4,589	7,736	-	-	71,064	127,542

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

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

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

31-12-2016				
	LOANS AND ACCOUNTS RECEIVABLE	AVAILABLE- FOR-SALE FINANCIAL ASSETS	INVESTMENTS HELD-TO- MATURITY	DERIVATIVES
ASSETS				
Available-for-sale financial assets	-	77	-	-
Derivative financial instruments (Note 17)	-	-	-	60
Accounts receivable - trade (Note 14)	348,926	-	-	-
Accounts receivable - other (Note 10)	19,201	-	-	-
Cash and cash equivalents (Note 18)	2,313	-	-	-
TOTAL FINANCIAL ASSETS	370,440	77	-	60
LIABILITIES				
Borrowings (Note 21)	-	-	-	-
Derivative financial instruments (Note 17)	-	-	-	4,027
Accounts payable - trade (Note 25)	-	-	-	-
Accounts payable - other (Note 26)	-	-	-	-
Accrued expenses (Note 23)	-	-	-	-
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 17)	-	60	-	60
Accounts receivable - trade (Note 14)	-	348,926	-	348,926
Accounts receivable - other (Note 10)	-	19,201	3,102	22,303
Cash and cash equivalents (Note 18)	-	2,313	-	2,313
TOTAL FINANCIAL ASSETS	-	370,577	3,102	373,679
LIABILITIES				
Borrowings (Note 21)	1,196,695	1,196,695	-	1,196,695
Derivative financial instruments (Note 17)	-	4,027	-	4,027
Accounts payable - trade (Note 25)	238,828	238,828	-	238,828
Accounts payable - other (Note 26)	90,132	90,132	152	90,284
Accrued expenses (Note 23)	183,699	183,699	-	183,699
TOTAL FINANCIAL LIABILITIES	1,709,354	1,713,381	152	1,713,533

30-06-2017				
	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 17)	-	-	-	17
Accounts receivable - trade (Note 14)	362,955	-	-	-
Accounts receivable - other (Note 10)	9,996	-	-	-
Cash and cash equivalents (Note 18)	2,010	-	-	-
TOTAL FINANCIAL ASSETS	374,961	77	-	17
LIABILITIES				
Borrowings (Note 21)	-	-	-	-
Derivative financial instruments (Note 17)	-	-	-	2,744
Accounts payable - trade (Note 25)	-	-	-	-
Accounts payable - other (Note 26)	-	-	-	-
Accrued expenses (Note 23)	-	-	-	-
TOTAL FINANCIAL LIABILITIES	-	-	-	2,744

30-06-2017				
	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 17)	-	17	-	17
Accounts receivable - trade (Note 14)	-	362,955	-	362,955
Accounts receivable - other (Note 10)	-	9,996	15,042	25,038
Cash and cash equivalents (Note 18)	-	2,010	-	2,010
TOTAL FINANCIAL ASSETS	-	375,055	15,042	390,097
LIABILITIES				
Borrowings (Note 21)	1,198,524	1,198,524	-	1,198,524
Derivative financial instruments (Note 17)	-	2,744	-	2,744
Accounts payable - trade (Note 25)	209,682	209,682	-	209,682
Accounts payable - other (Note 26)	74,543	74,543	196	74,739
Accrued expenses (Note 23)	204,049	204,049	-	204,049
TOTAL FINANCIAL LIABILITIES	1,686,798	1,689,542	196	1,689,738

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

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

The Group's activity is subject to a variety of financial risks, such as market risk, credit and liquidity risk and economical and judicial risks, which are described in the Management Report at 31 December 2016.

7. Tangible assets

During the semesters ended on 30 June 2016 and 2017, the movements under this heading were as follows:

	31-12-2015	INCREASES	TRANSFERS AND OTHERS	30-06-2016
ACQUISITION COST				
Land	919	-	-	919
Buildings and other constructions	325,185	3,993	33,408	362,586
Basic equipment	2,466,229	68,263	(60,595)	2,473,897
Transportation equipment	14,655	1	(24)	14,632
Tools and dies	1,266	-	70	1,336
Administrative equipment	329,029	8,522	(60,881)	276,670
Other tangible assets	42,251	78	(764)	41,565
Tangible assets in-progress	43,271	39,474	(47,429)	35,316
	3,222,805	120,331	(136,214)	3,206,922
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES				
Buildings and other constructions	37	-	-	37
Buildings and other constructions	168,657	6,221	17,969	192,847
Basic equipment	1,534,237	86,906	(56,500)	1,564,643
Transportation equipment	6,174	903	(738)	6,339
Tools and dies	1,225	12	-	1,237
Administrative equipment	304,204	9,396	(61,337)	252,263
Other tangible assets	40,733	(133)	(299)	40,302
	2,055,267	103,305	(100,905)	2,057,667
	1,167,538	17,026	(35,309)	1,149,255

The net amount of "Transfer and others" corresponds mainly to the reclassification to "Non-current assets held-for-sale" in the amount of 24.2 million euros (Note 16) and to the transfer of assets, in the amount of 9.3 million euros to "Intangible assets".

	31-12-2016	INCREASES	TRANSFERS AND OTHERS	30-06-2017
ACQUISITION COST				
Land	919	-	-	919
Buildings and other constructions	368,233	-	6,923	375,156
Basic equipment	2,538,387	38,162	34,452	2,611,001
Transportation equipment	8,673	699	(295)	9,077
Tools and dies	1,341	-	1	1,342
Administrative equipment	275,569	7,129	89	282,787
Other tangible assets	41,088	101	297	41,486
Tangible assets in-progress	32,067	54,348	(61,050)	25,365
	3,266,278	100,439	(19,583)	3,347,133
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES				
Land	37	-	-	37
Buildings and other constructions	198,353	5,810	89	204,252
Basic equipment	1,614,392	100,436	(15,176)	1,699,652
Transportation equipment	3,061	871	(44)	3,888
Tools and dies	1,250	16	-	1,266
Administrative equipment	250,866	8,282	545	259,693
Other tangible assets	40,138	4	486	40,628
	2,108,097	115,419	(14,100)	2,209,416
	1,158,181	(14,980)	(5,483)	1,137,717

At 30 June 2017, 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 781.8 million euros (31 December 2016: 785.8 million euros);
- Terminal equipment installed on client premises, included under Basic equipment, amounts to 132.9 million euros (31 December 2016: 138.2 million euros).

The acquisition cost of the "Tangible assets" and "Intangible assets" held by the Group under finance lease contracts at 31 December 2016 and 30 June 2017, amounted to 231.2 million euros and 207.4 million euros,

and their net book value as of those dates amounted to 112.9 million euros and 102.0 million euros, respectively.

Tangible and intangible assets include interests and other financial expenses incurred directly related to the construction of certain tangible or intangible assets in progress. At 30 June 2017, total net value of these costs amounted to 15.3 million euros (31 December 2016: 15.2 million euros). The amount capitalised in the period ended on 30 June 2017 amounted to 0.3 million euros (31 December 2016: 1.1 million euros).

8. Intangible assets

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

	31-12-2015	INCREASES	TRANSFERS AND OTHERS	30-06-2016
ACQUISITION COST				
Industrial property and other rights	1,489,997	37,235	86,003	1,613,235
Goodwill	641,599	-	-	641,599
Intangible assets in-progress	30,589	38,490	(32,250)	36,829
	2,162,185	75,725	53,753	2,291,663
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES				
Industrial property and other rights	979,470	90,511	43,872	1,113,853
Other intangible assets	4,156	-	569	4,725
	983,626	90,511	44,441	1,118,578
	1,178,559	(14,786)	9,312	1,173,085

The amount of "Transfer and others" corresponds, mainly, to the transfer of assets, in the amount of 9.3 million euros from "Tangible assets".

	31-12-2016	INCREASES	TRANSFERS AND OTHERS	30-06-2017
ACQUISITION COST				
Industrial property and other rights	1,697,035	35,024	46,692	1,778,751
Goodwill	641,599	-	(199)	641,400
Intangible assets in-progress	33,374	37,336	(37,481)	33,229
	2,372,008	72,360	9,012	2,453,380
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES				
Industrial property and other rights	1,208,450	91,318	38	1,299,806
Intangible assets in-progress	4,779	-	(213)	4,566
	1,213,229	91,318	(175)	1,304,372
	1,158,779	(18,958)	9,187	1,149,008

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

- (1) A net amount of 131.0 million euros (31 December 2016: 135.2 million euros) mainly related to the investment, net of amortisation, made in the development of the UMTS network by NOS SA, including: (i) 41.5 million euros (31 December 2016: 42.8 million euros) related to the license, (ii) 13.9 million euros (31 December 2016: 14.3 million euros) related to the agreement signed in 2002 between Oni Way and the other three mobile telecommunication operators with activity in Portugal, (iii) 4.3 million euros (31 December 2016: 4.4 million euros) related to the Share Capital of "Fundação para as Comunicações Móveis", established in 2007, under an agreement entered with Ministério das Obras Públicas, Transportes e Comunicações and the three mobile telecommunication operators in Portugal; (iv) 60.7 million euros (31 December 2016: 62.6 million euros) related with the programme "Initiatives E"; and (v) the net amount of

7.2 million euros (31 December 2016: 7.4 million euros) corresponding to the valuation of the license in the fair value allocation process resulting from the merger;

- (2) A net amount of 92.1 million euros (31 December 2016: 94.0 million euros) corresponding to the current value of future payments related with the acquisition of rights of use for frequencies (spectrum) bands of 800 MHz, 1800 MHz, 2600 MHz, which will be used to develop 4th generation services (LTE - Long Term Evolution) and a net amount of 3.2 million euros (31 December 2016: 3.3 million euros) corresponding to the valuation of the license in the fair value allocation process resulting from the merger;
- (3) A net amount of 51,9 million euros (31 December 2016: 51.0 million euros) relating to the contract for the exclusive acquisition of satellite capacity celebrated between NOS SA and Hispasat, which is recorded as a finance lease;
- (4) Net amounts of approximately 54.8 million euros (31 December 2016: 56.9 million euros) and 20.7 million euros (31 December 2016: 20.9 million euros) corresponding to the capitalised costs related to customers' loyalty contracts and future rights to use movies and series, respectively;
- (5) A net amount of approximately 11.5 million euros (31 December 2016: 16.4 million euros) corresponding to the valuation of Optimus customer portfolio under the fair value allocation process resulting from the merger.

Impairment tests on goodwill

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

	31-12-2016	30-06-2017
Telco	564,998	564,799
Audiovisuals	76,601	76,601
	641,599	641,400

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

These estimates are based on the following assumptions:

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

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

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

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

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

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

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

9. Financial investments in group companies

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

	31-12-2016	30-06-2017
INVESTMENTS - EQUITY METHOD		
Sport TV	2,219	4,693
Dreamia	3,770	4,273
Finstar	1,632	7,360
Mstar	(825)	(627)
Upstar	139	148
Canal 20 TV, S.A.	13	13
East Star	36	36
Big Picture 2 Films	80	89
	7,063	15,985
ASSETS	7,888	16,612
LIABILITIES (NOTE 22)	(825)	(627)

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

	6M 16	6M 17
AS AT JANUARY 1	29,922	7,063
Gains / (losses) for the period (Note 33)	(9,653)	7,734
Gains (Note 33) i)	-	1,237
Capital increase	25,347	-
Return of supplementary ii)	(41,547)	-
Changes in equity iii)	(978)	(49)
AS AT JUNE 30	3,091	15,985

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

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

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

2017							
ENTITY	ASSETS	LIABILITIES	EQUITY	REVENUE	NET INCOME	% HELD	GAIN/(LOSS) ATTRIBUTED TO THE GROUP
Sport TV*	100,398	81,624	18,774	94,463	4,950	25.00%	1,238
Dreamia	15,752	7,206	8,546	2,280	1,007	50.00%	504
Finstar	246,093	221,561	24,532	146,420	19,063	30.00%	5,719
Mstar	8,829	10,919	(2,090)	10,157	853	30.00%	256
Upstar	199,944	199,451	493	55,254	30	30.00%	9
Canal 20 TV, S.A.	27	1	26	-	-	50.00%	-
East Star	137	17	120	-	-	30.00%	-
Big Picture 2 Films	2,599	2,155	444	4,671	45	20.00%	9
	573,779	522,934	50,845	313,245	25,948		7,734

* The share capital is adjusted, in return of liabilities, in the amount of 10.2 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.

10. Accounts receivable – other

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

	31-12-2016		30-06-2017	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Accounts receivables i)	13,560	7,317	13,677	7,589
Advances of suppliers	3,102	-	5,322	-
	16,662	7,317	18,999	7,589
Impairment of other receivable	(848)	(828)	(722)	(828)
	15,814	6,489	18,277	6,761

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

	6M 16	6M 17
AS AT JANUARY 1	2,115	1,676
Increases (Note 32)	7	3
Others	(347)	(129)
AS AT JUNE 30	1,775	1,550

11. Taxes payable and receivable

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

	31-12-2016		30-06-2017	
	RECEIVABLE	PAYABLE	RECEIVABLE	PAYABLE
NON CURRENT				
Value-added tax (Note 39.2)	3,617	-	3,617	-
Provisions (i)	-	-	(2,588)	-
Corporate Income taxes (ii)	-	1,298	-	1,298
	3,617	1,298	1,029	1,298
CURRENT				
Value-added tax	974	18,633	905	17,210
Corporate Income taxes (ii)	1,457	1,298	-	9,779
Personnel income tax withholdings	-	1,980	-	2,906
Social Security contributions	-	1,895	-	2,986
Others	430	151	421	102
	2,861	23,957	1,326	32,983
	6,478	25,255	2,355	34,281

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

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

	31-12-2016	30-06-2017
Estimated current tax on income	(20,113)	(18,752)
Payments on account	15,070	953
Withholding income taxes	4,565	4,087
Others	(661)	2,635
	(1,139)	(11,077)

12. Income tax expense

NOS and its associated companies are subject to IRC - Corporate Income Tax - at the rate of 21% on taxable amount (taxable profit less eventual tax losses subject to deduction), plus IRC surcharge at the maximum rate of 1.5% on taxable profit, giving an aggregate rate of approximately 22.5%. Additionally, following the introduction of austerity measures approved by Law 66-B/2012 of 31 December, and respective addendum published by Law 2/2014 of 16 January, the rate ("State surcharge") of 3% will be applied to the company's taxable profit between 1.5 million euros and 7.5 million euros, by 5% to the company's taxable profit which exceeds 7.5 million euros up to 35 million euros, and by 7% to the company's taxable profit above 35 million euros.

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

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

The companies covered by the RETGS in 2017 are:

- NOS (parent company)
- Empracine
- Lusomundo Imobiliária 2
- Lusomundo SII
- NOS Açores
- NOS Audiovisuais
- NOS Cinemas
- NOS Inovação

- NOS Lusomundo TV
- NOS Madeira
- NOS PUB
- 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 suspended.

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

A) Deferred tax

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

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

	31-12-2015	DEFERRED TAXES OF THE PERIOD		30-06-2016
		INCOME (NOTE B)	EQUITY (NOTE 17)	
DEFERRED INCOME TAX ASSETS				
Doubtful accounts receivable	7,704	675	-	8,379
Inventories	2,573	2	-	2,575
Other provision and adjustments	71,616	936	-	72,552
Intragroup gains	23,918	1,232	-	25,150
Liabilities recorded as part of the allocation of fair value to the liabilities acquired in the merger	8,638	(99)	-	8,539
Derivatives	772	-	550	1,322
Tax incentives	7,318	(5,648)	-	1,670
	122,539	(2,902)	550	120,187
DEFERRED INCOME TAX ASSETS				
Revaluations of assets as part of the allocation of fair value to the assets acquired in the merger	11,156	(1,524)	-	9,632
Others	2,583	(172)	5	2,411
	13,739	(1,696)	5	12,043
NET DEFERRED TAX	108,800	(1,206)	545	108,144

	31-12-2016	DEFERRED TAXES OF THE PERIOD		30-06-2017
		INCOME (NOTE B)	EQUITY (NOTE 17)	
DEFERRED INCOME TAX ASSETS				
Doubtful accounts receivable	7,380	226	-	7,606
Inventories	2,482	84	-	2,566
Other provision and adjustments	75,704	(2,885)	-	72,819
Intragroup gains	23,034	(275)	-	22,759
Liabilities recorded as part of the allocation of fair value to the liabilities acquired in the merger	7,801	(227)	-	7,574
Derivatives	901	41	(328)	614
Tax incentives	-	-	-	-
	117,302	(3,036)	(328)	113,938
DEFERRED INCOME TAX LIABILITIES				
Revaluation of fixed assets	2	-	-	2
Revaluations of assets as part of the allocation of fair value to the assets acquired in the merger	7,879	(1,486)	-	6,393
Derivatives	10	(10)	-	-
Others	2,315	27	-	2,342
	10,206	(1,469)	-	8,737
NET DEFERRED TAX	107,096	(1,567)	(328)	105,201

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

- i) Impairments and acceleration of amortisations beyond the acceptable fiscally and other adjustments in fixed tangible assets and intangible assets, amounted to 58.9 million euros (31 December 2016: 59.3 million euros);
- ii) Other provisions amounted to 13.9 million euros (31 December 2016: 16.4 million euros).

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

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

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

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

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

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

B) Effective tax rate reconciliation

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

	2 nd QUARTER 16	6M 16	2 nd QUARTER 17	6M 17
Income before taxes	36,386	64,808	47,178	82,880
Statutory tax rate	22.5%	22.5%	22.5%	22.5%
ESTIMATED TAX	8,187	14,582	10,615	18,648
Permanent differences i)	895	2,318	(737)	(1,859)
Differences in tax rate of group companies	(715)	(1,427)	(1,692)	(2,759)
Income tax related to previous years	(380)	(4,011)	(795)	(828)
Tax benefits ii)	(226)	(1,726)	(2,018)	(5,098)
State surcharge	1,974	3,633	2,036	3,404
Autonomous taxation	170	386	199	404
Provisions (Note 22)	18	107	(1,233)	(1,174)
Others	8	37	(20)	(80)
INCOME TAXES	9,931	13,899	6,355	10,658
Effective Income tax rate	27.3%	21.4%	13.5%	12.9%
Income tax	10,287	12,698	3,050	9,091
Deferred tax	(356)	1,201	3,305	1,567
	9,931	13,899	6,355	10,658

i) At 30 June 2016 and 2017 the permanent differences were composed as follows:

	2 nd QUARTER 16	6M 16	2 nd QUARTER 17	6M 17
Equity method (Note 33)	3,288	9,653	(3,622)	(8,971)
Others	693	651	344	707
	3,981	10,304	(3,278)	(8,264)
	22.5%	22.5%	22.5%	22.5%
	895	2,318	(737)	(1,859)

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

13. Inventories

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

	31-12-2016	30-06-2017
INVENTORIES		
Telco	45,075	43,852
Audiovisuals	15,491	1,790
	60,566	45,642
IMPAIRMENT OF INVENTORIES		
Telco	(8,388)	(8,843)
Audiovisuals	(1,135)	(862)
	(9,523)	(9,705)
	51,043	35,937

The decrease in "Inventories – Audiovisuals" is justified, mainly, by the cost recognition of broadcasting rights acquired under the new sports content contracts (Note 37.3) of one semester (Note 26).

The movements occurred in impairment adjustments were as follows:

	6M 16	6M 17
AS AT JANUARY 1	9,640	9,523
Increase and decrease - Cost of products sold (Note 30)	95	256
Others	(74)	(74)
AS AT JUNE 30	9,661	9,705

14. Accounts receivable – trade

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

	31-12-2016	30-06-2017
Trade receivables	285,212	300,975
Doubtful accounts for trade receivables	157,753	157,981
Unbilled revenues i)	63,714	61,980
	506,679	520,936
Impairment of trade receivable	(157,753)	(157,981)
	348,926	362,955

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

The movements occurred in impairment adjustments were as follows:

	6M 16	6M 17
AS AT JANUARY 1	194,497	157,753
Increases and decreases (Note 32)	4,334	1,950
Penalties - i)	8,092	8,590
Receivables written off and others	(1,493)	(10,312)
AS AT JUNE 30	205,430	157,981

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

15. Deferred costs

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

	31-12-2016	30-06-2017
Discounts i)	28,957	29,122
Costs of litigation procedure activity	22,775	16,425
Programming costs ii)	16,974	12,486
Rentals	3,754	3,859
Advertising	633	2,405
Insurance	1,249	1,541
Others	10,049	9,983
	84,391	75,821

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

16. Non-current assets held-for-sale

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

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

17. Derivative financial instruments

Exchange rate derivatives

At the date of the statement of the financial position there were foreign currency forwards open for 4,512 thousand euros (2016: 1,032 thousand euros), the fair value is the negative amount of 35 thousand euros (2016: positive amount of 37 thousand euros).

Interest rate derivatives

At 30 June 2017, NOS had contracted three interest rate swaps totaling 300 million euros (2016: 375 thousand euros), whose maturities expire in 2017 (one swap in the amount of 50 million euros) and 2019 (two swaps in the amount of 250 million euros). The fair value of interest rate swaps, is the negative amount of 2.7 million euros (2016: negative amount of 4.0 million euros) was recorded in liabilities, against shareholder's equity.

Own shares derivatives

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

31-12-2016					
NOTIONAL	ASSETS		LIABILITIES		
	CURRENT	NON CURRENT	CURRENT	NON CURRENT	
Interest rate swaps	375,000	-	-	-	4,027
Equity Swaps	2,041	17	6	-	-
Exchange rate forward	1,032	37	-	-	-
	378,073	54	6	-	4,027
30-06-2017					
NOTIONAL	ASSETS		LIABILITIES		
	CURRENT	NON CURRENT	CURRENT	NON CURRENT	
Interest rate swaps	300,000	-	-	-	2,660
Equity swaps	2,318	17	-	-	49
Exchange rate forward	4,512	-	-	35	-
	306,829	17	-	35	2,709

Movements during the semesters ended on 30 June 2016 and 2017 were as follows:

	31-12-2015	RESULT	EQUITY	30-06-2016
Fair value interest rate swaps	(3,369)	-	(2,507)	(5,876)
Fair value exchange rate forward	(47)	-	66	19
CASH FLOW HEDGE DERIVATIVES	(3,416)	-	(2,441)	(5,857)
Deferred income tax liabilities	-	-	(5)	(5)
Deferred income tax assets	772	-	550	1,322
DEFERRED INCOME TAX	772	-	545	1,317
	(2,644)	-	(1,896)	(4,540)

	31-12-2016	RESULT	EQUITY	30-06-2017
Fair value interest rate swaps	(4,027)	-	1,367	(2,660)
Fair value exchange rate forward	37	(72)	-	(35)
Fair value equity swaps	23	(145)	90	(32)
CASH FLOW HEDGE DERIVATIVES	(3,967)	(217)	1,457	(2,727)
Deferred income tax liabilities	(10)	10	-	-
Deferred income tax assets	901	41	(328)	614
DEFERRED INCOME TAX	890	51	(328)	614
	(3,077)	(166)	1,129	(2,113)

18. Cash and cash equivalents

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

	31-12-2016	30-06-2017
Cash	1,572	969
Deposits	240	303
Other deposits i)	501	738
	2,313	2,010

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

19. Shareholder's equity

19.1. Share capital

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

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

	31-12-2016		30-06-2017	
	NUMBER OF SHARES	% SHARE CAPITAL	NUMBER OF SHARES	% SHARE CAPITAL
ZOPT, SGPS, SA (1)	268,644,537	52.15%	268,644,537	52.15%
Banco BPI, SA (2)	14,275,509	2.77%	14,275,509	2.77%
Blackrock, Inc	10,349,515	2.01%	11,562,497	2.24%
MFS Investment Management	-	-	11,049,477	2.14%
Norges Bank	10,891,068	2.11%	10,891,068	2.11%
TOTAL	304,160,629	59.04%	316,423,088	61.42%

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

19.2. Capital issued premium

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

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

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

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

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

c) To increase the share capital.

19.3. Own shares

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

At 30 June 2017 there were 2,047,752 own shares, representing 0.3975% of the share capital (31 December 2016: 3,017,603 own shares, representing 0.5858% of the share capital).

Movements in the semesters ended on 30 June 2016 and 2017 were as follows:

	QUANTITY	VALUE
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	(1,497,256)	(9,518)
Distribution of own shares - other remunerations	(429,540)	(2,745)
BALANCE AS AT 30 JUNE 2016	3,052,189	18,971
BALANCE AS AT 1 JANUARY 2017	3,017,603	18,756
Distribution of own shares - share incentive scheme	(923,953)	(5,743)
Distribution of own shares - other remunerations	(45,898)	(285)
BALANCE AS AT 30 JUNE 2017	2,047,752	12,728

19.4. Reserves

Legal reserve

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

Other reserves

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

Dividends

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

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

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

	DIVIDENDS
Dividends	103,032
Dividends of own shares	(415)
	102,617

20. Non-controlling interests

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

	31-12-2015	ATTRIBUTABLE PROFITS	OTHERS	30-06-2016
NOS Madeira Comunicações	6,739	50	(6)	6,783
NOS Açores Comunicações	2,632	(37)	-	2,595
Lusomundo SII	23	-	-	23
Empracine	-	-	-	-
Lusomundo Imobiliária 2, SA	36	-	(1)	35
	9,430	13	(7)	9,436

	31-12-2016	ATTRIBUTABLE PROFITS	OTHERS	30-06-2017
NOS Madeira Comunicações	6,450	503	2	6,956
NOS Açores Comunicações	2,533	(108)	1	2,426
Lusomundo SII	23	-	-	23
Empracine	-	-	-	-
Lusomundo Imobiliária 2, SA	35	-	-	35
	9,041	395	3	9,440

21. Borrowings

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

	31-12-2016		30-06-2017	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
LOANS - NOMINAL VALUE	196,216	876,667	138,486	943,333
Debenture loan	-	585,000	-	585,000
Commercial paper	150,000	200,000	100,000	285,000
Foreign loans	30,027	91,667	18,333	73,333
Bank overdrafts	16,189	-	20,153	-
LOANS - ACCRUALS AND DEFERRALS	204	(4,890)	165	(3,944)
FINANCIAL LEASES	28,272	100,226	28,436	92,048
Long Term Contracts	10,785	71,287	11,161	65,445
Other	17,487	28,939	17,275	26,603
	224,692	972,003	167,087	1,031,437

During the semester ended on 30 June 2017, the average cost of debt of the used lines was approximately 2.1% (2016: 2.2%).

21.1. Debenture loans

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

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

At 30 June 2017, an amount of 1,102 thousand euros, corresponding to interest and commissions, was deducted from this amount and recorded in the item Loans - accruals and deferrals.

21.2. Commercial paper

At 30 June 2017, the Company has borrowings of 385 million euros in the form of commercial paper, of which 100 million euros issued without underwriting securities. The total amount contracted, under underwriting securities, is of 570 million euros, corresponding to ten programmes, with six banks, which bear interest at market rates. Commercial paper programmes with maturities over 1 year totaling 285 million euros are classified as non-current, since the Company has the ability to unilaterally renew current issues on or before the programmes' maturity dates and because they are underwritten by the organizer. As such, this amount, although having a current maturity, it was classified as non-current for presentation purposes in the financial position statement.

At 30 June 2017, an amount of 534 thousand euros, corresponding to interest and commissions, was deducted to this amount and recorded in the item Loans - accruals and deferrals.

21.3. Foreign loans

At 31 December 2016, the escrow account signed with Caixa Geral de Depósitos bears interest at a variable rate indexed to Euribor and paid monthly amounted to 10 million euros. At 30 June 2017, this funding line is not in use.

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

Additionally, at 30 June 2017, an amount of 2,143 thousand euros was deducted from this amount, corresponding to the benefit associated with the fact that the loan is at a subsidised rate.

21.4. Financial leases

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

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

Financial leases – payments

	31-12-2016	30-06-2017
Until 1 year	33,779	33,048
Between 1 and 5 years	85,895	71,372
Over 5 years	30,615	35,012
	150,289	139,432
Future financial costs	(21,791)	(18,948)
PRESENT VALUE OF FINANCE LEASE LIABILITIES	128,498	120,484

Financial leases – present value

	31-12-2016	30-06-2017
Until 1 year	28,272	28,436
Between 1 and 5 years	72,081	60,185
Over 5 years	28,145	31,863
	128,498	120,484

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:

	31-12-2016			30-06-2017		
	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS
Debenture loan	1,183	372,339	209,872	1,245	522,713	59,940
Commercial paper	149,651	200,000	-	99,466	247,500	37,500
Foreign loans	29,397	71,317	18,249	17,787	71,736	-
Bank overdrafts	16,189	-	-	20,153	-	-
Financial Leases	28,272	72,081	28,145	28,436	60,185	31,863
	224,692	715,737	256,266	167,087	902,134	129,303

22. Provisions and adjustments

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

	31-12-2016	30-06-2017
Litigation and other - i)	57,697	49,669
Financial investments - ii)	825	627
Dismantling and removal of assets - iii)	29,694	29,592
Contingent liabilities - iv)	33,486	32,490
Contingencies - other - v)	24,585	21,095
	146,287	133,474

- 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, in January 2017, the nullity of the process (based on the violation of NOS, SA's right of defense). In April 2014 ANACOM notified NOS SA of a new judicial process, based on the same accusations. This process was a repetition of the initial one. In September 2014, ANACOM, based on the same facts, fined NOS SA in the amount of 6.5 million euros. This second decision was contested by NOS SA. In May 2015, it was acquitted by the Court of First Instance, which entirely revoked the decision by ANACOM and the fine which had been applied. Following this, in May 2015 ANACOM appealed the decision, which was ruled by summary decision as unfounded in May 2017, confirming NOS SA's acquittal. No part appealed on the court's final judgment so that the proceedings became final and unappealable at the end of May 2017. In the quarter ended on 30 June 2017 the full amount of the provision, corresponding to 6.5 million euros, was reversed.
- c. Supplementary Capital: the fiscal authorities are of the opinion that NOS SA has broken the principle of full competition under the terms of (1) of Article 58 of the Corporate Tax Code (CIRC) – currently Article 63 –, by granting supplementary capital to its subsidiary NOS Towering, without having been remunerated at a market interest rate. In consequence, it has been notified, with regard to the years 2004, 2005, 2006 and 2007 of corrections to the determination of its taxable income in the total amount of 20.5 million euros. NOS SA contested the decision with regard to all the above mentioned years. As for the year 2004, the Court has decided favorably. This decision is concluded (favorably), originating a reversal of provisions, in 2016, in the amount of 1.3 million euros plus interest. As for the years 2006 and 2007, the Oporto Fiscal and Administrative Court has already decided unfavorably. The company has contested this decision and the final decision of the processes is still pending;

- ii) The amount under the item "Financial investments" corresponds to the liabilities assumed, in addition to the investment made, by the Group in jointly controlled companies and associated companies (Note 9);
- iii) The amount under the item "Dismantling and removal of assets" refers to the estimated future costs discounted to the present value, related with the termination of the use of the space where there are telecommunication towers and cinemas;
- iv) The amount in the item "Contingent liabilities" refers to several provisions recorded for present but not likely obligations, related to the merger by incorporation of Optimus SGPS, namely:
 - (1) Extraordinary contribution toward the fund for the compensation of the net costs of the universal service of electronic communications (CLSU): The Extraordinary contribution toward the fund for the compensation of the net costs of the universal service of electronic communications (CLSU) is legislated in Articles 17 to 22 of Law nr 35/2012, of 23 August. From 1995 until June 2014, MEO, SA (former PTC) was the sole provider for the universal service of electronic communications, having been designated administratively by the government, i.e. without a tender procedure, which constitutes an illegality, by the way acknowledged by the European Court of Justice who, through its decision taken in June 2014, condemned the Portuguese State to pay a fine of 3 million euros for illegally designating MEO. In accordance with Article 18 of the abovementioned Law 35/2012 of 23 August, the net costs incurred by the operator responsible for providing the universal service, approved by ANACOM, must be shared between other companies who provide, in national territory public communication networks and publicly accessible electronic communications services. NOS is therefore within the scope of this extraordinary contribution given that MEO has been requesting the payment of CLSU to the compensation fund of the several periods during which it was responsible for providing the services. In accordance with law, the compensation fund can be activated to compensate the net costs of the electronic communications universal service, relative to the period before the designation of the provider by tender, whenever, cumulatively (i) there are net costs, considered excessive, the amount of which is approved by ANACOM, following an audit to their preliminary calculation and support documents, which are provided by the universal service provider, and (ii) the universal service provider requests the Government compensation for the net costs approved under the terms previously mentioned.
 - In 2013, ANACOM deliberated to approve the final results of the CLSU audit presented by MEO, relative to the period from 2007 to 2009, in a total amount of 66.8 million euros, a decision which was contested by NOS. In January 2015, ANACOM issued the settlement notes to NOS SA, NOS Madeira and NOS Açores in the amount of 18.6 million euros, which were contested by NOS and for which a bail was presented by NOS SGPS (Note 37) to avoid Tax Execution Proceedings. The guarantees have been accepted by ANACOM.
 - In 2014, ANACOM deliberated to approve the final results of the audit to CLSU presented by MEO, relative to the period from 2010 to 2011, in a total amount of 47.1 million euros, a decision also contested by the NOS. In February 2016, ANACOM issued the settlement notes to NOS SA, NOS Madeira and NOS Açores, in the amount of 13 million euros, which were also contested and for

which it was before also presented bail by NOS SGPS also to avoid Tax Execution proceedings. The guarantees have been accepted by ANACOM.

- In 2015, ANACOM deliberated to approve the final results of the audit to CLSU presented by MEO relative to the period from 2012 to 2013, in the amount of 26 million euros and 20 million euros, respectively, decision which was also contested by NOS. In December 2016, Anacom issued the settlement notes to NOS SA, NOS Madeira and NOS Açores in the amount of 13.6 million euros, which will be contested and for which it was presented bail by NOS SGPS to avoid Tax Execution proceedings. The guarantees have also been accepted by ANACOM.
- At October 2016, ANACOM approved the results of the audit to the CLSU presented by MEO relative to the period between January and June 2014, in the amount of 7.7 million euros, decision which NOS has contested in January 2017.

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

- (2) 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 semester ended on 30 June 2016, movements in provisions were as follows:

	31-12-2015	INCREASES	DECREASES	OTHERS	30-06-2016
Litigation and other	61,042	918	(2,738)	-	59,222
Financial investments	-	602	-	-	602
Dismantling and removal of assets	24,204	190	(84)	3,678	27,988
Contingent liabilities	34,673	-	-	-	34,673
Contingencies - other	19,565	1,115	(6)	2,244	22,918
	139,484	2,825	(2,828)	5,922	145,403

During the semester ended on 30 June 2016, increases of provisions mainly refer to the update of the value of contingencies and respective interest claims.

The movement recorded in Others in the amount of 3.7 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 in result of the change of the rate used in the update for the present value of the liability.

In addition, the movements recorded in "Other" in the amount of 2.2 million euros refers mainly to the use of provisions set aside for compensation to employees and the reclassification of cost estimates in relation to which can not be estimated with high reliability the time of implementation of the expenditure in the amount of 2.8 million euros.

During the semester ended on 30 June 2017, movements in provisions were as follows:

	31-12-2016	INCREASES	DECREASES	OTHERS	30-06-2017
Litigation and other	57,697	6,074	(11,515)	(2,588)	49,669
Financial investments	825	-	(198)	-	627
Dismantling and removal of assets	29,694	312	(93)	(320)	29,592
Contingent liabilities	33,486	-	(996)	-	32,490
Contingencies - other	24,585	1,442	(125)	(4,806)	21,096
	146,287	7,828	(12,927)	(7,715)	133,473

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

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

The movement recorded in Others in the amount of 2.6 million euros, under Litigation and others, was recorded by counterpart of the asset (Note 11). In addition, the movements recorded in "Other" in the amount of 4.8 million euros refers mainly to the use of provisions set aside for compensation to employees, in the amount of 2.2 million euros, and the reclassification of cost estimates in relation to which can not be estimated with high reliability the time of implementation of the expenditure in the amount of 2.6 million euros.

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

	6M 16	6M 17
Provisions and adjustments (Note 32)	(2,314)	(3,448)
Financial investments (Note 9)	602	(198)
Other losses / (gains) non-recurrent	1,071	1,409
Interests - dismantling	106	219
Other interests	425	(1,906)
Income tax (Note 12)	107	(1,174)
INCREASES AND DECREASES IN PROVISIONS	(3)	(5,098)

23. Accrued expenses

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

	31-12-2016	30-06-2017
NON CURRENT		
Contractual obligations i)	8,776	8,457
Others	409	612
	9,185	9,069
CURRENT		
Invoices to be issued by operators ii)	43,630	56,227
Vacation pay and bonuses	25,005	18,578
Investments in tangible and intangible assets	17,272	14,191
Content and film rights	15,841	18,135
ANACOM taxes and Cinema Law iii)	66	13,721
Costs of litigation procedure activity	13,066	13,706
Advertising	12,670	14,687
Programming services	11,806	12,675
Comissions	8,380	5,562
Rentals	5,835	5,694
Energy and water	3,696	3,502
Maintenance and repair	2,007	2,998
Other accrued expenses	1,622	3,189
Professional services	13,618	12,115
	174,514	194,980

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

24. Deferred income

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

	31-12-2016		30-06-2017	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Advanced billing i)	29,491	-	25,512	-
Investment subsidy ii)	632	4,138	632	3,922
	30,123	4,138	26,144	3,922

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

25. Accounts payable - trade

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

	31-12-2016	30-06-2017
Suppliers current account	232,305	205,199
Invoices in reception and conference	6,523	4,483
	238,828	209,682

26. Accounts payable - other

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

	31-12-2016	30-06-2017
NON CURRENT		
Assignment of receivables without resources i)	21,551	19,842
	21,551	19,842
CURRENT		
Fixed assets suppliers	34,772	35,633
Assignment of receivables without resources i)	18,624	16,579
Football games broadcasting rights ii)	13,500	-
Advances from customers	152	196
Others	1,685	2,489
	68,733	54,897
	90,284	74,739

- i) NOS Comunicações, S.A. materialised a credit assignment transaction, that was coordinated by Banco Comercial Português and Caixa Geral de Depósitos, through which it ceded future credits to be generated by a portfolio of Corporate customers, in the amount of 55.6 million euros. In the semester ended on 30 June 2017, the balance amounted to 36.4 million euros. 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 correspond to the estimated amount payable for the acquisition of games broadcasting rights for the season 16/17 under the new contracts of sports content (Note 13 and 37.3). At 30 June 2017 all amounts had been paid.

27. Operating revenues

Consolidated operating revenues for the quarters and semesters ended on 30 June 2016 and 2017 are distributed as follows:

	2 nd QUARTER 16	6M 16	2 nd QUARTER 17	6M 17
SERVICES RENDERED:				
Telco i)	337,457	668,254	350,166	692,856
Audiovisuals and cinema exhibition ii)	16,328	34,616	20,130	39,690
	353,785	702,870	370,296	732,546
SALES:				
Telco iii)	10,450	23,121	10,515	21,333
Audiovisuals and cinema exhibition iv)	3,546	7,965	4,522	8,537
	13,996	31,086	15,037	29,870
OTHER OPERATING REVENUES:				
Telco	4,757	8,691	2,768	6,485
Audiovisuals and cinema exhibition	273	467	270	469
	5,030	9,158	3,038	6,954
	372,811	743,114	388,371	769,370

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

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

28. Wage and salaries

In the quarters and semesters ended on 30 June 2016 and 2017, this item was composed as follows:

	2 nd QUARTER 16	6M 16	2 nd QUARTER 17	6M 17
Remuneration	16,448	35,194	15,585	32,559
Social taxes	4,317	8,572	4,184	8,395
Social benefits	329	649	464	956
Others	802	1,306	465	978
	21,896	45,721	20,698	42,888

In the semesters ended on 30 June 2016 and 2017, the average number of employees of the companies included in the consolidation was 2,512 and 2,487, respectively. At 30 June 2017, the number of employees of the companies included in the consolidation was 2,516.

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

29. Direct costs

In the quarters and semesters ended on 30 June 2016 and 2017, this item was composed as follows:

	2 nd QUARTER 16	6M 16	2 nd QUARTER 17	6M 17
Exhibition costs	41,906	84,465	52,726	103,906
Traffic costs	51,043	99,706	56,287	102,249
Capacity costs	11,960	24,630	11,687	23,527
Shared advertising revenues	3,840	7,082	4,124	7,571
Others	1,631	3,321	1,472	2,861
	110,380	219,204	126,296	240,114

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

30. Cost of products sold

In the quarters and semesters ended on 30 June 2016 and 2017, this item was composed as follows:

	2 nd QUARTER 16	6M 16	2 nd QUARTER 17	6M 17
Costs of products sold	10,549	24,821	10,357	21,210
Inventories impairment (Note 13)	196	95	239	256
	10,745	24,916	10,596	21,466

31. Support services and supplies and external services

In the quarters and semesters ended on 30 June 2016 and 2017, this item was composed as follows:

	2 nd QUARTER 16	6M 16	2 nd QUARTER 17	6M 17
SUPPORT SERVICES:				
Call centers and customer support	8,146	16,829	7,547	16,091
Information systems	4,923	9,851	4,331	8,780
Administrative support and other	8,896	18,982	11,050	21,584
	21,965	45,662	22,928	46,455
SUPPLIES AND EXTERNAL SERVICES:				
Maintenance and repair	11,313	21,814	11,180	22,969
Rentals	11,013	22,042	10,492	21,655
Electricity	5,257	10,485	5,915	10,671
Commissions	2,774	5,921	1,986	4,639
Professional services	2,966	5,887	3,151	6,227
Communications	1,997	3,991	1,895	3,647
Installation and removal of terminal equipment	1,993	3,920	2,760	5,499
Other supplies and external services	8,905	16,832	6,842	13,727
	46,218	90,892	44,221	89,034

32. Provisions and adjustments

In the quarters and semesters ended on 30 June 2016 and 2017, this item was composed as follows:

	2 nd QUARTER 16	6M 16	2 nd QUARTER 17	6M 17
Provisions (Note 22)	(524)	(2,314)	(7,811)	(3,448)
Impairment of account receivables - trade (Note 14)	796	4,334	(1,482)	1,950
Impairment of account receivables - other (Note 10)	2	7	17	3
Others	16	23	6	10
	290	2,050	(9,270)	(1,485)

33. Losses / (gains) of affiliated companies

In the quarters and semesters ended on 30 June 2016 and 2017, this item was composed as follows:

	2 nd QUARTER 16	6M 16	2 nd QUARTER 17	6M 17
EQUITY METHOD (NOTE 9)				
Sport TV	3,222	5,777	(954)	(2,474)
Dreamia	(180)	(508)	(257)	(504)
Finstar	188	4,040	(2,241)	(5,719)
Mstar	71	403	(175)	(256)
Upstar	(1)	(11)	-	(9)
Others	(12)	(48)	4	(9)
	3,288	9,653	(3,622)	(8,971)

34. Depreciation, amortisation and impairment losses

In the quarters and semesters ended on 30 June 2016 and 2017, this item was composed as follows:

	2 nd QUARTER 16	6M 16	2 nd QUARTER 17	6M 17
TANGIBLE ASSETS				
Buildings and other constructions	3,158	6,221	2,914	5,810
Basic equipment	45,734	86,906	50,200	100,436
Transportation equipment	445	903	446	871
Tools and dies	7	12	8	16
Administrative equipment	4,887	9,396	4,173	8,282
Other tangible assets	(289)	(133)	85	4
	53,942	103,305	57,826	115,419
INTANGIBLE ASSETS				
Industrial property and other rights	44,587	90,511	45,624	91,318
	44,587	90,511	45,624	91,318
INVESTMENT PROPERTY				
Investment property	7	13	-	1
	7	13	-	1
	98,536	193,829	103,450	206,738

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

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

	2 nd QUARTER 16	6M 16	2 nd QUARTER 17	6M 17
FINANCING COSTS:				
INTEREST EXPENSE:				
Borrowings	4,087	8,282	4,078	8,136
Finance leases	1,588	2,974	1,312	2,885
Derivatives	544	975	737	1,362
Others	437	736	1,085	1,334
	6,656	12,967	7,213	13,717
INTEREST EARNED	(1,974)	(4,830)	(1,155)	(2,748)
	4,682	8,137	6,058	10,969
NET OTHER FINANCIAL EXPENSES /(INCOME):				
Comissions and guarantees	1,197	2,580	1,261	2,453
Others	483	1,104	(2,202)	(1,699)
	1,680	3,684	(941)	754

Interest earned mainly corresponds to default interests charged to customers.

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

36. Net earnings per share

Earnings per share for the quarters and semesters ended on 30 June 2016 and 2017, were calculated as follow:

	2nd QUARTER 16	6M 16	2 nd QUARTER 17	6M 17
Consolidated net income attributable to shareholders	26,480	50,896	40,392	71,827
Number of ordinary shares outstanding during the period (weighted average)	512,980,433	513,183,946	513,013,757	512,712,028
Basic earnings per share - euros	0.05	0.10	0.08	0.14
Diluted earnings per share - euros	0.05	0.10	0.08	0.14

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

37. Guarantees and financial undertakings

37.1. Guarantees

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

	31-12-2016	30-06-2017
Financial institutions i)	110,264	110,264
Tax authorities ii)	14,850	13,712
Others iii)	12,288	11,539
	137,402	135,515

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

In connection with the finance obtained by Upstar from Novo Banco, totaling 20 million euros, NOS signed a promissory note, proportional to the participation held, of 30% of the loan. At 30 June 2017 the debt amounted to 4.4 million euros.

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

Additionally, during 2014, in connection with a contract between Upstar and a supplier of TV contents, NOS signed a personal guarantee, in the form of a partial endorsement, proportional to NOS's shareholder position of 30%, as a counter guarantee of a guarantee by Novo Banco in the amount of 30 million dollars, to pledge

the fulfillment of the contract's obligations. At 30 June 2017, the active amount of the guarantee is 7.5 million euros, as a result of the supplier having partially activated the guarantee in January and May 2017, in the amount of 12.5 million and 10 million dollars, respectively, payed afterwards with the company's own funds.

During 2015, NOS issued a comfort letter to Caixa Geral de Depósitos as part of an issue of a bank guarantee to Sport TV amounting to 23.1 million euros. At 30 June 2017, the active amount of bank guarantees ascends to 4.1 million euros. During the month of July the guarantee will be reduced in 50%, and the remainder in January 2018.

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

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

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

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

37.2. Operating leases

The rentals due on operating leases have the following maturities:

	31-12-2016				30-06-2017			
	AUTOMATIC RENEWAL	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	AUTOMATIC RENEWAL	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS
Stores, movie theatre and other buildings	1,170	16,994	41,164	19,888	1,203	24,123	52,849	18,448
Telecommunication towers and rooftops	1,732	19,557	52,684	20,972	1,937	21,780	55,252	18,967
Equipment	-	1,338	2,848	-	-	3,301	7,201	-
Vehicles	-	3,828	5,044	-	-	2,057	2,437	-
	2,902	41,717	101,740	40,860	3,140	51,261	117,739	37,415

37.3. Other undertakings

Covenants

Of the loans obtained (excluding finance leases), in addition to being subject to the Group complying with its operating, legal and fiscal obligations, 100% are subject to cross-default clauses, Pari Passu clauses and negative pledge clauses and 80% to ownership clauses.

In addition, approximately 46% of the total loans obtained require that the consolidated net financial debt does not exceed 3 times consolidated EBITDA, approximately 4% of the total loans obtained require that the consolidated net financial debt does not exceed 3.5 times consolidated EBITDA, and approximately 6% of the total loans obtained require that the consolidated net financial debt does not exceed 4 times consolidated EBITDA.

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

Assignment agreements football broadcast rights

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

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

- 1) TV broadcasting rights and multimedia home games of Sporting SAD;
- 2) The right to explore the static and virtual advertising at Stadium José Alvalade;
- 3) The right of transmission and distribution of Sporting TV Channel;
- 4) The right to be its main sponsor.

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

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

- 1) Associação Académica de Coimbra – Organismo Autónomo de Futebol, SDUQ, Lda
- 2) Os Belenenses Sociedade Desportiva Futebol, SAD
- 3) Clube Desportivo Nacional Futebol, SAD
- 4) Futebol Clube de Arouca – Futebol, SDUQ, Lda
- 5) Futebol Clube de Paços de Ferreira, SDUQ, Lda
- 6) Marítimo da Madeira Futebol, SAD
- 7) Sporting Clube de Braga – Futebol, SAD
- 8) Vitória Futebol Clube, SAD

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

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

- 1) C. D. Tondela – Futebol, SDUQ, Lda
- 2) Clube Futebol União da Madeira, Futebol, SAD
- 3) Grupo Desportivo de Chaves – Futebol, SAD
- 4) Sporting Clube da Covilhã – Futebol, SDUQ, Lda
- 5) Clube Desportivo Feirense – Futebol, SAD
- 6) Sport Clube de Freamunde – Futebol, SAD
- 7) Sporting Clube Olhanense – Futebol, SAD
- 8) Futebol Clube de Penafiel, SDUQ, Lda
- 9) Portimonense Futebol, SAD

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

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

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

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

The estimated cash flows are estimated as follows:

Seasons	2017/18	following
Estimated cash flows with the contracts signed bt NOS with the sport entities *	46.5 M€	1,103 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	21.2 M€	625 M€

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

38. Related parties

38.1. Balances and transactions between related parties

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

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

Balances at 31 December 2016

	ACCOUNTS RECEIVABLES	ACCOUNTS PAYABLE	ACCRUED EXPENSES	DEFERRED INCOME	PREPAID EXPENSES
SHAREHOLDERS					
BPI	1,614	(18)	-	-	-
ASSOCIATED COMPANIES					
Big Picture 2 Films	5	104	193	-	-
Sport TV	4,971	9,634	3,454	-	13,745
JOINTLY CONTROLLED COMPANIES					
Dreamia Holding BV	2,892	-	-	-	-
Dreamia SA	2,471	1,157	293	-	-
Finstar	9,550	-	-	2	-
Mstar	1	-	-	-	-
Upstar	17,880	25	-	-	-
ZAP Cinemas	419	-	-	-	-
ZAP Media	3,451	-	-	-	-
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-Consultadoria	131	-	-	4	-
Sonae Ind., Prod. e Com.Deriv.Madeira	106	-	-	-	-
Sierra Portugal	509	(19)	-	-	331
Sonae Center II	762	187	-	9	-
Sonaecom	107	-	270	-	-
UNITEL	1,824	1,229	1,441	-	-
We Do Consulting-Sist. de Informação	93	2,527	-	2	18
Worten - Equipamento para o Lar	2,773	-	703	-	4
OTHER RELATED PARTIES	882	313	(12)	1	190
	51,885	16,457	6,479	18	14,586

Transactions during the semester ended on 30 June 2016

	REVENUES	WAGES AND SALARIES	DIRECT COSTS	MARKETING AND ADVERTISING	SUPPORT SERVICES	SUPPLIES AND EXTERNAL SERVICES	OTHER OPERATING LOSSES / (GAINS)	FINANCIAL INCOME AND (EXPENSES)	FIXED ASSETS
SHAREHOLDERS									
Banco BPI	3,034	-	104	-	-	3	-	(244)	-
ASSOCIATED COMPANIES									
Big Picture 2 Films	39	-	3,060	-	-	41	-	-	-
Sport TV	96	-	25,338	-	-	-	-	-	-
JOINTLY CONTROLLED COMPANIES AND ASSOCIATED COMPANIES									
Dreamia Holding BV	138	-	-	-	-	-	-	145	-
Dreamia SA	1,395	(2)	(292)	27	-	(3)	8	-	-
Finstar	461	-	-	-	-	-	-	-	-
Mstar	20	-	-	-	-	-	-	-	-
Upstar	6,916	-	(277)	3	-	-	-	-	-
ZAP Cinemas	(20)	-	-	-	-	-	-	-	-
ZAP Media	249	-	-	-	-	-	-	-	-
OTHER RELATED PARTIES									
CascaShopping	8	-	-	4	-	345	-	-	-
Continente Hipermercados	153	-	-	-	-	26	-	-	-
Digitmarket	179	-	-	-	149	210	-	-	1,917
Modelo - Distribuição Materiais Construção	104	-	-	-	-	-	-	-	-
MDS - Corretor de Seguros	220	-	-	-	-	92	-	-	-
Modelo Continente Hipermercados	2,406	-	(4)	278	-	(55)	-	-	-
Modalla	122	-	-	-	-	-	-	-	-
Público	100	-	-	19	-	-	-	-	-
Itrust - Cyber Security and Intellig	4	-	-	-	35	23	-	-	110
Saphety Level - Trusted Services	-	-	-	-	-	-	-	-	36
SC-Consultadoria	531	-	-	-	-	-	-	-	-
SDSR - Sports Division SR	217	-	-	-	-	-	-	-	-
Sierra Portugal	1,801	-	-	155	-	2,450	-	-	-
Sonae Center II	1,131	-	-	-	1	(7)	-	-	-
Sonae Indústria PCDM	453	-	-	-	-	-	-	-	3
Sonaecom	5	(53)	-	-	-	-	-	-	-
Sonaecom - Serviços Partilhados	152	-	-	-	-	2	-	-	-
Spinveste - Promoção Imobiliária	-	-	-	-	-	142	-	-	-
UNITEL	1,046	-	677	-	-	-	-	-	-
We Do Consulting-Sist. de Informação	256	-	-	-	1,441	50	-	-	1,892
Worten - Equipamento para o Lar	2,556	-	-	256	-	494	-	-	1
OTHER RELATED PARTIES	1,274	-	-	18	309	235	-	-	2
	25,046	(55)	28,606	760	1,935	4,048	8	(99)	3,961

Balances at 30 June 2017

	ACCOUNTS RECEIVABLES	ACCOUNTS PAYABLE	ACCRUED EXPENSES	DEFERRED INCOME	PREPAID EXPENSES
SHAREHOLDERS					
BPI	1,655	32	31	-	-
ASSOCIATED COMPANIES					
Big Picture 2 Films	12	194	148	-	-
Sport TV	903	691	6,154	-	3,638
JOINTLY CONTROLLED COMPANIES					
Dreamia Holding BV	2,652	-	-	-	-
Dreamia SA	3,183	1,165	499	-	-
Finstar	9,990	-	-	-	-
Mstar	1	-	-	-	-
Upstar	26,059	42	-	12	-
ZAP Cinemas	374	-	-	-	-
ZAP Media	3,612	-	-	-	-
OTHER RELATED PARTIES					
Colombo	1	182	-	-	123
Digitmarket	16	4,025	-	-	113
Maiashopping	0	198	-	-	50
Modelo Continente Hipermercados	1,086	46	3	-	8
Saphety	31	114	-	-	-
SC-Consultadoria	101	-	-	-	-
Sierra Portugal	475	(94)	3	-	53
Sonae Center II	-	-	-	-	-
Sonaecom	111	-	338	-	-
UNITEL	3,574	2,186	1,332	-	-
We Do Consulting-Sist. de Informação	76	1,956	-	-	92
Worten - Equipamento para o Lar	2,023	41	264	0	0
OTHER RELATED PARTIES	1,090	274	2	-	338
	57,312	11,064	8,775	12	4,416

Transactions during the semester ended on 30 June 2017

	REVENUES	WAGES AND REVENUES	DIRECT COSTS	MARKETING AND ADVERTISING	SUPPORT SERVICES	SUPPLIES AND EXTERNAL SERVICES	OTHER OPERATING LOSSES / (GAINS)	FINANCIAL INCOME AND (EXPENSES)	FIXED ASSETS
SHAREHOLDERS									
Banco BPI	2,561	-	293	-	-	3	-	(202)	-
ASSOCIATED COMPANIES									
Big Picture 2 Films	25	-	2,370	-	-	23	-	-	-
Sport TV	116	-	38,664	-	-	-	-	-	-
JOINTLY CONTROLLED COMPANIES									
Dreamia Holding BV	141	-	-	-	-	-	-	64	-
Dreamia SA	1,099	(2)	55	12	-	(1)	-	-	-
Finstar	415	-	-	-	-	-	-	-	-
Mstar	17	-	-	-	-	-	-	-	-
Upstar	8,345	-	(202)	12	-	-	-	-	-
ZAP Cinemas	7	-	-	-	-	-	-	-	-
ZAP Media	161	-	-	-	-	-	-	-	-
OTHER RELATED PARTIES									
Cascaishopping	7	-	-	4	-	314	-	-	-
Continente Hipermercados	140	-	-	-	-	26	-	-	9
Digitmarket	101	-	25	1	110	91	-	-	4,140
Itrust	11	-	-	-	37	(178)	-	-	129
Malashopping	-	-	-	1	-	158	-	-	-
Modelo continente hipermercados	2,555	-	6	37	-	(31)	-	-	-
MDS - Corretor de Seguros	266	-	-	-	-	86	-	-	-
Norteshopping	2	-	-	2	-	241	-	-	-
Saphety Level - Trusted Services	51	-	-	-	159	1	-	-	6
SC-Consultadoria	657	-	-	-	-	-	-	-	-
Sonae Indústria PCDM	217	-	-	-	-	-	-	-	-
Sistavac	76	-	-	-	-	22	-	-	107
Sisena Portugal	1,743	-	-	193	-	1,618	-	-	-
Solince HF	126	-	-	-	-	-	-	-	-
Sonae Center II	772	-	-	-	-	-	-	-	-
Sonaeacom	16	-	-	-	-	17	69	-	-
Spimeste - Promoção Imobiliária	-	-	-	-	-	128	-	-	-
SDSR II	138	-	-	-	-	-	-	-	-
UNITEL	1,248	-	841	-	-	-	-	-	-
Vasco da Gama	7	-	-	2	-	449	-	-	-
We Do Consulting-Sist. de Informação	229	-	-	-	1,441	1	-	-	1,882
Worten - Equipamento para o Lar	2,638	-	-	(98)	-	260	-	-	-
OTHER RELATED PARTIES	1,225	-	-	29	9	252	-	-	13
	25,112	(2)	42,052	194	1,756	3,479	69	(138)	6,285

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

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

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

39. Legal actions and contingent assets and liabilities

39.1. Legal actions with regulators

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

The amounts are respectively:

- NOS SA: 2009: 1,861 thousand euros, 2010: 3,808 thousand euros, 2011: 6,049 thousand euros, 2012: 6,283 thousand euros, 2013: 7,270 thousand euros, 2014: 7,426 thousand euros, 2015: 7,253 thousand euros and 2016: 8,242 thousand euros;
- NOS Açores: 2009: 29 thousand euros, 2010: 60 thousand euros, 2011: 95 thousand euros, 2012: 95 thousand euros, 2013: 104 thousand euros, 2014: 107 thousand euros, 2015: 98 thousand euros and 2016: 105 thousand euros;
- NOS Madeira: 2009: 40 thousand euros, 2010: 83 thousand euros, 2011: 130 thousand euros, 2012: 132 thousand euros, 2013: 149 thousand euros, 2014: 165 thousand euros, 2015: 161 thousand euros and 2016: 177 thousand euros,

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

On 18 December 2012 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.

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

39.2. Tax authorities

During the course of the 2003 to 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 20 million euros, added interest and charges. Note that the Group considered that the corrections were unfounded, and contested the amounts mentioned. The Group provided the bank guarantees demanded by the tax authorities in connection with these proceedings, as stated in Note 37.

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

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

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

- In 2011, MEO brought an action in Lisbon Judicial Court against NOS SA, claiming payment of 10.3 million euros, as compensation for alleged undue portability of NOS SA in the period between March 2009 and July 2011. NOS SA lodged a contest and reply, having started the expert evidence, that the Court however declared void. The hearing was held in late April and early May 2016, having a ruling been delivered last September, which judged the action partially founded, based not on the existence of undue portability, but on the mere delay of the documentation shipment. NOS was condemned to pay, approximately 5.3 million euros, a decision which NOS appealed and it's pending at the Lisbon Judicial Court.
- MEO made three court notices to NOS SA (April 2013, July 2015 and March 2016), three to NOS Açores (March and June 2013 and May 2016) and three to NOS Madeira (March and June 2013 and May 2016), in order to stop the prescription of alleged damages resulting from claims of undue portability, absence of response time to requests submitted to them by MEO and alleged illegal refusal of electronic portability requests.

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

- In 2011, NOS SA brought an action in Lisbon Judicial Court against MEO, claiming payment of 22.4 million euros, for damages suffered by NOS SA, arising from violations of the Portability Regulation by MEO, in particular, the large number of unjustified refusals of portability requests by MEO in the period between February 2008 and February 2011. The court declared the compulsory performance of expert evidence. At the same time, experts who will be tasked with the economic and financial expertise have been appointed, and this should begin soon.

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

39.4. Action against NOS SGPS

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

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

Afterwards, the same company brought a new civil lawsuit based on the same facts, but this time, against NOS Comunicações. NOS appealed in September 2016.

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

39.5. Action against Sport TV

- Action brought by Cogeco Cable INC., former shareholder of Cabovisão, against Sport TV, NOS SGPS and a third party, requesting, among others: (i) joint condemnation of the three institutions to pay compensation for damages caused by anti-competitive conduct, guilty and illegal, between 3 August 2006 and 30 March 2011, specifically for the excess price paid for Sport TV channels by Cabovisão, in the amount of 9.1 million euros; (ii) condemnation for damages corresponding to the remuneration of capital unavailable, in the amount 2.4 million euros; and (iii) condemnation for damages corresponding to the loss of business from anti-competitive practices of Sport TV, in connection with the enforcement proceedings. NOS contested the action and a preliminary hearing took place in the beginning of June. Currently the parties are preparing the questions to submit to the European Court of Justice
- It is the understanding of the Board of Directors, corroborated by the lawyers overseeing the case, that, for reasons of formal nature, it is not likely that NOS will be directly responsible in this case.
- Cabovisão brought an action against Sport TV, in which it requests compensation from the latter for alleged losses resulting from abuse of a dominant position, amounting to 18 million euros, added capital and interests that will be due as of 31 December 2014, and lost profits. The Board of Directors of Sport TV and lawyers, who monitor the process, predict a favorable outcome, not estimating impacts in the accounts, in addition to those already registered.

39.6. Contractual penalties

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

Until 31 December 2014, revenue from penalties, due to inherent uncertainties was recorded only at the moment when it was received, so at 30 June 2017, the receivables by NOS SA, NOS Madeira and NOS Açores

amount to a total of 79,923 thousand euros. During the semester ended on 30 June 2017, 1,028 thousand euros related to 2014 receivables were received and recorded in the income statement.

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

39.7. Interconnection tariffs

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

40. Share incentive scheme

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

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

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

As at 30 June 2017, the unvested plans are:

	NUMBER OF SHARES
STANDARD PLAN	
Plan 2013	60,035
NOS PLAN	
Plan 2015	687,538
Plan 2016	762,280
Plan 2017	842,159

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

	STANDARD PLAN	MAINROAD PLAN	NOS PLAN
BALANCE AS AT 31 DECEMBER 2016:	180,067	41,958	2,303,014
MOVEMENTS IN THE PERIOD:			
Awarded	-	-	834,211
Vested	(117,296)	(41,958)	(764,699)
Cancelled / elapsed / corrected ⁽¹⁾	(2,736)	-	(80,549)
BALANCE AS AT 30 JUNE 2017:	60,035	-	2,291,977

(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 30 June 2017, the outstanding responsibility related to these plans is 4,741 thousand euros and is recorded in Reserves, in the amount of 3,948 thousand euros, for plans liquidated in shares and in Accrued expenses, in the amount of 793 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 2016	1,199	6,317	7,516
Costs of plans vested in the period	(781)	(3,760)	(4,541)
Costs recognised in the period and others	375	1,391	1,766
TOTAL COST OF THE PLANS	793	3,948	4,741

41. Subsequent events

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

These financial statements are a translation of the 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.

42. Annexes

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

COMPANY	HEADQUARTERS	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP		
				EFFECTIVE 31-12-2017	DIRECT 30-06-2017	EFFECTIVE 30-06-2017
NOS, SGPS, S.A. (Holding)	Lisbon	Management of investments	-	-	-	-
Empracine - Empresa Promotora de Atividades Cinematográficas, Lda.	Lisbon	Movies exhibition	Lusomundo SII	100%	100%	100%
Lusomundo - Sociedade de investimentos imobiliários SGPS, SA	Lisbon	Management of Real Estate	NOS	100%	100%	100%
Lusomundo Imobiliária 2, S.A.	Lisbon	Management of Real Estate	Lusomundo SII	100%	100%	100%
Lusomundo Moçambique, Lda.	Maputo	Movies exhibition and commercialization of other public events	NOS Cinemas	100%	100%	100%
NOS Sistemas, S.A. ('NOS Sistemas')	Lisbon	Rendering of consulting services in the area of information systems	NOS SA	100%	100%	100%
NOS Sistemas España, S.L.	Madrid	Rendering of consulting services in the area of information systems	NOS SA	100%	100%	100%
NOS Açores Comunicações, S.A.	Ponta Delgada	Distribution of television by cable and satellite and operation of telecommunications services in the Azores area	NOS SA	84%	84%	84%
NOS Audiovisuais, SGPS, S.A.	Lisbon	Management of social participations in other companies as an indirect form of economic activity	NOS	100%	100%	100%
NOS Communications S.à r.l	Luxembourg	Management of investments	NOS	100%	100%	100%
NOS Comunicações, S.A.	Lisbon	Implementation, operation, exploitation and offer of networks and rendering services of electronic communications and related resources; offer and commercialisation of products and equipments of electronic communications	NOS	100%	100%	100%
NOS Inovação, S.A.	Matosinhos	Achievement and promotion of scientific activities and research and development as well as the demonstration, dissemination, technology transfer and formation in the fields of services and information systems and fixed solutions and last generation mobile, television, internet, voice and data, and licensing and engineering services and consultancy	NOS	100%	100%	100%
NOS Internacional, SGPS, S.A.	Lisbon	Management of social participations in other companies as an indirect form of economic activity	NOS	100%	100%	100%
NOS Lusomundo Audiovisuais, S.A.	Lisbon	Import, distribution, commercialization and production of audiovisual products	NOS	100%	100%	100%
NOS Lusomundo Cinemas, S.A.	Lisbon	Movies exhibition and commercialization of other public events	NOS	100%	100%	100%
NOS Lusomundo TV, Lda.	Lisbon	Movies distribution, editing, distribution, commercialization and production of audiovisual products	NOS Audiovisuais	100%	100%	100%
NOS Madeira Comunicações, S.A.	Funchal	Distribution of television by cable and satellite and operation of telecommunications services in the Madeira area	NOS SA	78%	78%	78%
NOSPUB, Publicidade e Conteúdos, S.A.	Lisbon	Comercialization of cable tv contents	NOS SA	100%	100%	100%
NOS TECHNOLOGY – Conceção, Construção e Gestão de Redes de Comunicações, S.A. ('Artis')	Matosinhos	Design, construction, management and exploitation of electronic communications networks and their equipment and infrastructure, management of technologic assets and rendering of related services	NOS	100%	100%	100%
NOS TOWERING – Gestão de Torres de Telecomunicações, S.A. ('Be Towering')	Lisbon	Implementation, installation and exploitation of towers and other sites for the instalment of telecommunications equipment	NOS	100%	100%	100%
Per-Mar – Sociedade de Construções, S.A. ('Per-Mar')	Lisbon	Purchase, sale, renting and operation of property and commercial establishments	NOS	100%	100%	100%
Sontária - Empreendimentos Imobiliários, S.A. ('Sontária')	Lisbon	Realisation of urbanisation and building construction, planning, urban management, studies, construction and property management, buy and sale of properties and resale of purchased for that purpose	NOS	100%	100%	100%
Teliz Holding B.V.	Amsterdam	Management of group financing activities	NOS	100%	100%	100%

(a) Company established on March 2017.

B) Associated companies

COMPANY	HEADQUARTERS	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP		
				EFFECTIVE 31-12-2016	DIRECT 30-06-2017	EFFECTIVE 30-06-2017
Big Picture 2 Films, S.A.	Oeiras	Import, distribution, commercialization and production of audiovisual products	NOS Audiovisuais	20.00%	20.00%	20.00%
Canal 20 TV, S.A.	Madrid	Produção e Distribuição de direitos de produtos televisivos	NOS	50.00%	50.00%	50.00%
Sport TV Portugal, S.A.	Lisbon	Conception, production, realization and commercialization of sports programs for telebroadcasting, purchase and resale of the rights to broadcast sports programs for television and provision of publicity services	NOS	33.33%	25.00%	25.00%

C) Jointly controlled companies

COMPANY	HEADQUARTERS	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP		
				EFFECTIVE 31-12-2016	DIRECT 30-06-2017	EFFECTIVE 30-06-2017
Dreamia Holding B.V.	Amsterdam	Management of investments	NOS Audiovisuais	50.00%	50.00%	50.00%
Dreamia - Serviços de Televisão, S.A.	Lisbon	Conception, production, realization and commercialization of audiovisual contents and provision of publicity services	Dreamia Holding BV	50.00%	100.00%	50.00%
East Star Ltd	Port Louis	Management of investments involved in the development, operation and marketing, through any technological means, of telecommunications, television and audiovisual products and services	Teliz Holding B.V.	30.00%	30.00%	30.00%
FINSTAR - Sociedade de Investimentos e Participações, S.A.	Luanda	Distribution of television by satellite, operation of telecommunications services	Teliz Holding B.V.	30.00%	30.00%	30.00%
MSTAR, SA	Maputo	Distribution of television by satellite, operation of telecommunications services	NOS	30.00%	30.00%	30.00%
Upstar Comunicações S.A.	Vendas Novas	Electronic communications services provider, production, commercialization, broadcasting and distribution of audiovisual contents	NOS	30.00%	30.00%	30.00%
ZAP Media S.A.	Luanda	Projects development and activities in the areas of entertainment, telecommunications and related technologies, the production and distribution of the contents and the design, implementation and operation of infrastructure and related facilities	FINSTAR	30.00%	100.00%	30.00%
ZAP Cinemas, S.A.	Luanda	Projects development and activities in the areas of entertainment, telecommunications and related technologies, the production and distribution of the contents and the design, implementation and operation of infrastructure and related facilities	FINSTAR	30.00%	100.00%	30.00%
ZAP Publishing, S.A.	Luanda	Projects development and activities in the areas of entertainment, telecommunications and related technologies, the production and distribution of the contents and the design, implementation and operation of infrastructure and related facilities	ZAP Media	30.00%	100.00%	30.00%

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

D) Companies recorded at cost

COMPANY	HEADQUARTERS	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP		
				EFFECTIVE 31-12-2016	DIRECT 30-06-2017	EFFECTIVE 30-06-2017
Turismo da Samba (Tusal), SARL (a)	Luanda	n.a.	NOS	30.00%	30.00%	30.00%
Filmes Mundáfrica, SARL (a)	Luanda	Movies exhibition	NOS	23.91%	23.91%	23.91%
Companhia de Pesca e Comércio de Angola (Cosal), SARL (a)	Luanda	n.a.	NOS	15.76%	15.76%	15.76%
Caixanet - Telecomunicações e Telemática, S.A.	Lisbon	Telecommunication services	NOS	5.00%	5.00%	5.00%
Apor - Agência para a Modernização do Porto	Oporto	Development of modernizing projects in Oporto	NOS	3.98%	3.98%	3.98%
Lusitânia Vida - Companhia de Seguros, S.A. ("Lusitânia Vida")	Lisbon	Insurance services	NOS	0.03%	0.03%	0.03%
Lusitânia - Companhia de Seguros, S.A. ("Lusitânia Seguros")	Lisbon	Insurance services	NOS	0.04%	0.02%	0.02%

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

Limited review Report prepared by Auditor registered in CMVM



Ernst & Young
Audit & Associados - SROC, S.A.
Av. da Boavista, 36 - 3.^o
4050-112 Porto
Portugal

Tel: +351 217 912 000
Fax: +351 217 957 586
www.ey.com

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

Limited review report on the consolidated condensed financial statements

Introduction

We have performed a limited review on the consolidated condensed financial statements of NOS, S.G.P.S., S.A., which comprise the Consolidated Condensed Statement of Financial Position as at 30 June 2017 (which shows a total of 2,922,147 thousand Euros and a shareholders' equity total of 1,025,851 thousand Euros, including a consolidated net profit attributable to equity holders of the parent of 71,827 thousand Euros), the Consolidated Condensed Statement of Income by Nature, the Consolidated Condensed Statement of the Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the six month period then ended, and the related notes to the consolidated condensed financial statements, including a summary of significant accounting policies.

Management responsibilities

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

Auditor's responsibilities

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

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

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

Conclusion

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

Porto, 20 July 2017

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

Represented by:

(Signed)

Sandra e Sousa Amorim - ROC nr. 1213
Registered with the Portuguese Securities Market Commission under licence nr. 20160824

Sociedade Anónima - Capital Social 1.335.000 euros - Inscrição n.º 178 na Ordem dos Revisores Oficiais de Contas - Inscrição N.º 20161480 na Comissão do Mercado de Valores Mobiliários
Contribuinte N.º 525 988 203 - C. R. Comercial de Lisboa sob o mesmo número
A member firm of Ernst & Young Global Limited

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

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

- a) The first half 2017 accounts, were elaborated in compliance with the applicable accounting standards, accurately and truthfully portraying the assets and liabilities, situation and results, as well as those of the companies included in its consolidation perimeter;
- b) The management report faithfully portrays the important events occurred in First Half 2017 and its impact on the accounts and, when applicable, contains a description of the main risks and uncertainties for the following six months.

Lisbon, 20 July 2017

Jorge Brito Pereira
(Chairman of the Board of Directors)

Miguel Nuno Santos Almeida
(Chairman of the Executive Committee)

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

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

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

Jorge Filipe Santos Graça
(Member of the Executive Committee)

Luis Moutinho do Nascimento
(Member of the Executive Committee)

Manuel Ramalho Eanes
(Member of the Executive Committee)

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

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

António Domingues
(Member of the Board of Directors)

Catarina Eufémia Amorim da Luz Távira 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)

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

(English version of the Portuguese original. In the event of discrepancy, the Portuguese original shall prevail)

Within the scope of its competences, under the terms of Article 246, Paragraph 1, c) of the Portuguese Securities Code, the Fiscal Board declares that, to its knowledge:

- a) the first half 2017 accounts, were elaborated in compliance with the applicable accounting standards, accurately and truthfully portraying the assets and liabilities, situation and results of NOS, SGPS, S.A., as well as those of the companies included in its consolidation perimeter;
- b) the management report faithfully portrays the important events occurred in First Half 2017 and its impact on the accounts and contains a description of the main risks and uncertainties for the following six months.

Lisbon, 20 July 2017

Paulo Cardoso Correia da Mota Pinto
(Chairman of the Fiscal Board)

Patrícia Teixeira Lopes
(Member of the Fiscal Board)

Eugénio Ferreira
(Member of the Fiscal Board)



Rua Ator António Silva, 9
1600-404 Lisboa
Portugal