



# Consolidated Management Report **9M18**



## CONTENT

9M18 Highlights	4
Governing Bodies	7
Management Report	8
Business Review	8
Consolidated Financial Review	13
Consolidated Financial Statements	19



# 9M18 Highlights

9M18 Highlights	9M17	9M18	9M18 / 9M17
Financial Highlights			
Operating Revenues	1,159.7	1,167.3	0.7%
Telco Revenues	1,103.0	1,116.1	1.2%
EBITDA	448.8	461.7	2.9%
EBITDA Margin	38.7%	39.6%	0.9pp
Telco	411.2	429.0	4.3%
EBITDA Margin	37.3%	38.4%	1.2pp
Net Income Before Associates & Non-Controlling Interests	90.5	126.9	40.2%
Operating Cash Flow	162.7	180.5	10.9%
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	136.0	180.1	32.5%
Operational Highlights (EoP)			
Homes Passed	4,055.7	4,257.5	5.0%
Total RGUs	9,365.8	9,569.9	2.2%
Mobile	4,643.8	4,770.0	2.7%
Pay TV Fixed Access	1,287.8	1,312.5	1.9%
Fixed Voice	1,752.9	1,772.1	1.1%
Broadband	1,320.6	1,375.2	4.1%
Convergent RGUs	3,631.5	3,842.7	5.8%
Convergent Customers	718.5	759.9	5.8%
Convergent Customers as % of Fixed Access Customers	47.3%	49.9%	2.6pp

Profitability growth driving operating FCF and supportive of shareholder returns.

Technological and operating transformation on track, laying the foundations for long term value creation.

## 9M18

1.2% Revenue growth in 9M18, 1.5% if adjusted for regulation, namely MTR cuts<sup>1</sup>

- Adjusted Telco revenues grew by 1.5% with unadjusted growth of 1.2% to 1,116.1 million euros;
- Quarterly improvement in Audiovisuals and Cinema Revenue yoy growth rates in 3Q18, albeit still 10.0% below 2017 in 9M18;
- Adjusted Consolidated Revenues increased by 1.0% in 9M18 (0.7% unadjusted);

Acceleration in EBITDA growth

- Telco EBITDA increased 4.3% to 429.0 million euros, reflecting a yoy increase in margin of 1.2pp to 38.4%;
- Consolidated EBITDA grew 2.9% to 461.7 million euros, with consolidated EBITDA margin of 39.6%, 0.9pp higher yoy;
- Consolidated Net Income was 17.0% higher yoy at 123.0 million euros;

Network investment projects on track positioning NOS with the most advanced and consumer relevant technology

- Technical CAPEX increased to 150.8 million euros in 9M18, incorporating the ongoing strategic investment in mobile and fixed network upgrades;
- Customer related CAPEX was lower at 108.7 million euros, on the back of lower commercial activity for 9M18 as a whole;

Recurrent FCF growth supportive of attractive shareholder returns

- Total FCF before Dividends in 9M18 grew by 32.5% yoy to 180.1 million euros.

Increased net RGU growth led by additional network coverage and lower churn levels

- Solid RGU growth of 2.2% to 9.570 million;
- Pick up in quarterly fixed pay TV net adds to 10.6 thousand in 3Q18 led by increased footprint and lower levels of churn. 9M18 net adds amounted to 20.3 thousand;
- Growth in convergent RGUs of 5.8% yoy to 3.843 million services taking convergent penetration to 49.9% (+2.6 pp yoy) and with growth in unique convergent customers of 5.8% yoy to 759.9 thousand;

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<sup>1</sup> In 3Q18 Mobile Termination Rates (MTRs) were cut by 44% to 0.42 eurocents from the 0.75 eurocents rate that had been in place since 2H17

- Mobile subscriber net adds posted the usual seasonal peak at 42 thousand in 3Q18 taking total subscribers to 4.770 million, 2.7% higher yoy. In 9M18 mobile net adds were 97.1 thousand.

# Governing Bodies

As at the date of this report, 8 November 2018, 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 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

## Business Review

Total RGUs grew by 2.2% yoy to 9.570 million with an acceleration in net adds in 3Q18 to 70.3 thousand compared with 42.0 and 45.9 thousand in 1Q18 and 2Q18 respectively. Total RGU net adds in 9M18 amounted to 158.2 thousand.

Fixed pay TV net adds posted 20.3 thousand net adds in 9M18, with a marked recovery to 10.6 thousand in 3Q18, the highest level of net adds since 1Q17, reflecting the anticipated commercial acceleration from new household coverage combined with a continued improvement in churn levels. In 3Q18, fixed network coverage increased by a further 98 thousand households bringing year to date expansion to 176 thousand, and with total coverage reaching 4.257 **million households. Of NOS' total coverage, 888 thousand** households are already in FttH and the remaining HFC households are 100% upgraded to Docsis 3.1, therefore providing Gigabit capabilities across the entire footprint. Fixed broadband and voice RGUs, with net adds of 42.1 thousand and 13.8 thousand in 9M18, also recorded an improvement in 3Q18 led by the growth in pay TV subscriptions which are the basis for upselling other additional services in the residential market. Regarding the DTH customer base, with the additional NGN coverage from all operators in the market, the number of services continues to post a downward trajectory with customers migrating to greater bandwidth fixed access technologies, as is to be expected given the more sophisticated offers provided.

Mobile subscriptions in 9M18 posted net adds of 97.1 thousand and taking the total customer base to 4.770 million. The majority of new customers are subscribing as post paid accounts, 57% of the total base, and many of which within convergent bundles.

During 9M18, the number of customers subscribing to convergent offers increased by 5.8% yoy to 759.9 thousand, 49.9% of the fixed subscriber base. Offers for the consumer market are available for all pockets and demand profiles with offers ranging from an entry level, content light, 100 Mbps triple play offer **for €29.9 (ex set top box) going up to a convergent, 1Gbps, 177 channel quad play offer including 1 SIM card with 10 GB of mobile data for €79.99. The ability to provide 1Gbps nationwide became possible with the full Docsis 3.1** upgrade in the first months of the year, thus giving customers 1Gbps download speeds across the entire footprint, be it over FttH or HFC.

Residential ARPU declined marginally by 0.5% yoy to 44.2 euros. However adjusting for regulation, including the 44% decline in Mobile Termination Rates (MTRs) in 3Q18, ARPU in 9M18 would have declined by 0.2% yoy to 44.0 euros.

In the large business segment we remain focused on protecting our revenue in existing accounts whilst driving upsell of additional data and IT service management solution. The skills and experience we have acquired in our own operations, together with the significant increase in data centre capacity, are being levered to provide more sophisticated next generation cloud management platforms to facilitate provisioning and self-service solutions for the enterprise market. The small business segments remains challenging in terms of revenue progression however efforts are being made to optimize and simplify our business operations to guarantee increased efficiency and customer service levels.



## Technological and Operational Transformation to guarantee long term competitiveness

We are well ahead with our mobile investment to single RAN architecture with 75% of the upgrade to be completed by the end of the year and the remainder during early 2019. We are deploying the latest available mobile technology and the upgrade will position us with the best network capabilities in Portugal, significantly increasing capacity, flexibility and quality of service whilst also leaving us as ready as technologically possible for a smooth transition to 5G when required.

As mentioned above, we are deploying additional FttH to greenfield locations within the context of our dark fibre swap agreement with Vodafone. During 9M18, fixed network coverage increased by 176 thousand households bringing total fixed coverage to 4.257 million households of which over 20% are already FttH, aligned with our long term plan to reach 70% FttH coverage by end 2022.

Visible progress is being made within our operational transformation programme with initiatives from the first wave (out of three in total) already moving to implementation stage such as STB recovery procedures and robot deployment throughout the organization. The coming months will see a number of wave #1 projects streams leaving the drawing board to move to live implementation and starting to impact operational efficiency and service levels during the course of 2019. Organizational fitness, customer satisfaction and operating efficiency are core goals of the programme which is set to run until the end of 2022, with an acceleration in ramp-up of the value captured once all 60 projects are live across the company from 2020 onwards.

Operating Indicators ('000)	9M17	9M18	9M18 / 9M17
Telco <sup>(1)</sup>			
Aggregate Indicators			
Homes Passed <sup>(2)</sup>	4,055.7	4,257.5	5.0%
Total RGUs	9,365.8	9,569.9	2.2%
Mobile	4,643.8	4,770.0	2.7%
Pre-Paid	2,070.5	2,051.1	(0.9%)
Post-Paid	2,573.3	2,718.9	5.7%
Pay TV Fixed Access <sup>(3)</sup>	1,287.8	1,312.5	1.9%
Pay TV DTH	327.9	309.2	(5.7%)
Fixed Voice	1,752.9	1,772.1	1.1%
Broadband	1,320.6	1,375.2	4.1%
Others and Data	32.8	31.0	(5.3%)
3,4&5P Subscribers (Fixed Access)	1,108.5	1,147.3	3.5%
% 3,4&5P (Fixed Access)	86.1%	87.4%	1.3pp
Convergent RGUs	3,631.5	3,842.7	5.8%
Convergent Customers	718.5	759.9	5.8%
Fixed Convergent Customers as % of Fixed Access Customers	47.3%	49.9%	2.6pp
% Convergent Customers	44.5%	46.9%	2.4pp
Net Adds			
Homes Passed	291.7	176.2	(39.6%)
Total RGUs	289.1	158.2	(45.3%)
Mobile	188.1	97.1	(48.4%)
Pre-Paid	(0.8)	(28.6)	3515.2%
Post-Paid	188.9	125.7	(33.5%)
Pay TV Fixed Access	22.2	20.3	(8.8%)
Pay TV DTH	(7.1)	(15.2)	114.3%
Fixed Voice	28.2	13.8	(50.9%)
Broadband	56.0	42.1	(24.9%)
Others and Data	1.6	0.1	(92.4%)
3,4&5P Subscribers (Fixed Access)	46.6	35.2	(24.4%)
Convergent RGUs	244.3	192.2	(21.3%)
Convergent Customers	38.3	38.5	0.4%

(1) Portuguese Operations.

(2) Includes DST from 3Q17.

Operating Indicators ('000)	9M17	9M18	9M18 / 9M17
Telco <sup>(1)</sup>			
Indicators per Segment			
Consumer			
Total RGUs	7,906.1	8,071.6	2.1%
Pay TV Fixed Access	1,189.5	1,209.8	1.7%
Pay TV DTH	300.2	283.2	(5.7%)
Broadband	1,194.6	1,243.3	4.1%
Fixed Voice	1,410.5	1,425.3	1.0%
Mobile	3,811.3	3,910.0	2.6%
ARPU / Unique Subscriber With Fixed Access (Euros)	44.5	44.2	(0.5%)
Net Adds			
Total RGUs	247.2	118.6	(52.0%)
Pay TV Fixed Access	17.5	16.2	(7.6%)
Pay TV DTH	(6.2)	(14.5)	134.6%
Broadband	51.1	37.0	(27.6%)
Fixed Voice	17.2	11.5	(33.1%)
Mobile	167.6	68.4	(59.2%)
Business			
Total RGUs	1,459.7	1,498.3	2.6%
Pay TV	126.1	128.6	2.0%
Broadband	158.7	162.8	2.6%
Fixed Voice	342.4	346.8	1.3%
Mobile	832.5	860.0	3.3%
ARPU per RGU (Euros)	15.4	14.9	(3.3%)
Net Adds			
Total RGUs	41.9	39.6	(5.3%)
Pay TV	3.8	3.4	(11.1%)
Broadband	6.5	5.2	(19.7%)
Fixed Voice	11.0	2.3	(78.8%)
Mobile	20.6	28.7	39.7%

## Cinema and Audiovisuals

Our cinema and audiovisuals division's performance in 9M18 reflected the worldwide decline in cinema spectators, despite a clear improvement in 3Q18 in comparison with the previous quarter's performance.

Operating Indicators ('000)	9M17	9M18	9M18 / 9M17
Cinema <sup>(1)</sup>			
Revenue per Ticket (Euros)	4.7	4.9	3.6%
Tickets Sold - NOS	7,251.7	6,346.9	(12.5%)
Tickets Sold - Total Portuguese Market <sup>(2)</sup>	11,985.4	10,502.2	(12.4%)
Screens (units)	215	212	(1.4%)

(1) Portuguese Operations

(2) Source: ICA - Portuguese Institute For Cinema and Audiovisuals

In 9M18, NOS' Cinema ticket sales posted a yoy decrease of 12.5% to 6.347 million tickets, reflecting the negative performance of the market as a whole due to fewer blockbuster box office hits during the quarter in comparison with 9M17. After an exceptionally strong 2017, performance for 9M18 has returned to levels similar to 2016. Average revenue per ticket improved by 3.6% yoy to 4.9 euros in 9M18. The most successful films exhibited in 9M18 were **"The Incredibles 2"**, **"Fifty Shades Freed"**, **"Avengers: Infinity War"**, **"Hotel Transylvania 3: Summer Vacation"** and **"Deadpool 2"**.

NOS' gross box-office revenues decreased by 9.3% in 9M18, compared with a 9.1% yoy decline for the market as a whole. NOS continues to maintain its leading market position, with a market share of 62.1% in terms of gross revenues in 9M18.

In the Audiovisuals arena, NOS distributed 8 of the top 10 cinema box-office hits in 9M18, **"The Incredibles 2"**, **"Fifty Shades Freed"**, **"Avengers: Infinity War"**, **"Mamma Mia! Here We Go Again"**, **"Black Panther"**, **"Mission: Impossible – Fallout"**, **"The Nun"** and **"Jurassic World: Fallen Kingdom"**, therefore maintaining its leadership position in Cinema Distribution in 9M18.

# Consolidated Financial Review

## Consolidated Income Statement

The following Consolidated Financial Statements have been subject to limited review.

Profit and Loss Statement (Millions of Euros)	9M17	9M18	9M18 / 9M17
Operating Revenues	1,159.7	1,167.3	0.7%
Telco	1,103.0	1,116.1	1.2%
Consumer Revenues	724.4	727.8	0.5%
Business and Wholesale Revenues	325.3	332.3	2.2%
Others and Eliminations	53.3	56.0	5.0%
Audiovisuals & Cinema <sup>(1)</sup>	90.8	81.7	(10.0%)
Others and Eliminations	(34.1)	(30.5)	(10.5%)
Operating Costs Excluding D&A	(710.9)	(705.6)	(0.7%)
Direct Costs	(388.0)	(397.8)	2.5%
Commercial & Customer Related Costs	(95.2)	(89.5)	(6.0%)
Operating and Structure Costs	(227.7)	(218.2)	(4.2%)
EBITDA <sup>(2)</sup>	448.8	461.7	2.9%
EBITDA Margin	38.7%	39.6%	0.9pp
Telco	411.2	429.0	4.3%
EBITDA Margin	37.3%	38.4%	1.2pp
Cinema Exhibition and Audiovisuals	37.6	32.7	(13.0%)
EBITDA Margin	41.4%	40.0%	(1.4pp)
Depreciation and Amortization	(308.1)	(297.1)	(3.6%)
(Other Expenses) / Income	(11.7)	4.1	n.a.
Operating Profit (EBIT) <sup>(3)</sup>	129.0	168.7	30.8%
Share of results of associates and joint ventures	15.0	(4.5)	n.a.
(Financial Expenses) / Income	(18.3)	(19.4)	6.1%
Income Before Income Taxes	125.7	144.9	15.3%
Income Taxes	(20.2)	(22.5)	11.0%
Net Income Before Associates & Non-Controlling Interests	90.5	126.9	40.2%
Income From Continued Operations	105.5	122.4	16.1%
o.w. Attributable to Non-Controlling Interests	(0.3)	0.6	n.a.
Net Income	105.1	123.0	17.0%

<sup>(1)</sup> Includes cinema operations in Mozambique.

<sup>(2)</sup> EBITDA = Operating Profit + Depreciation and Amortization + Integration Costs + Net Losses/Gains on Disposal of Assets + Other Non-Recurrent Losses/Gains

<sup>(3)</sup> EBIT = Income Before Financials and Income Taxes.

## Operating Revenues

In 3Q18 Mobile Termination Rates (MTRs) were cut by 44% to 0.42 eurocents from the 0.75 eurocents rate that had been in place since 2H17. Revenue trends are therefore not directly comparable. Adjusting for the regulatory effect, core telco revenues grew by 1.5%. Unadjusted growth in telco revenues was 1.2%, reaching 1,116.1 million euros in 9M18.

Consolidated revenues increased by 0.7% to 1,167.3 million euros (adjusted growth of 1.0%), reflecting a combination of the aforementioned increase in telco revenues and less negative trends in audiovisuals and cinema revenues throughout 9M18, which fell by 3.1% in 3Q, compared with negative 17.7% in 2Q and 9.0% in 1Q. The aforementioned impact of the MTR cuts in 3Q18 affects like for like comparison in revenues per segment. In 9M18, adjusted revenues in the Consumer and the Business and Wholesale segments grew by 0.8% and 2.5% respectively, supported by previously discussed solid operating trends and a less aggressive market environment.

The yoy decline in Audiovisuals and Cinema Revenues of 3.1% in 3Q18 is a marked improvement from negative 17.7% in 2Q18 and is in line with general market trends, bringing the decline rate of 9M18 to 10.0% to 81.7 million euros. The number of blockbuster movies exhibited and distributed and the volume of tickets sold was significantly better quarter on quarter in 3Q18, albeit still marginally weaker than the same period last year. Yoy comparisons in this division are still impacted by the renegotiation of the value of content contracts to Angola at the end of 2017 due to the challenging macroeconomic environment as explained in previous earnings reports. The value of the contract revision was partially offset by a similar reduction in the cost of the content distributed.

## Consolidated Operating Costs

Total OPEX fell 0.7% in 9M18 to 705.6 million euros. Excluding direct costs, OPEX fell by 4.7% yoy to 307.7 million euros demonstrating primarily continued cost discipline and general operating efficiency. Direct costs also benefitted from the aforementioned MTR cut to 0.42 eurocents. As NOS is a net payer of termination rates to other operators, given relative market shares in mobile, reductions in MTRs drive in a marginally greater reduction in costs than revenues. Adjusted for MTRs, Direct costs grew by 3.4% in 9M18 due to increased operating activity driving greater traffic related costs. Service costs associated with large corporate accounts were reclassified to Direct Costs from Operating and Structure Costs as they are directly related to the operating activity of this business segment. Both cost aggregates were restated from the beginning of 2017 onwards enabling like-for-like comparability between periods.

As discussed in the operating review, work is underway within the context of our long term transformational project targeting opportunities to become a more agile and efficient operation, aiming to simplify and digitalize processes wherever possible, as a means of increasing customer satisfaction and ultimately reduce costs. The main addressable aggregates are commercial and other operating and structure costs, in addition to some potential opportunities for savings in customer related investments. The programme is still at an early stage of development and such financial impacts are relatively small – the value captured from transformation initiatives will build up primarily from 2020 onwards, as the majority of projects move to implementation phase.

Core Telco EBITDA increased 4.3% yoy to 429.0 million euros, driving a 1.2 pp increase in margin to 38.4% in 9M18 and driving an increase in consolidated EBITDA to 461.7 million euros. The anticipated slowdown in telco revenue growth is successfully being compensated by improved operating efficiency, a trend that is set to continue with the acceleration of the transformation programme. The yoy decline in Audiovisuals and Cinema

EBITDA reduced to negative 13.0% in 9M18 from negative 14.9% in 1H18, as a result of the sequential improvement in sector trends. Cinema and Audiovisuals EBITDA in 9M18 amounted to 32.7 million euros representing a 40% margin as a percentage of revenues.

Depreciation and Amortization was down by 3.6% yoy at 297.1 million euros, explained primarily by the lower yoy impact from impairment of existing mobile network equipment within the context of the major mobile upgrade project being deployed.

Consolidated Net income grew 17.0% to 123.0 million euros led by the growth in EBIT. Total Net financial expenses grew to 19.4 million euros compared with 18.3 million euros in 9M17, despite lower average cost of debt, impacted by charges from financing related commissions, essentially due to upfront one-off costs associated with the early repayment of existing credit facilities following the public bond issue in April. Share of Results of Associates and Joint Ventures in 9M18 was lower yoy at negative 4.5 million euros, given the weaker currency environment in Angola when compared with 2017.

## CAPEX

CAPEX (Millions of Euros) <sup>(1)</sup>	9M17	9M18	9M18 / 9M17
Telco	239.1	259.5	8.5%
% of Telco Revenues	21.7%	23.3%	1.6pp
o.w. Technical CAPEX	125.5	150.8	20.2%
% of Telco Revenues	11.4%	13.5%	2.1pp
Baseline Telco	90.5	92.6	2.3%
Network Expansion / Substitution and Integration Projects and Others	35.0	58.2	66.5%
o.w. Customer Related CAPEX	113.6	108.7	(4.3%)
% of Telco Revenues	10.3%	9.7%	(0.6pp)
Audiovisuals and Cinema Exhibition	24.1	20.9	(13.3%)
Total Group CAPEX	263.2	280.4	6.5%

<sup>(1)</sup> CAPEX = Increase in Tangible and Intangible Fixed Assets

As guided, the major transformation investments in the network discussed above are reflected in the increase in technical CAPEX, up by 20.2% yoy to 150.8 million euros, representing 13.5% of telco revenues in 9M18. Of total technical CAPEX in 9M18 of 150.8 million euros, 58.2 million euros were allocated to network expansion and substitution investment.

Customer related CAPEX within the telco business decreased to 108.7 million euros in 9M18 (9.7% of revenues), due to lower commercial activity as expected, despite the boost in 3Q18 led by additional activity primarily in new coverage areas, as is to be expected with the ramp up in expansion during the latter half of the year. This increased commercial activity is visible in the pick up in fixed access subscriber growth in 3Q18, discussed in the operating review.

Total CAPEX was 280.4 million euros in 9M18, 24.0% as a proportion of revenues, impacted primarily by the telco investments discussed above.



## Cash Flow

Cash Flow (Millions of Euros)	9M17	9M18	9M18 / 9M17
EBITDA	448.8	461.7	2.9%
Total CAPEX	(263.2)	(280.4)	6.5%
EBITDA - Total CAPEX	185.6	181.3	(2.3%)
% of Revenues	16.0%	15.5%	(0.5pp)
Non-Cash Items Included in EBITDA - CAPEX and Change in Working Capital	(23.0)	(0.8)	(96.3%)
Operating Cash Flow	162.7	180.5	10.9%
Long Term Contracts	(11.3)	(10.7)	(4.8%)
Interest Paid	(17.9)	(12.3)	(31.3%)
Income Taxes Paid	(9.7)	3.9	n.a.
Disposals	25.9	0.8	(96.8%)
Other Cash Movements <sup>(1)</sup>	(13.7)	18.0	n.a.
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	136.0	180.1	32.5%
Acquisition of Own Shares	0.0	(3.1)	n.a.
Dividends	(102.6)	(153.9)	50.0%
Free Cash Flow	33.3	23.1	(30.7%)
Debt Variation Through Financial Leasing, Accruals & Deferrals & Others	(0.9)	(2.2)	152.9%
Change in Net Financial Debt	(32.5)	(20.9)	(35.5%)

<sup>(1)</sup> Includes Cash Restructuring Payments and Other Cash Movements.

FCF before dividends recorded a significant increase yoy to 180.1 million euros in 9M18 compared with 136.0 million euros in 9M17, explained in part by a non-recurrent inflow in 3Q18, related with receipt of a legal settlement, in favour of NOS, regarding a pending regulatory dispute over operator termination rate charges which had already been accounted for in the income statement in 1Q18. Although EBITDA grew by 2.9% yoy in 9M18, it did not compensate the significant increase in CAPEX leading to a small decline in EBITDA-CAPEX to 181.3 million euros. Working capital and non cash item adjustments in EBITDA-CAPEX were only marginally negative due primarily to the positive contribution of trade balances payments with ZAP during 3Q18 and outstanding operator balances related with the aforementioned pending legal dispute. As such, Operating Cash Flow increased by 10.9% to 180.5 million euros. Of the remaining cash items, interest paid was 31.3% lower compared with 9M17, explained mostly by the continued decline in average cost of debt. The non-recurrent positive cash inflow recorded in **"Other Cash Movements"** is explained by interest received from the outstanding legal settlement.

## Consolidated Balance Sheet

Balance Sheet (Millions of Euros)	9M17	2017	9M18	9M18/ 9M17
Non-current Assets	2,448.6	2,449.3	2,404.9	(1.8)%
Current Assets	542.5	561.2	538.3	(0.8)%
Total Assets	2,991.1	3,010.5	2,943.2	(1.6)%
Total Shareholders' Equity	1,087.0	1,111.5	1,068.3	(1.7)%
Non-current Liabilities	1,156.3	1,146.1	1,112.6	(3.8)%
Current Liabilities	747.9	753.0	762.4	1.9%
Total Liabilities	1,904.2	1,899.1	1,875.0	(1.5)%
Total Liabilities and Shareholders' Equity	2,991.1	3,010.5	2,943.2	(1.6)%

## Capital Structure

At the end of 9M18, Net Financial Debt stood at 1,064.5 million euros. Total financial debt was 1,067.0 million euros, which was offset with a cash and short-term investment position on the balance sheet of 2.5 million euros. At the end of 9M18, NOS also had 255 million euros of unissued commercial paper programmes. In 9M18, the **all-in average cost of NOS' Net Financial Debt** amounted to 1.9%.

Net Financial Debt / EBITDA (last 4 quarters) now stands at 1.8x, still representing a solid and conservative capital structure in the range of 2x Net Financial Debt / EBITDA, which we **are committed to maintain**. The **average maturity of NOS' Net Financial Debt at the end of 9M18** was 3.2 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 September 2018, the proportion **of NOS' issued debt paying interest at a fixed rate is approximately 79%**.

Net Financial Debt (Millions of Euros) <sup>(1)</sup>	9M17	2017	9M18	9M18/ 9M17
Short Term	193.3	197.3	178.4	(7.7)%
Bank and Other Loans	177.5	183.6	164.2	(7.5)%
Financial Leases	15.8	13.7	14.2	(10.2)%
Medium and Long Term	888.5	891.2	888.6	0.0%
Bank and Other Loans	869.9	870.3	875.7	0.7%
Financial Leases	18.7	20.8	12.9	(30.9)%
Total Debt	1,081.8	1,088.5	1,067.0	(1.4)%
Cash and Short Term Investments	2.0	3.0	2.5	24.9%
Net Financial Debt	1,079.8	1,085.5	1,064.5	(1.4)%
Net Financial Gearing <sup>(2)</sup>	49.8%	49.4%	49.9%	0.1pp
Net Financial Debt / EBITDA	1.9x	1.9x	1.8x	n.a.

<sup>(1)</sup> Net Financial Debt = Borrowings – Long Term Contracts + Cash and Short Term Investments  
<sup>(2)</sup> Net Financial Gearing = Net Financial Debt / (Net Financial Debt + Total Shareholders' Equity).

## Transactions of Own Shares

By the end of 9M18, NOS held, within the scope of its Employee Share Plan and the Regulation on Short and Medium Term Variable Remuneration, aimed at NOS employees, 2,073,859 own shares.

The table below summarizes NOS' own shares transactions, which took place until 30 September 2018:

Description	Number of Shares
Initial Balance	2,040,234
Acquisition	650,000
Share Incentive Scheme and Other Remuneration - Distribution	616,375
Final Balance	2,073,859

# Consolidated Financial Statements

## Consolidated statement of financial position at 31 December 2017 and 30 September 2017 and 2018

(Amounts stated in thousands of euros)

	NOTES	30-09-2017 REPORTED	31-12-2017 REPORTED	30-09-2017 RESTATED	31-12-2017 RESTATED	30-09-2018
<b>ASSETS</b>						
<b>NON - CURRENT ASSETS</b>						
Tangible assets	7	1,130,908	1,137,209	1,039,171	1,043,939	1,053,840
Investment property		662	661	662	661	659
Intangible assets	8	1,142,355	1,141,104	1,256,133	1,253,398	1,225,431
Investments in jointly controlled companies and associated companies	9	23,020	37,130	23,020	37,130	21,111
Accounts receivable - other	10	6,417	6,185	6,417	6,185	5,239
Tax receivable	11	1,029	149	1,029	149	149
Available-for-sale financial assets		77	180	77	180	236
Deferred income tax assets	12	114,045	99,538	122,096	107,700	98,204
Derivative financial instruments	17	-	-	-	-	65
<b>TOTAL NON - CURRENT ASSETS</b>		<b>2,418,513</b>	<b>2,422,156</b>	<b>2,448,604</b>	<b>2,449,343</b>	<b>2,404,934</b>
<b>CURRENT ASSETS:</b>						
Inventories	13	34,315	32,044	34,315	32,044	33,663
Accounts receivable - trade	14	397,184	406,904	442,400	454,328	447,171
Accounts receivable - other	10	11,537	10,366	11,537	10,366	4,498
Tax receivable	11	1,035	14,945	1,035	14,945	1,230
Prepaid expenses	15	80,452	77,657	51,236	46,527	49,205
Derivative financial instruments	17	7	19	7	19	61
Cash and cash equivalents	18	1,988	2,977	1,989	2,977	2,484
<b>TOTAL CURRENT ASSETS</b>		<b>526,518</b>	<b>544,911</b>	<b>542,518</b>	<b>561,206</b>	<b>538,312</b>
<b>TOTAL ASSETS</b>		<b>2,945,031</b>	<b>2,967,067</b>	<b>2,991,122</b>	<b>3,010,549</b>	<b>2,943,245</b>
<b>SHAREHOLDER'S EQUITY</b>						
Share capital	19.1	5,152	5,152	5,152	5,152	5,152
Capital issued premium	19.2	854,219	854,219	854,219	854,219	854,219
Own shares	19.3	(12,681)	(12,681)	(12,681)	(12,681)	(12,159)
Legal reserve	19.4	1,030	1,030	1,030	1,030	1,030
Other reserves and accumulated earnings	19.4	97,662	105,489	126,016	133,843	89,798
Net Income		105,466	124,094	105,130	122,083	123,001
<b>EQUITY BEFORE NON - CONTROLLING INTERESTS</b>		<b>1,050,848</b>	<b>1,077,301</b>	<b>1,078,865</b>	<b>1,103,644</b>	<b>1,061,040</b>
Non-controlling interests	20	9,331	9,067	8,105	7,822	7,219
<b>TOTAL EQUITY</b>		<b>1,060,178</b>	<b>1,086,368</b>	<b>1,086,970</b>	<b>1,111,467</b>	<b>1,068,259</b>
<b>LIABILITIES</b>						
<b>NON - CURRENT LIABILITIES</b>						
Borrowings	21	954,649	954,658	954,649	954,658	944,518
Provisions	22	136,479	133,262	136,479	133,262	137,743
Accounts payable	26	21,092	17,615	21,092	17,615	11,583
Tax payable	11	1,293	-	1,293	-	-
Accrued expenses	23	9,042	8,767	9,042	8,767	6,372
Deferred income	24	3,847	3,773	3,847	3,773	5,662
Derivative financial instruments	17	2,809	2,462	2,809	2,462	1,585
Deferred income tax liabilities	12	7,960	7,140	27,076	25,523	5,166
<b>TOTAL NON - CURRENT LIABILITIES</b>		<b>1,137,171</b>	<b>1,127,678</b>	<b>1,156,288</b>	<b>1,146,060</b>	<b>1,112,628</b>
<b>CURRENT LIABILITIES:</b>						
Borrowings	21	205,805	210,136	205,805	210,136	190,636
Accounts payable - trade	25	222,152	224,864	222,152	224,864	253,106
Accounts payable - other	26	46,691	58,155	46,690	58,155	41,898
Tax payable	11	34,040	19,222	34,040	19,222	53,289
Accrued expenses	23	212,253	213,564	212,253	213,564	192,315
Deferred income	24	26,731	27,047	26,914	27,047	31,114
Derivative financial instruments	17	10	33	10	33	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>747,682</b>	<b>753,021</b>	<b>747,864</b>	<b>753,021</b>	<b>762,358</b>
<b>TOTAL LIABILITIES</b>		<b>1,884,853</b>	<b>1,880,699</b>	<b>1,904,152</b>	<b>1,899,082</b>	<b>1,874,986</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b>2,945,031</b>	<b>2,967,067</b>	<b>2,991,122</b>	<b>3,010,549</b>	<b>2,943,245</b>

As a recurring practice, only the annual accounts are audited, and the quarterly 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 September 2018.

The Chief Accountant

The Board of Directors

## Consolidated statement of income by nature for the three and nine months ended on 30 September 2017 and 2018

(Amounts stated in thousands of euros)

	NOTES	3° QUARTER 17 REPORTED	9M 17 REPORTED	3° QUARTER 17 RESTATED	9M 17 RESTATED	3° QUARTER 18	9M 18
<b>REVENUES:</b>							
Services rendered		370,055	1,102,601	365,330	1,086,429	367,829	1,086,922
Sales		20,192	50,062	23,706	61,203	21,789	61,300
Other operating revenues		2,850	9,804	3,047	12,059	5,378	19,061
	27	393,097	1,162,467	392,084	1,159,691	394,996	1,167,283
<b>COSTS, LOSSES AND GAINS:</b>							
Wages and salaries	28	23,199	66,087	23,199	66,087	21,187	60,206
Direct costs	29	120,842	363,603	120,509	362,747	120,569	371,646
Costs of products sold	30	14,758	36,224	17,309	44,881	17,018	44,615
Marketing and advertising		8,230	22,774	8,230	22,774	7,426	21,629
Support services	31	21,901	68,356	21,788	68,004	20,935	62,662
Supplies and external services	31	44,095	130,482	41,251	123,013	40,368	115,481
Other operating losses / (gains)		129	483	129	483	158	584
Taxes		8,677	24,336	8,677	24,336	8,656	25,359
Provisions and adjustments	32	50	(1,435)	50	(1,435)	2,464	3,380
Depreciation, amortisation and impairment losses	7, 8 and 34	103,675	310,413	104,416	308,089	95,189	297,111
Restructuring costs		2,178	6,018	2,178	6,018	3,423	8,574
Losses / (gains) on sale of assets, net		(69)	1	(69)	1	(192)	(286)
Other losses / (gains) non recurrent net	35	1,740	5,694	1,740	5,694	282	(12,393)
		349,405	1,033,036	349,406	1,030,691	337,484	998,568
<b>INCOME BEFORE FINANCIAL RESULTS AND TAXES</b>							
Net losses / (gains) of affiliated companies	9 and 33	(6,012)	(14,983)	(6,012)	(14,983)	(1,276)	4,451
Financial costs	36	4,817	15,786	4,817	15,786	4,103	12,663
Net foreign exchange losses / (gains)		15	122	15	122	(79)	38
Net other financial expenses / (income)	36	1,637	2,391	1,638	2,392	1,194	6,709
		457	3,316	457	3,316	3,942	23,861
<b>INCOME BEFORE TAXES</b>							
Income taxes	12	9,707	20,365	9,415	20,230	9,590	22,451
<b>NET CONSOLIDATED INCOME</b>							
		33,529	105,751	32,807	105,455	43,982	122,403
<b>ATTRIBUTABLE TO:</b>							
NOS Group Shareholders		33,639	105,466	32,893	105,130	44,110	123,001
Non-controlling interests	20	(110)	285	(87)	325	(128)	(598)
<b>EARNINGS PER SHARES</b>							
Basic - euros	37	0.07	0.21	0.06	0.20	0.09	0.24
Diluted - euros	37	0.07	0.21	0.06	0.20	0.09	0.24

As a recurring practice, only the annual accounts are audited, and the quarterly 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 nine months ended on 30 September 2018.

The Chief Accountant

The Board of Directors

## Consolidated statement of comprehensive income for the three and nine months ended on 30 September 2017 and 2018

(Amounts stated in thousands of euros)

	NOTES	3 <sup>o</sup> QUARTER 17 REPORTED	9M 17 REPORTED	3 <sup>o</sup> QUARTER 17 RESTATED	9M 17 RESTATED	3 <sup>o</sup> QUARTER 18	9M 18
NET CONSOLIDATED INCOME		33,529	105,751	32,807	105,455	88,888	122,403
OTHER INCOME							
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO THE INCOME STATEMENT:							
Accounting for equity method	9	33	(16)	33	(16)	(3,748)	(10,971)
Fair value of interest rate swap	17	(64)	1,303	(64)	1,303	696	868
Deferred income tax - interest rate swap	17	15	(293)	15	(293)	(156)	(195)
Fair value of equity swaps	17	(70)	20	(70)	20	335	(26)
Deferred income tax - equity swap	17	15	(5)	15	(5)	(75)	6
Deferred income tax - exchange rate forward	17	(4)	(4)	(4)	(4)	-	-
Currency translation differences and others		4	(31)	4	(31)	(469)	(1,214)
INCOME RECOGNISED DIRECTLY IN EQUITY		(71)	974	(71)	974	(3,417)	(11,532)
TOTAL COMPREHENSIVE INCOME		33,458	106,725	32,736	106,429	85,471	110,871
ATTRIBUTABLE TO:							
NOS Group Shareholders		33,568	106,440	32,823	106,104	85,806	111,469
Non-controlling interests		(110)	285	(87)	325	(335)	(598)
		33,458	106,725	32,736	106,429	85,471	110,871

As a recurring practice, only the annual accounts are audited, and the quarterly results are not audited separately.

The Notes to the Financial Statements form an integral part of the consolidated statement of comprehensive income for the nine months ended on 30 September 2018.

The Chief Accountant

The Board of Directors

## Consolidated statement of changes in shareholders' equity for the nine months ended on 30 September 2017 and 2018

(Amounts stated in thousands of euros)

	ATTRIBUTABLE TO NOS GROUP SHAREHOLDERS							NON - CONTROLLING INTERESTS	TOTAL
	NOTES	SHARE CAPITAL	CAPITAL ISSUED PREMIUM	OWN SHARES DISCOUNTS AND PREMIUMS	LEGAL RESERVE	OTHER RESERVES AND ACCUMULATE D EARNINGS	NET INCOME		
BALANCE AS AT 1 JANUARY 2017 (REPORTED)		5,152	854,219	(18,756)	1,030	112,031	90,381	9,041	1,053,099
Effect of change in accounting policies (Note 2.1)		-	-	-	-	26,464	1,971	(1,266)	27,169
BALANCE AS AT 1 JANUARY 2017 (RESTATED)		5,152	854,219	(18,756)	1,030	138,495	92,352	7,775	1,080,267
Result appropriation									
Transfers to reserves		-	-	-	-	92,352	(92,352)	-	-
Dividends paid		-	-	-	-	(102,617)	-	-	(102,617)
Distribution of own shares - share incentive scheme		-	-	5,790	-	(5,453)	-	-	337
Distribution of own shares - other remunerations		-	-	285	-	(79)	-	-	206
Share Plan - costs incurred in the period and others		-	-	-	-	2,257	-	5	2,262
Comprehensive Income		-	-	-	-	974	105,130	325	106,429
Others		-	-	-	-	87	-	-	87
BALANCE AS AT 30 SEPTEMBER 2017 (RESTATED)		5,152	854,219	(12,681)	1,030	126,016	105,130	8,105	1,086,970
BALANCE AS AT 1 JANUARY 2018 (REPORTED)		5,152	854,219	(12,681)	1,030	105,489	124,094	9,067	1,086,368
Effect of change in accounting policies (Note 2.1)		-	-	-	-	28,353	(2,011)	(1,245)	25,099
BALANCE AS AT 1 JANUARY 2018 (RESTATED)		5,152	854,219	(12,681)	1,030	133,843	122,083	7,822	1,111,467
Result appropriation									
Transfers to reserves		-	-	-	-	122,083	(122,083)	-	-
Dividends paid		-	-	-	-	(153,923)	-	-	(153,923)
Aquisition of own shares	19.3	-	-	(3,096)	-	-	-	-	(3,096)
Distribution of own shares - share incentive scheme	19.3	-	-	3,515	-	(3,515)	-	-	-
Distribution of own shares - other remunerations	19.3	-	-	103	-	(20)	-	-	83
Share Plan - costs incurred in the period and others	41	-	-	-	-	2,862	-	(5)	2,857
Comprehensive Income		-	-	-	-	(11,532)	123,001	(598)	110,871
BALANCE AS AT 30 SEPTEMBER 2018		5,152	854,219	(12,159)	1,030	89,798	123,001	7,219	1,068,259

As a recurring practice, only the annual accounts are audited, and the quarterly results are not audited separately.

The Notes to the Financial Statements form an integral part of the consolidated statement of changes in shareholders' equity for the nine months ended on 30 September 2018.

The Chief Accountant

The Board of Directors



## Consolidated statement of cash flows for the nine months ended on 30 September 2017 and 2018

(Amounts stated in thousands of euros)

	NOTES	9M 17 REPORTED	9M 17 RESTATEd	9M 18
<b>OPERATING ACTIVITIES</b>				
Collections from clients		1,330,415	1,330,415	1,390,804
Payments to suppliers		(732,441)	(732,909)	(739,150)
Payments to employees		(85,914)	(85,914)	(80,657)
Receipts / (Payments) relating to income taxes		(9,765)	(9,765)	3,856
Other cash receipts / (payments) related with operating activities		(78,793)	(78,793)	(33,235)
<b>CASH FLOW FROM OPERATING ACTIVITIES (1)</b>		<b>423,501</b>	<b>423,034</b>	<b>541,618</b>
<b>INVESTING ACTIVITIES</b>				
<b>CASH RECEIPTS RESULTING FROM</b>				
Tangible assets		2,620	2,620	1,134
Intangible assets		39	39	11
Available-for-sale financial assets	16	29,776	29,776	-
Interest and related income		4,009	4,009	3,239
		36,443	36,443	4,384
<b>PAYMENTS RESULTING FROM</b>				
Tangible assets		(167,245)	(133,934)	(203,054)
Intangible assets		(124,501)	(157,345)	(138,328)
		(291,747)	(291,279)	(341,407)
<b>CASH FLOW FROM INVESTING ACTIVITIES (2)</b>		<b>(255,304)</b>	<b>(254,837)</b>	<b>(337,023)</b>
<b>FINANCING ACTIVITIES</b>				
<b>CASH RECEIPTS RESULTING FROM</b>				
Borrowings		188,000	188,000	377,099
		188,000	188,000	377,099
<b>PAYMENTS RESULTING FROM</b>				
Borrowings		(207,027)	(207,027)	(378,333)
Lease rentals (principal)		(21,337)	(21,337)	(16,028)
Interest and related expenses		(23,426)	(23,426)	(19,215)
Dividends	19.4	(102,617)	(102,617)	(153,924)
Aquisition of own shares	19.3	-	-	(3,096)
		(354,407)	(354,407)	(570,596)
<b>CASH FLOW FROM FINANCING ACTIVITIES (3)</b>		<b>(166,407)</b>	<b>(166,407)</b>	<b>(193,497)</b>
Change in cash and cash equivalents (4)=(1)+(2)+(3)		1,790	1,790	11,098
Effect of exchange differences		17	17	6
Cash and cash equivalents at the beginning of the year		(13,877)	(13,877)	(38,775)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<b>(12,070)</b>	<b>(12,070)</b>	<b>(27,671)</b>
Cash and cash equivalents	18	1,988	1,988	2,484
Bank overdrafts	21	(14,058)	(14,058)	(30,155)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<b>(12,070)</b>	<b>(12,070)</b>	<b>(27,671)</b>

As a recurring practice, only the annual accounts are audited, and the quarterly results are not audited separately.

The Notes to the Financial Statements form an integral part of the consolidated statement of cash flows for the nine months ended on 30 September 2018.

The Chief Accountant

The Board of Directors

## Notes to the consolidated financial statements as at 30 September 2018

(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 become fully independent from Portugal Telecom.

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

**On 20 September 2014, because 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 datacentres and consulting services in IT.

**NOS shares are listed on the Euronext Lisbon market. The shareholders' structure of the Group as at 30 September 2018 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. NOSPUB also manages the advertising space on Pay TV channels and in the cinemas of NOS Cinemas.

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

NOS Sistemas is a company dedicated to datacentre 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.

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

The consolidated financial statements for the nine months ended on 30 September 2018 are presented in euros and were approved by the Board of Directors and their issue authorised on 8 November 2018.

The Board of Directors believes that these financial statements give a true and fair view of the **Group's operations, financial performance, and consolidated cash flows.**

## 2. Accounting policies

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

### 2.1. 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 2018.

These consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting ("IAS 34"). Consequently, these financial statements do not include all the information required by IFRS and should therefore be read in conjunction with the consolidated financial statements for the year ended on 31 December 2017.

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 when 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 standards and interpretations that became effective as of 1 January 2018 are as follows:

- **IFRS 2, "Classification and Measurement of Share-based Payment Transactions" (amendment)** that is effective for annual periods beginning on or after 1 January 2018. These amendments incorporate the standard payment transactions based on shares and settled in cash.
- **IFRS 4, "Application of the IFRS 9 Financial Instruments with the IFRS 4 Insurance Contracts" (amendment)** that is 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 9, "Financial instruments – classification and measurement" (new) that is 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 represent principal and interest. Otherwise, financial instruments are measured at fair value through profit and loss.
- **IFRS 15, "Revenue from Contracts with Customers" (new), that is 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 capitals markets, and 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.
- **IFRS 15, "Revenue from contracts with customers" (clarification)** that is 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.
- **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.
- **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.
- Improvements to international financial reporting standards (2014-2016 cycle that is effective for annual periods beginning on or after 1 January 2017/2018). These improvements involve the review of various standards.

These changes had no material impact on the Group's consolidated financial statements, except IFRS 15.

## Impacts of IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and amended in September 2015 and April 2016 with mandatory application for the financial years beginning on or from 1 January 2018, with earlier application permitted. This standard establishes the principles that are to be applied for the recognition of the revenues and costs associated with the contracts with customers, based on a five-step model that will allow allocating the revenue to the performance obligations. According to IFRS 15, the revenue is recognised by a value that reflects the compensation that a company expects to have the right by exchanging a transfer of goods or services to a customer.

### Transition

The new standard replace all the previous requests for the recognition of the revenue prescribed in the IFRS and can be applied retrospectively, with regard to periods that began on or after 1 January 2018 by adopting one of the following methods:

- i) complete retrospective application: it implies the restatement of all the comparatives periods; or
- ii) modified retrospective application: recognition of the cumulative effect during the first application period of the standard, as an adjustment to the equity, and during the opening balance of the period when the standard is adopted.

NOS Group adopted the new standard on the effective date requested (1 January 2018), using the full retrospective method.

### Performance Obligations

According to IFRS 15, at the inception of each contract, the entity should assess the goods or services that have been promised and identify as a performance obligation each promise of transfer to the customer of any good or service (or bundle of goods or services) that are distinct. The promises in contracts with clients might be explicit or implicit, as long as those promises create a valid expectation for the customer that the entity will transfer a good or service to the customer, based on published policies, specific declarations, or current commercial practices of the entity.

Subsequently, the entity must distribute the transaction price to each performance obligation that is identified in the contract, based on the autonomous sales price, so that the allocation performed represents the amount of consideration that the entity expects to receive in exchange of the transfer of the promised goods and services to the customer.

IFRS 15 also provides additional disclosures, both on performance obligations of the entity and determination of transaction based-price, and on assets and liabilities that its application will originate, implying a relevant increase of the disclosures on financial statements.

### Financial impacts

The business segments in which NOS group operates are essentially telecommunications, advertising, cinema distribution and exhibition, and audiovisuals.

The main impacts of the application of IFRS 15 occurred in the telecommunications segment, in which equipment and services are sold both by separated contracts and by packs of goods and services.

#### Sale of mobile phones within telecommunications packs

The sale of mobile phones is normally associated with telecommunications packs that include several services: television, internet, data, and equipment and are usually sold with significant

discounts. According to the previous policy, the revenue was recognised in accordance with the value of the pack associated with each service. Therefore, the revenue that was associated with the equipment sale was recognised by the price paid by the customers and when the equipment is delivered (when all the risks and advantages inherent in the possession of the goods are transferred to the buyer). There were also situations in which equipments are provided to the customers under a free-lease agreement (rent-free).

According to IFRS 15, and delivery of this equipment being a performance obligation, a part of the revenue from the contracts with customers is now allocated for complying with this obligation. It implies a higher revenue, at the initial moment of the contract, allocated to the sale of equipment, and a lower revenue during all the period of the contract of services provision. In other words, there is a transfer of services revenues to equipment revenues and an amendment of the period of the revenue recognition. With the application of IFRS 15, the revenue was anticipated and restated on 1 January 2017, that originated the establishment of an asset.

Over time, it is expected that this asset remains at stable levels, since the impact of the new contracts will compensate with the impact of those that end. However, some short-term of volatility is estimated and results from the launch of new products.

#### Commissions and other costs related to the soliciting of contracts

According to the previous policy, the Group capitalised all the commissions that are paid to third parties and other costs related to the soliciting and loyalty of contracts with clients providing that the contracts have a loyalty period and the costs are amortised during the loyalty period of the contracts (predominantly 2 years).

According to IFRS 15, the promises in contracts with customers may be explicit or implicit, so the capitalization of the costs related to soliciting of contracts is not restricted to the contracts that were signed with a loyalty period and that originate a capitalization of commissions and other costs that were previously recognised as costs.

The commissions and other costs related to the soliciting of the contracts are amortised systematically and in a consistent manner with the transfer of goods and services to customers relative to the assets. The Group determined that a customer, on average, is a NOS customer for periods of either 2 to 4 years, depending on the business segment, so the amortisation period of the commissions and costs related to contracts soliciting has been amended from 2 years to 4 and 2 years.

#### Other adjustments

In addition to the adjustments that were previously described, the application of IFRS 15 implied the corresponding adjustment concerning deferred taxes.

The impacts of the adoption of IFRS 15 in the consolidated financial position statements are presented in the tables below:

At 31 December 2016

	31-12-2016 REPORTED	Revenue (recognition according with performance obligations)	Costs of obtaining and to fulfil a contract with a customer	31-12-2016 RESTATED
<b>ASSETS</b>				
<b>NON - CURRENT ASSETS</b>				
Tangible assets	1,158,181	(12,604)	(79,169)	1,066,408
Intangible assets	1,158,779	-	111,993	1,270,772
Deferred income tax assets	117,302	-	8,667	125,969
Other assets	18,740	-	-	18,740
<b>TOTAL NON - CURRENT ASSETS</b>	<b>2,453,002</b>	<b>(12,604)</b>	<b>41,491</b>	<b>2,481,889</b>
<b>CURRENT ASSETS:</b>				
Accounts receivable - trade	348,926	47,136	-	396,062
Prepaid expenses	84,391	(28,957)	-	55,434
Other assets	96,322	-	-	96,322
<b>TOTAL CURRENT ASSETS</b>	<b>529,639</b>	<b>18,179</b>	<b>-</b>	<b>547,818</b>
<b>TOTAL ASSETS</b>	<b>2,982,641</b>	<b>5,575</b>	<b>41,491</b>	<b>3,029,707</b>
<b>SHAREHOLDER'S EQUITY</b>				
Share capital issued, premium and own shares	841,645	-	-	841,645
Other reserves and accumulated earnings	112,031	5,217	21,246	138,494
Net Income	90,381	(1,201)	3,172	92,352
<b>EQUITY BEFORE NON - CONTROLLING INTERESTS</b>	<b>1,044,057</b>	<b>4,016</b>	<b>24,418</b>	<b>1,072,491</b>
Non-controlling interests	9,041	-	(1,266)	7,775
<b>TOTAL EQUITY</b>	<b>1,053,098</b>	<b>4,016</b>	<b>23,152</b>	<b>1,080,266</b>
<b>LIABILITIES</b>				
<b>NON - CURRENT LIABILITIES</b>				
Deferred income tax liabilities	10,206	1,559	18,339	30,104
Other liabilities	1,158,490	-	-	1,158,490
<b>TOTAL NON - CURRENT LIABILITIES</b>	<b>1,168,696</b>	<b>1,559</b>	<b>18,339</b>	<b>1,188,594</b>
<b>TOTAL CURRENT LIABILITIES</b>	<b>760,847</b>	<b>-</b>	<b>-</b>	<b>760,847</b>
<b>TOTAL LIABILITIES</b>	<b>1,929,543</b>	<b>1,559</b>	<b>18,339</b>	<b>1,949,441</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>2,982,641</b>	<b>5,575</b>	<b>41,491</b>	<b>3,029,707</b>



At 30 September 2017

	30-09-2017 REPORTED	Revenue (recognition according with performance obligations)	Costs of obtaining and to fulfil a contract with a customer	30-09-2017 RESTATED
ASSETS				
NON - CURRENT ASSETS				
Tangible assets	1,130,908	(10,701)	(81,036)	1,039,171
Intangible assets	1,142,355	-	113,778	1,256,133
Deferred income tax assets	114,045	51	8,000	122,096
Other assets	31,205	-	-	31,205
TOTAL NON - CURRENT ASSETS	2,418,513	(10,650)	40,741	2,448,604
CURRENT ASSETS:				
Accounts receivable - trade	397,184	45,216	-	442,400
Prepaid expenses	80,452	(29,216)	-	51,236
Other assets	48,882	-	-	48,882
TOTAL CURRENT ASSETS	526,518	16,000	-	542,518
TOTAL ASSETS	2,945,031	5,350	40,741	2,991,122
SHAREHOLDER'S EQUITY				
Share capital issued, premium and own shares	847,720	-	-	847,720
Other reserves and accumulated earnings	97,662	4,017	24,337	126,016
Net Income	105,466	(331)	(5)	105,130
EQUITY BEFORE NON - CONTROLLING INTERESTS	1,050,848	3,685	24,332	1,078,865
Non-controlling interests	9,331	-	(1,226)	8,105
TOTAL EQUITY	1,060,178	3,685	23,107	1,086,970
LIABILITIES				
NON - CURRENT LIABILITIES				
Deferred income tax liabilities	7,960	1,481	17,635	27,076
Other liabilities	1,129,211	-	-	1,129,211
TOTAL NON - CURRENT LIABILITIES	1,137,171	1,481	17,635	1,156,288
TOTAL CURRENT LIABILITIES	747,682	183	-	747,864
TOTAL LIABILITIES	1,884,853	1,664	17,635	1,904,152
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	2,945,031	5,350	40,741	2,991,122

At 31 December 2017

	31-12-2017 REPORTED	Revenue (recognition according with performance obligations)	Costs of obtaining and to fulfil a contract with a customer	31-12-2017 RESTATED
<b>ASSETS</b>				
<b>NON - CURRENT ASSETS</b>				
Tangible assets	1,137,209	(10,322)	(82,948)	1,043,939
Intangible assets	1,141,104	-	112,294	1,253,398
Deferred income tax assets	99,538	-	8,162	107,700
Other assets	44,305	-	-	44,305
<b>TOTAL NON - CURRENT ASSETS</b>	<b>2,422,156</b>	<b>(10,322)</b>	<b>37,509</b>	<b>2,449,343</b>
<b>CURRENT ASSETS:</b>				
Accounts receivable - trade	406,904	47,424	-	454,328
Prepaid expenses	77,657	(31,130)	-	46,527
Other assets	60,350	-	-	60,350
<b>TOTAL CURRENT ASSETS</b>	<b>544,911</b>	<b>16,295</b>	<b>-</b>	<b>561,206</b>
<b>TOTAL ASSETS</b>	<b>2,967,067</b>	<b>5,973</b>	<b>37,509</b>	<b>3,010,549</b>
<b>SHAREHOLDER'S EQUITY</b>				
Share capital issued, premium and own shares	847,718	-	-	847,718
Other reserves and accumulated earnings	105,489	4,017	24,337	133,843
Net Income	124,094	306	(2,317)	122,083
<b>EQUITY BEFORE NON - CONTROLLING INTERESTS</b>	<b>1,077,301</b>	<b>4,323</b>	<b>22,020</b>	<b>1,103,644</b>
Non-controlling interests	9,067	-	(1,245)	7,822
<b>TOTAL EQUITY</b>	<b>1,086,368</b>	<b>4,323</b>	<b>20,776</b>	<b>1,111,467</b>
<b>LIABILITIES</b>				
<b>NON - CURRENT LIABILITIES</b>				
Deferred income tax liabilities	7,140	1,650	16,733	25,523
Other liabilities	1,120,538	-	-	1,120,538
<b>TOTAL NON - CURRENT LIABILITIES</b>	<b>1,127,678</b>	<b>1,650</b>	<b>16,733</b>	<b>1,146,060</b>
<b>TOTAL CURRENT LIABILITIES</b>	<b>753,021</b>	<b>-</b>	<b>-</b>	<b>753,021</b>
<b>TOTAL LIABILITIES</b>	<b>1,880,699</b>	<b>1,650</b>	<b>16,733</b>	<b>1,899,082</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>2,967,067</b>	<b>5,973</b>	<b>37,509</b>	<b>3,010,549</b>

The impacts of adopting IFRS 15 in the Consolidated Statement of Income by nature are presented in the table below:

The nine months ended on 30 September 2017

	9M 17 REPORTED	Revenue (recognition according with performance obligations)	Costs of obtaining and to fulfil a contract with a customer	9M 17 RESTATE
REVENUES:				
Services rendered	1,102,601	(16,172)	-	1,086,429
Sales	50,062	11,553	(412)	61,203
Other operating revenues	9,804	2,255	-	12,059
	1,162,467	(2,364)	(412)	1,159,691
COSTS, LOSSES AND GAINS:				
Direct costs	363,603	-	(856)	362,747
Costs of products sold	36,224	7,652	1,005	44,881
Support services	68,356	-	(352)	68,004
Supplies and external services	130,482	-	(7,469)	123,013
Depreciation, amortisation and impairment losses	310,413	(9,557)	7,233	308,089
Other costs, losses and gains	123,958	-	-	123,958
	1,033,036	(1,905)	(440)	1,030,691
INCOME BEFORE FINANCIAL RESULTS AND TAXES	129,431	(459)	28	129,000
Financial results	3,316	-	-	3,316
INCOME BEFORE TAXES	126,116	(459)	28	125,685
Income taxes	20,365	(128)	(7)	20,230
NET CONSOLIDATED INCOME	105,751	(331)	35	105,455
ATTRIBUTABLE TO:				
NOS Group Shareholders	105,466	(331)	(5)	105,130
Non-controlling interests	285	-	40	325
EARNINGS PER SHARES				
Basic - euros	0.21	-	-	0.20
Diluted - euros	0.21	-	-	0.20

The impacts of the adoption of IFRS 15 in the consolidated statements of comprehensive income were null and in the consolidated statement of cash flows were immaterial.

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

- **IFRS 9: "Prepayment features with negative compensation" (amendment)** that is effective for periods beginning on or after 1 January 2019. Amendments to IFRS 9 clarify that a financial asset meets the SPPI criteria regardless of the event or circumstances that caused the anticipated termination of the contract and regardless of which party pays or receives reasonable compensation for the early termination of the contract.
- **IFRS 16, "Leasings" (new)** that is effective for annual periods beginning on or after 1 January 2019, and early application is permitted. This standard sets out recognition, presentation, and disclosure of leasing contracts, defining a single accounting model. Aside from lower contracts than 12 months, leases should be accounted as an asset and a liability.

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 17, "Insurance Contracts" (new)** that is effective for periods beginning on or after 1 January 2021. The general objective of IFRS 17 is to provide a more serviceable and consistent accounting model for insurance contracts between entities that issue them globally.

- **IAS 19, "Plan amendment, curtailment, or settlement" (amendment)** that is effective for periods beginning on or after 1 January 2019, and early application is permitted. The objective of the amendment is to harmonise the accounting practices and provide relevant information on decision-making.
- **IFRIC 23: "Uncertainty over Income Tax Treatments" (interpretation)** that is effective for periods beginning on or after 1 January 2019. The interpretation addresses accounting for income taxes, when there is uncertainty over income tax treatments that affect the application of the IAS 12. The interpretation is not applicable to taxes and charges that are outside the scope of the IAS 12, nor include specific requirements relating to interest and penalties associated with uncertainty over tax treatments.
- **IAS 28: "Clarification that measuring associates at fair value through profit or loss is a choice that is made for each investment" (amendment)** that is effective for periods beginning on or after 1 January 2019. The improvement clarified that (i) a company that is a risk capital company, or any other qualifying company, might choose to measure, its investments in associates and/or joint ventures at fair value through profit or loss at the moment of initial recognition and in relation to each investment. (ii) If a company that is not itself an investment entity holds an interest in an associate or joint venture that is an investment entity, the company might decide to maintain the fair value that those associates apply when measuring its subsidiaries by the application of the equity method. This option is taken separately for each investment on the later date considering (a) the initial recognition of the investment in that subsidiary; (b) this subsidiary as becoming an investment entity; and (c) when that subsidiary will be a parent company.
- Improvements to International Financial Reporting Standards (2015-2017 cycle) that is effective for periods beginning on or after 1 January 2019. The improvements involve the review of the IFRS 3 Business combination - interest previously held in a joint operation, IFRS 11 Joint arrangements - interest previously held in a joint operation, IAS 12 Income taxes - consequences for income tax resulting from payments for financial instruments, which are classified as equity instruments and IAS 23 Borrowing costs - borrowing costs eligible for capitalisation.
- Improvements to international financial reporting standards (issued on 29 March 2018, to be applied for annual periods beginning on or after 1 January 2020). These improvements involve reviewing various standards.

The Group has been evaluating the impact of these amendments. It will apply this standard once it becomes effective or when earlier application is permitted.

Additionally, in the third quarter of 2018, the Group changed the presentation caption of costs **related to services of large corporate customers, from "Supplies and external services" to "Direct costs", as they refer to costs directly related to the operational activity of this business segment.** This change had no impact in the consolidated statement of financial position, of changes in **shareholders' equity and of cash flows. The consolidated statements were restated from 1 January 2017, with 4,614 thousand euros being the amount reclassified as at 30 September 2018.**

## 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, because of their involvement, to a variable return of the entity's activities, and has capacity to affect this return through the power over the entity.

Namely, when the Company directly or indirectly holds a majority of the voting rights at a General Meeting of Shareholders or has the power to determine the financial and operating policies. In situations where the Company has, in substance, control of other entities created for a specific purpose, although it does not directly hold equity in them, such entities are consolidated by the full consolidation method. The entities in these situations are listed in Annex A).

**The interest of third parties in the equity and net profit of such companies' income presented separately in the consolidated statement of financial position and in the consolidated statement, respectively, under the item "Non-controlling Interests" (Note 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. When the acquisition cost is less than the fair value of the identified net assets, the difference is recorded as a gain in the income statement in the period in which the acquisition occurs.

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

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

When an increase in position in the capital of an associated company results in the acquisition of control, with the latter being included in the consolidated financial statements by the full consolidation method, the share of the fair values assigned to the assets and liabilities, corresponding to the percentages previously held, is stated in the income statement.

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

The results of companies acquired or sold during the year are included in the income statements as from the date of obtaining control 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.

When 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. When 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 when 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. When the acquisition cost is less than the fair value of the identified net assets, the difference is recorded as a gain in the statement of comprehensive income in the period in which the acquisition occurs.

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

Losses in associated companies, which exceed the investment made in them, are not recognised, except when 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 when 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, "Integration costs", "Losses / (gains) on disposal of assets" and "Other non-recurring costs / (gains)" are material items related to the restructuring of the activity (indemnities and other expenses), litigation, disposal of items of tangible fixed assets, among others, which, by their nature and amount, are reported separately from the usual cost and income lines, in order to better reflect the financial information of the Group's regular operations.

### 2.3.3. Tangible assets

Tangible assets are stated at acquisition cost, less accumulated depreciation and impairment losses, when 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 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 when: (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:

	2017 (YEARS)	2018 (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 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, when applicable. Intangible assets are recognised only when they generate future economic benefits for the Group and when they can be measured reliably.

Intangible assets consist mainly of goodwill and utilisation rights of satellite and distribution network capacity, 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 when the technical capability to complete the intangible asset is demonstrated and when 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 of obtaining and to fulfil a contract with a customer (e.g., customer acquisition and other costs of procurement and installation);
- Content utilisation rights;
- Other contractual rights.

The content exploration rights are recorded in the consolidated statement of financial position, as intangible assets, when 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.

The conclusion of contracts relating to sports contents, which are not immediately available, originates rights that are initially classified as contractual commitments.

In the specific case of broadcasting rights of sports competitions, these are recognised as assets when the necessary conditions to organise 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.

Resulting from agreements concluded for the cession of the exclusive rights to exploit sports content, and as it is permitted by IAS 1, since 2017, NOS presents the net assets and liabilities of the values ceded to other operators, considering that this compensation best reflects the substance of the transactions.

### 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. When 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:

	2017 (YEARS)	2018 (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 of obtaining and to fulfil a contract with a customer	2 to 4	2 to 4
Content utilization rights	Period of the contract	Period of the contract
Other	1 to 8	1 to 8

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

Group companies periodically carry out an impairment assessment of non-current assets. This impairment assessment is also carried out whenever events or changes in circumstances indicate that the amount at which the asset is recorded may not be recoverable. When 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. When 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.

At the initial time, with the exception of commercial accounts receivable, financial assets are recognised at fair value plus directly attributable transaction costs, except for assets at fair value through income in which transaction costs are immediately recognised in income. Trade accounts receivable, at the initial time, are recognised at their transaction price, as defined in IFRS 15.

**The financial 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.**

The 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 assets at fair value through profit or loss, financial assets measured at amortised cost, financial assets at fair value through other comprehensive income. Its classification depends on the entity's business model to manage the financial assets and the contractual characteristics in terms of the cash flows of the financial asset.

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

This category includes financial derivatives and equity instruments that the Group has not classified as financial assets through other comprehensive income at the time of initial recognition. This category also includes all financial instruments whose contractual cash flows are not exclusively capital and interest.

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 at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income are those that are part of a business model whose objective is achieved through the collection of contractual cash flows and the sale of financial assets, being that these contractual cash flows are only capital and interest reimbursement on the capital in debt.

#### Financial assets measured at amortised cost

Financial assets measured at amortised cost are those that are included in a business model whose purpose is to hold financial assets in order to receive the contractual cashflows, being that these contractual cash flows are only capital reimbursement and interest payments on the capital in debt.

#### 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"** (when 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 are recognised only when extinguished, i.e. when the obligation is settled, cancelled, or extinguished.

In accordance with IFRS 9, financial liabilities are classified as subsequently measured at amortised cost, except for:

- a) Financial liabilities at fair value through profit or loss. These liabilities, including derivatives that are liabilities, should subsequently be measured at fair value;

- b) Financial liabilities that arise when a transfer of a financial asset does not meet the conditions for derecognition or when it is applied the continued involvement approach;
- c) Financial guarantee contracts;
- d) The commitments to grant a loan at a lower interest rate than the market;
- e) The recognised contingent consideration by a buyer in a concentration of business activities to which IFRS 3 applies. Such contingent consideration shall be subsequently measured at fair value, with changes recognised in profit or loss.

Financial liabilities of the Group include: borrowings, accounts payable and derivative financial instruments.

### 2.3.8. Impairment of financial assets

At each date of the financial position statement, the Group analyses and recognises expected losses on its debt securities, loans and accounts receivable. The expected loss results from the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive, discounted at the original effective interest rate.

The objective of this impairment policy is to recognise expected credit losses over the respective duration of financial instruments that have undergone significant increases in credit risk since initial recognition, assessed on an individual or collective basis, taking into account all reasonable and sustainable information, including prospects. If, at the reporting date, the credit risk associated with a financial instrument has not increased significantly since the initial recognition, the Group measures the provision for losses relating to that financial instrument by an amount equivalent to the expected credit losses within a period of 12 months.

The Group did not find any impact on its balance sheet or equity, as a result of the application of the impairment requirements of IFRS 9, since the impairments found and recognised by the Group already include an estimate of expected losses.

### 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 IFRS 9 – Financial instruments: 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 or non-derivative) financial instrument as a hedging instrument meets the requirements of IFRS 9 - Financial instruments.

Derivative financial instruments used for hedging purposes can be classified as hedges for accounting purposes when 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

Whenever 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, when they are considered 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.

When 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 it 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, when 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 originates 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, when programmatic content has been received and is available for exhibition or use, according to contractual conditions,

without any production or change, 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 "collaborative arrangement", of sports content (national and international) owned by them**, (Note 38), NOS considered the recognition of the costs, excluding those divided by the remaining operators, on a systematic basis, given the pattern of economic benefits obtained through their commercial exploration.

#### 2.3.11. Subsidies

Subsidies are recognised at their fair value when 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 when: (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. When 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 when the Group has a detailed, formal plan, which identify 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 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 not all risks and rewards incident to ownership of those assets have been substantially transferred.

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

The assets acquired under finance leases, 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 based on 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 based on 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 when there is reasonable assurance that these may be used to reduce future taxable profit, or when 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 **(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 based on shares but paid in cash lead to the recognition of a liability valued at fair value at the date of the statement of financial position.

### 2.3.16. Equity

#### Legal reserve

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

#### Share premium reserves

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

#### Reserves for plans of medium term incentive

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

#### Hedging reserves

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

#### Own shares reserves

**The "Own shares reserves" reflect the value of the shares acquired and follows the same legal regime as the legal reserve.** Under Portuguese law, the amount of distributable reserves is determined according to the individual financial statements of the company prepared in accordance with IFRS. In addition, the increases resulting from the application of fair value through equity

components, including its application through the net profit can only be distributed when the elements that originated them are sold, exercised liquidated or when the end their use, in the case of tangible assets or intangible assets.

### Own shares

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

### Retained results

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

### 2.3.17. Revenue

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

- i) Revenues of Telecommunications Services:  
Cable television, fixed broadband and fixed voice: The revenues from services provided using the fibre optic cable network result from: (a) basic channel subscription packages that can be sold in a bundle with fixed broadband/fixed voice services; (b) premium channel subscription packages and S-VOD; (c) terminal equipment rental; (d) consumption of content (VOD); (e) traffic and voice termination; (f) service activation; (g) sale of equipment; and (h) other additional services (ex: firewall, antivirus).  
  
Satellite television: Revenues from the satellite television service mainly result from: (a) basic and premium channel subscription packages; (b) equipment rental; (c) consumption of content (VOD); (d) service activation; and (e) sale of equipment.  
  
Mobile broadband and voice services: Revenues from mobile broadband Internet access services and mobile voice services result mainly from monthly subscriptions and/or usage of the Internet and voice service, as well as the traffic associated with the type chosen by the client.
- ii) Advertising revenue: Advertising revenues mainly derive from the attraction of advertising for Pay TV channels to which the Group has publicity rights and in cinemas. These revenues are recognised from when they are received, taken off any discounts given.
- iii) Film showings and distribution: Distribution revenue pertains to the distribution of films to film exhibitors not distributed by the Group, that are included in the film showings, whilst income from film showings mostly derive from cinema ticket sales and the product sales in the bars; the film showings revenue includes the revenue from ticket sales and bar sales respectively.
- iv) Revenue from producing and distributing channel content: Revenue from production and distribution essentially includes the sale of DVDs, the sale of content and the distribution of television channels subscriptions to third parties and count from the time at which they are sold, shown, and made available for distribution to telecommunications operators, respectively.
- v) Consultancy and datacentre management: information systems consultancy and datacentre management are the major services rendered by NOS Sistemas.

The Group's revenue is based on the five-step model established by IFRS 15:

- 1) Identification of the contract with the customer;

- 2) Identification of performance obligations;
- 3) Determining the price of the transaction;
- 4) Allocation of the price of the transaction to the performance obligations; and
- 5) Recognition of revenue.

Thus, at the beginning of each contract, the NOS Group evaluates the promised goods or services and identifies, as a performance obligation, every promise of transfer to the customer of any distinct good or service (or package of goods or services). These promises in customer contracts may be express or implied, provided such promises create a valid expectation in the client that the entity will transfer a good or service to the customer, based on the entity's published policies, specific statements or usual business practices.

The NOS Group has internally defined that a performance obligation corresponds to the promise of delivery of a good or service that can be used in an isolated/separated way by the customer and on which there is a clear perception of this good or service by the customer among the available in each contract.

The main performance obligations are summarized as Sales of Mobile Phones, Telephones, Hotspots, DVD's, Movie Tickets and Other Equipment and the Services Rendered of Mobile Internet Services, Fixed Internet, Mobile Phone, Landline Phone, Television, Consulting, Cloud/ IT Services, distribution of audio-visual rights among others.

The provision of Set-top-boxes, routers, modems and other terminal equipment at the customers' home and respective installation and activation services were considered by the group as not corresponding to a performance obligation, since they are necessary actions to fulfil the promised performance obligation.

In determining and allocating the transaction price of each performance obligation, NOS used stand-alone prices of the promised products and services at the time of entering into the agreement with the customer to distribute the amount expected to be received under the contract.

The recognition of revenue occurs at the time of performance of each performance obligation.

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 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 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 that might be exchanged, over a limited period, for discounts in equipment purchase. These points represent a deferred income, 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 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.

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

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

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

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

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

Until 31 December 2014, revenue from penalties, due to the inherent uncertainties, was recorded only at the moment it was received, and the amount was disclosed as a contingent asset (Note 40). From 1 January 2015, Revenue from penalties is recognised based on an estimated collectability rate, taking into account the Group's collection history. Revenue from penalties is recognised under "Other revenues".

Interest revenue is recognised using the effective interest method, only when they generate future economic benefits for the Group and when 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, regardless of when they are received or paid.

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

The costs related to the current period and whose expenses will only occur in that 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 in the item "Losses / (gains) on exchange variations". Exchange rate variations generated on monetary items, which constitute enlargement of the investment denominated in the functional currency of the Group or of the subsidiary in question, are recognised in equity. Exchange rate differences on **non-monetary items are classified in "Other reserves" in equity.**

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

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

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

In the last quarter of 2017, the Angolan economy was considered a hyperinflationary economy according to IAS 29 - Financial Reporting in Hyperinflationary Economies.

This standard requires that the financial statements prepared in the currency of a hyperinflationary must be expressed in terms of the current measurement unit at the financial statements preparation date.

In summary, the general aspects that have to be considered for the restatement of the individual financial statements are the following ones:

- The monetary assets and liabilities are not amended because they are already updated to the current unit at the financial statements date;
- The non-monetary assets and liabilities (that are still not expressed in terms of the current unit at the financial statements) are restated by the application of an index;
- The effect of the inflation on the net monetary position of the subsidiaries companies is reflected in the income statement as a loss in the net monetary position.

Additionally, according to IAS 21, the restatement of the consolidated financial statements is prohibited when the parent company does not operate in a hyperinflationary economy.

The conversion coefficient that was used for the restatement of the individual financial statements of the subsidiaries in Angola was the Consumer Price Index (CPI), issued by the National Bank of Angola.

	Basis 100	CPI	Converted CPI (Basis 100 Year 2010)
dec/10	Year 2010	100.0	100.0
dec/11	Year 2010	111.4	111.4
dec/12	Year 2011	109.0	121.4
dec/13	Year 2014	93.0	130.8
dec/14	Year 2014	100.0	140.5
dec/15	Year 2014	114.3	160.6
dec/16	Year 2014	162.2	227.9
dec/17	Year 2014	204.8	295.1
mar/18	Year 2014	212.9	299.1
jun/18	Year 2014	220.4	309.8
set/18	Year 2014	228.5	321.2

At 31 December 2017 and 30 September 2018, 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:

	31-12-2017	30-09-2018
US Dollar	1.1993	1.1576
Angolan Kwanza	185.4000	343.5710
British Pound	0.8872	0.8873
Mozambican Metical	70.5700	70.5300
Canadian Dollar	1.5039	1.5064
Swiss Franc	1.1702	1.1316
Real	3.9729	4.6535

In the nine months ended at 30 September 2017 and 2018, 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:

	9M 17	9M 18
US Dollar	1.1778	1.1942
Angolan Kwanza	184.7887	287.6098
Mozambican Metical	71.6700	71.9100

### 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 maximises the amount that would be received for selling asset or minimises the amount that would be paid to transfer the liability, after considering transaction costs and transport costs.

Since 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 participant's use in defining price of the** asset or liability, assuming that market participants would use the asset to maximise 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 voluntarily accepts to leave in exchange of these benefits. The Group recognises 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. When 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 labour 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) Labour 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 Labour Compensation Fund schemes (FCT) and the Guarantee Fund Compensation of Labor (FGCT). In this context, companies that hire a new employee are required to deduct a percentage of the respective salary for these two new funds (0.925% to 0.075% and the FCT for FGCT), in order to ensure, in the future, the partial payment the compensation for dismissal. Considering the characteristics of each Fund, the following is considered:

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

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

### 2.3.25. Statement of cash flows

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

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

Operating activities include cash received from customers and payments to suppliers, staff and others related to operating activities. Under "Other cash receipts / (payments) related with operating activity" includes the amount received in 2016 and 2017 and subsequent payments related to 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. Judgements and estimates

### 3.1. Relevant accounting estimates

The **preparation of consolidated financial statements requires the Group's management to make** judgments and estimates that affect the statement of financial position and the reported results. These estimates are based on the best information and knowledge about past and/or present events and on the operations that the Company considers 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 return 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 annually subjected to impairment tests 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 based on 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 period.

**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.

With the adoption of IFRS 15, the useful lives of subscriber and acquisition costs were reviewed (Note 2.1).

### 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 when there is strong assurance that there will be future taxable income available to use the temporary differences or when 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. **When 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 applies evaluation techniques for unlisted financial instruments, such as derivatives, financial instruments at fair value and instruments measured at amortised cost. The most frequently

used valorisation models are models of discounted cash flows and option models, which incorporate, for example, interest rate and market volatility curves.

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

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

During the nine months ended on 30 September 2017 and 2018, errors, estimates and changes in material accounting policies relating to prior years were not recognised, in addition to the application of IFRS 15 (Note 2.1).

## 4. Change in the perimeter

Changes in the consolidation perimeter, during the nine months ended on 30 September 2017 were:

- 1) on 24 February 2017, MEO became an integral part of the shareholder structure of Sport TV. After this amendment, NOS SGPS came to hold 25% of the share capital of Sport TV (Note 9); and,
- 2) **on 29 March 2017, the companies NOS Internacional, SGPS ("NOS Internacional SGPS") and NOS Audiovisuais, SGPS ("NOS Audio SGPS") were established and 100% held by NOS SGPS.**
- 3) on 13 July 2017, NOS SGPS acquired 5,664 shares representing 0.126% of social capital of Lusomundo – SII, SGPS, SA from MPBS Imobiliária, SA. With this transaction, NOS SGPS now holds 100% of social capital of Lusomundo – SII, SGPS, SA.
- 4) on 13 July 2017, Lusomundo SII acquired 4,262 shares representing 0.196% of social capital of Lusomundo – Imobiliária 2, SA from MPBS Imobiliária, SA. With this transaction, Lusomundo SII now holds 100% of social capital of Lusomundo – Imobiliária 2, SA.

The changes in the consolidation perimeter, during the nine months ended on 30 September 2018, were:

- 1) on 1 June 2018, the company Canal 20 T.V., SA was liquidated and dissolved. It did not generate any impact on the consolidated financial statements.

## 5. Segment reporting

The business segments are as follows:

- Telco – TV, Internet (fixed and mobile) and voice (fixed and mobile) services rendered and includes the following companies: NOS Technology, NOS Towering, Per-mar, Sontária, NOS, NOS Açores, NOS Communications, NOS Madeira, NOSPUB, NOS SA, NOS Lusomundo TV, Teliz Holding, NOS Sistemas, NOS Sistemas España, NOS Inovação and NOS Internacional SGPS.
- 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 2017 and 30 September 2018 are shown below:

	31-12-2017 RESTATED			
	TELCO	AUDIOVISUALS	ELIMINATIONS	GROUP
<b>ASSETS</b>				
<b>NON - CURRENT ASSETS:</b>				
Tangible assets	1,031,859	12,080	-	1,043,939
Intangible assets	1,156,966	96,432	-	1,253,398
Investments in jointly controlled companies and associated companies	114,631	15,639	(93,140)	37,130
Accounts receivable - other	51,054	24,520	(69,389)	6,185
Deferred income tax assets	95,744	11,956	-	107,700
Other non-current assets	312	678	-	990
<b>TOTAL NON - CURRENT ASSETS</b>	<b>2,450,567</b>	<b>161,305</b>	<b>(162,529)</b>	<b>2,449,343</b>
<b>CURRENT ASSETS:</b>				
Inventories	31,217	827	-	32,044
Account receivables	449,366	76,166	(60,838)	464,694
Prepaid expenses	44,655	2,154	(282)	46,527
Other current assets	14,480	484	-	14,964
Cash and cash equivalents	1,211	1,766	-	2,977
<b>TOTAL CURRENT ASSETS</b>	<b>540,929</b>	<b>81,397</b>	<b>(61,120)</b>	<b>561,206</b>
<b>TOTAL ASSETS</b>	<b>2,991,496</b>	<b>242,702</b>	<b>(223,649)</b>	<b>3,010,549</b>
<b>SHAREHOLDER'S EQUITY</b>				
Share capital	5,152	32,749	(32,749)	5,152
Capital issued premium	854,219	-	-	854,219
Own shares	(12,681)	-	-	(12,681)
Legal reserve	1,030	1,087	(1,087)	1,030
Other reserves and accumulated earnings	86,341	56,833	(9,331)	133,843
Net income	144,351	27,250	(49,518)	122,083
<b>EQUITY BEFORE NON - CONTROLLING INTERESTS</b>	<b>1,078,410</b>	<b>117,919</b>	<b>(92,685)</b>	<b>1,103,644</b>
Non-controlling interests	7,822	-	-	7,822
<b>TOTAL EQUITY</b>	<b>1,086,233</b>	<b>117,919</b>	<b>(92,685)</b>	<b>1,111,467</b>
<b>LIABILITIES</b>				
<b>NON - CURRENT LIABILITIES:</b>				
Borrowings	975,853	48,194	(69,389)	954,658
Provisions	126,775	6,487	-	133,262
Accrued expenses	8,767	-	-	8,767
Other non-current liabilities	23,850	-	-	23,850
Deferred income tax liabilities	25,053	470	-	25,523
<b>TOTAL NON - CURRENT LIABILITIES</b>	<b>1,160,298</b>	<b>55,151</b>	<b>(69,389)</b>	<b>1,146,060</b>
<b>CURRENT LIABILITIES:</b>				
Borrowings	226,145	22,410	(38,419)	210,136
Accounts payable	283,402	17,815	(18,198)	283,019
Tax payable	15,288	3,934	-	19,222
Accrued expenses	193,935	24,306	(4,677)	213,564
Other current liabilities	26,194	1,167	(281)	27,080
<b>TOTAL CURRENT LIABILITIES</b>	<b>744,965</b>	<b>69,632</b>	<b>(61,575)</b>	<b>753,021</b>
<b>TOTAL LIABILITIES</b>	<b>1,905,263</b>	<b>124,783</b>	<b>(130,964)</b>	<b>1,899,082</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>2,991,496</b>	<b>242,702</b>	<b>(223,649)</b>	<b>3,010,549</b>

30-09-2018				
	TELCO	AUDIOVISUALS	ELIMINATIONS	GROUP
ASSETS				
NON - CURRENT ASSETS:				
Tangible assets	1,042,458	11,382	-	1,053,840
Intangible assets	1,131,975	93,456	-	1,225,431
Investments in jointly controlled companies and associated companies	92,670	15,830	(87,389)	21,111
Accounts receivable - other	50,107	24,520	(69,388)	5,239
Deferred income tax assets	85,802	12,402	-	98,204
Other non-current assets	422	687	-	1,109
TOTAL NON - CURRENT ASSETS	2,403,434	158,277	(156,777)	2,404,934
CURRENT ASSETS:				
Inventories	32,961	702	-	33,663
Account receivables	430,966	54,173	(33,470)	451,669
Prepaid expenses	47,940	1,590	(325)	49,205
Other current assets	(28,956)	402	29,845	1,291
Cash and cash equivalents	1,122	1,362	-	2,484
TOTAL CURRENT ASSETS	484,033	58,229	(3,950)	538,312
TOTAL ASSETS	2,887,467	216,506	(160,728)	2,943,245
SHAREHOLDER'S EQUITY				
Share capital	5,152	32,749	(32,749)	5,152
Capital issued premium	854,219	-	-	854,219
Own shares	(12,159)	-	-	(12,159)
Legal reserve	1,030	1,887	(1,887)	1,030
Other reserves and accumulated earnings	61,307	60,304	(31,813)	89,798
Net income	133,221	10,266	(20,486)	123,001
EQUITY BEFORE NON - CONTROLLING INTERESTS	1,042,770	105,206	(86,935)	1,061,041
Non-controlling interests	7,219	-	-	7,219
TOTAL EQUITY	1,049,988	105,206	(86,935)	1,068,259
LIABILITIES				
NON - CURRENT LIABILITIES:				
Borrowings	965,827	48,079	(69,388)	944,518
Provisions	130,991	6,752	-	137,743
Accrued expenses	6,372	-	-	6,372
Other non-current liabilities	18,830	-	-	18,830
Deferred income tax liabilities	4,704	462	-	5,166
TOTAL NON - CURRENT LIABILITIES	1,126,723	55,293	(69,388)	1,112,628
CURRENT LIABILITIES:				
Borrowings	198,693	11,754	(19,811)	190,636
Accounts payable	287,035	18,496	(10,527)	295,004
Tax payable	21,181	2,263	29,845	53,289
Accrued expenses	176,984	18,921	(3,590)	192,315
Other current liabilities	26,863	4,573	(322)	31,114
TOTAL CURRENT LIABILITIES	710,756	56,007	(4,405)	762,358
TOTAL LIABILITIES	1,837,479	111,300	(73,793)	1,874,986
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	2,887,467	216,506	(160,728)	2,943,245

The results by segment and investments in tangible and intangible assets for the three and nine months ended on 30 September 2017 and 2018 are shown below:

	9M 17 RESTATED						GROUP	
	TELCO		AUDIOVISUALS		ELIMINATIONS			
	3° QUARTER 17	9M 17 RESTATED	3° QUARTER 17	9M 17 RESTATED	3° QUARTER 17	9M 17 RESTATED	3° QUARTER 17	9M 17 RESTATED
REVENUES:								
Services rendered	351,426	1,044,198	25,810	78,773	(11,906)	(36,542)	365,330	1,086,429
Sales	18,812	47,782	4,948	13,613	(54)	(192)	23,706	61,203
Other operating revenues	3,200	12,307	131	637	(284)	(885)	3,047	12,059
	373,439	1,104,287	30,889	93,023	(12,244)	(37,619)	392,084	1,159,691
COSTS, LOSSES AND GAINS:								
Wages and salaries	20,537	58,464	2,662	7,623	-	-	23,199	66,087
Direct costs	123,145	369,007	7,024	23,646	(9,660)	(29,906)	120,509	362,747
Costs of products sold	17,263	44,714	48	178	(2)	(11)	17,309	44,881
Marketing and advertising	8,336	22,708	1,741	5,655	(1,847)	(5,589)	8,230	22,774
Support services	21,689	67,620	502	1,571	(403)	(1,187)	21,788	68,004
Supplies and external services	35,991	107,979	5,591	15,960	(331)	(926)	41,251	123,013
Other operating losses / (gains)	115	445	14	38	-	-	129	483
Taxes	8,644	23,963	33	373	-	-	8,677	24,336
Provisions and adjustments	90	(861)	(41)	(575)	1	1	50	(1,435)
	235,809	694,039	17,574	54,469	(12,242)	(37,618)	241,141	710,890
EBITDA	137,631	410,248	13,315	38,554	(3)	(1)	150,943	448,801
Depreciation, amortisation and impairment losses	96,264	281,273	8,151	26,815	1	1	104,416	308,089
Other losses / (gains), net	3,841	11,494	8	220	-	(1)	3,849	11,713
INCOME BEFORE FINANCIAL RESULTS AND TAXES	37,525	117,482	5,156	11,519	(3)	(1)	42,678	129,000
Net losses / (gains) of affiliated companies	(5,871)	(14,329)	(141)	(654)	-	-	(6,012)	(14,983)
Financial costs	4,765	15,460	51	325	1	1	4,817	15,786
Net foreign exchange losses / (gains)	6	117	9	5	-	-	15	122
Net losses / (gains) on financial assets	-	(25,113)	-	(15,629)	-	40,742	-	-
Net other financial expenses / (income)	1,626	2,359	13	34	(1)	(1)	1,638	2,392
	525	(21,507)	(68)	(15,919)	-	40,742	457	3,316
INCOME BEFORE TAXES	37,001	138,989	5,224	27,439	(3)	(40,743)	42,222	125,685
Income taxes	8,143	17,772	1,272	2,458	-	-	9,415	20,230
NET INCOME	28,857	121,217	3,953	24,981	(3)	(40,743)	32,807	105,455
CAPEX	84,713	239,092	6,576	24,079	-	-	91,289	263,171
EBITDA - CAPEX	52,917	171,156	6,739	14,475	(2)	(1)	59,654	185,630

EBITDA = Operational Result + Depreciation, amortisation and impairment losses + Restructuring costs + Losses / (gains) on sale of assets + Other losses / (gains) non recurrent

CAPEX = Increases in tangible and intangible assets

	9M 18							
	TELCO		AUDIOVISUALS		ELIMINATIONS		GROUP	
	3° QUARTER 18	9M 18	3° QUARTER 18	9M 18	3° QUARTER 18	9M 18	3° QUARTER 18	9M 18
REVENUES:								
Services rendered	353,842	1,048,878	24,869	70,833	(10,882)	(32,789)	367,829	1,086,922
Sales	17,294	49,053	4,546	12,373	(51)	(126)	21,789	61,300
Other operating revenues	5,503	19,370	321	954	(446)	(1,263)	5,378	19,061
	376,639	1,117,301	29,736	84,160	(11,379)	(34,178)	394,996	1,167,283
COSTS, LOSSES AND GAINS:								
Wages and salaries	18,510	52,481	2,677	7,725	-	-	21,187	60,206
Direct costs	122,045	378,562	7,151	19,183	(8,627)	(26,099)	120,569	371,646
Costs of products sold	16,998	44,468	30	178	(10)	(31)	17,018	44,615
Marketing and advertising	7,591	21,894	1,702	5,367	(1,867)	(5,632)	7,426	21,629
Support services	20,839	62,285	575	1,726	(479)	(1,349)	20,935	62,662
Supplies and external services	35,289	100,725	5,475	15,823	(396)	(1,067)	40,368	115,481
Other operating losses / (gains)	147	511	11	73	-	-	158	584
Taxes	8,615	25,255	41	104	-	-	8,656	25,359
Provisions and adjustments	2,285	3,363	179	17	-	-	2,464	3,380
	232,317	689,544	17,841	50,196	(11,378)	(34,178)	238,780	705,562
EBITDA	144,321	427,757	11,895	33,964	-	-	156,216	461,721
Depreciation, amortisation and impairment losses	87,328	272,555	7,861	24,556	-	-	95,189	297,111
Other losses / (gains), net	3,502	(4,470)	11	365	-	-	3,513	(4,105)
INCOME BEFORE FINANCIAL RESULTS AND TAXES								
	53,491	159,672	4,023	9,043	-	-	57,514	168,715
Net losses / (gains) of affiliated companies	(1,280)	4,642	4	(191)	-	-	(1,276)	4,451
Financial costs	3,965	11,979	138	684	-	-	4,103	12,663
Net foreign exchange losses / (gains)	(64)	(10)	(15)	48	-	-	(79)	38
Net losses / (gains) on financial assets	(1)	(17,136)	-	(3,351)	-	20,487	(1)	-
Net other financial expenses / (income)	1,244	6,769	(50)	(60)	-	-	1,194	6,709
	3,865	6,244	77	(2,870)	-	20,487	3,942	23,861
INCOME BEFORE TAXES	49,627	153,428	3,945	11,913	-	(20,487)	53,572	144,854
Income taxes	8,582	20,805	1,008	1,646	-	-	9,590	22,451
NET INCOME	41,045	132,623	2,937	10,267	-	(20,487)	43,982	122,403
CAPEX	93,318	259,500	7,723	20,884	-	-	101,041	280,384
EBITDA - CAPEX	51,003	168,257	4,172	13,080	-	-	55,175	181,337

EBITDA = Operational Result + Depreciation, amortisation and impairment losses + Restructuring costs + Losses / (gains) on sale of assets + Other losses / (gains) non recurrent

CAPEX = Increases in tangible and intangible assets

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 IFRS 9 – financial instruments

The accounting policies set out in IFRS 9 for financial instruments were applied to the following items:

31-12-2017 RESTATED						
	FINANCIAL ASSETS	DERIVATIVES	FINANCIAL LIABILITIES	TOTAL FINANCIAL ASSETS AND LIABILITIES	NON FINANCIAL ASSETS AND LIABILITIES	TOTAL
<b>ASSETS</b>						
Available-for-sale financial assets	180	-	-	180	-	180
Derivative financial instruments (Note 17)	-	19	-	19	-	19
Accounts receivable - trade (Note 14)	454,328	-	-	454,328	-	454,328
Accounts receivable - other (Note 10)	9,559	-	-	9,559	6,992	16,551
Cash and cash equivalents (Note 18)	2,977	-	-	2,977	-	2,977
<b>TOTAL FINANCIAL ASSETS</b>	<b>467,044</b>	<b>19</b>	<b>-</b>	<b>467,063</b>	<b>6,992</b>	<b>474,055</b>
<b>LIABILITIES</b>						
Borrowings (Note 21)	-	-	1,164,794	1,164,794	-	1,164,794
Derivative financial instruments (Note 17)	-	2,495	-	2,495	-	2,495
Accounts payable - trade (Note 25)	-	-	224,864	224,864	-	224,864
Accounts payable - other (Note 26)	-	-	75,591	75,591	179	75,770
Accrued expenses (Note 23)	-	-	222,331	222,331	-	222,331
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>-</b>	<b>2,495</b>	<b>1,687,580</b>	<b>1,690,075</b>	<b>179</b>	<b>1,690,254</b>
30-09-2018						
	FINANCIAL ASSETS	DERIVATIVES	FINANCIAL LIABILITIES	TOTAL FINANCIAL ASSETS AND LIABILITIES	NON FINANCIAL ASSETS AND LIABILITIES	TOTAL
<b>ASSETS</b>						
Available-for-sale financial assets	236	-	-	236	-	236
Derivative financial instruments (Note 17)	-	126	-	126	-	126
Accounts receivable - trade (Note 14)	447,171	-	-	447,171	-	447,171
Accounts receivable - other (Note 10)	8,178	-	-	8,178	1,559	9,737
Cash and cash equivalents (Note 18)	2,484	-	-	2,484	-	2,484
<b>TOTAL FINANCIAL ASSETS</b>	<b>458,069</b>	<b>126</b>	<b>-</b>	<b>458,195</b>	<b>1,559</b>	<b>459,754</b>
<b>LIABILITIES</b>						
Borrowings (Note 21)	-	-	1,135,154	1,135,154	-	1,135,154
Derivative financial instruments (Note 17)	-	1,585	-	1,585	-	1,585
Accounts payable - trade (Note 25)	-	-	253,106	253,106	-	253,106
Accounts payable - other (Note 26)	-	-	53,255	53,255	226	53,481
Accrued expenses (Note 23)	-	-	198,687	198,687	-	198,687
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>-</b>	<b>1,585</b>	<b>1,640,202</b>	<b>1,641,787</b>	<b>226</b>	<b>1,642,013</b>

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

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

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

## 7. Tangible assets

During the nine months ended on 30 September 2017 and 2018, the movements in this item were as follows:

	31-12-2016 RESTATED	INCREASES	DISPOSALS AND WRITE-OFFS	TRANSFERS AND OTHERS	30-09-2017 RESTATED
<b>ACQUISITION COST</b>					
Lands	919	-	-	-	919
Buildings and other constructions	368,233	849	(616)	10,515	378,981
Basic equipment	2,278,654	38,339	(19,518)	61,894	2,359,369
Transportation equipment	8,673	447	250	(671)	8,699
Tools and dies	1,341	-	-	1	1,342
Administrative equipment	186,138	2,602	(1,331)	1,498	188,907
Other tangible assets	41,088	221	-	426	41,735
Tangible assets in-progress	29,527	86,377	(351)	(79,806)	35,747
	2,914,573	128,835	(21,566)	(6,143)	3,015,699
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES</b>					
Lands	37	-	-	-	37
Buildings and other constructions	198,353	8,125	(688)	777	206,567
Basic equipment	1,431,287	136,438	(19,244)	(2,453)	1,546,028
Transportation equipment	3,061	1,248	(131)	1	4,179
Tools and dies	1,250	24	-	-	1,274
Administrative equipment	174,039	2,971	(1,201)	1,758	177,567
Other tangible assets	40,138	6	-	732	40,876
	1,848,165	148,812	(21,264)	815	1,976,528
	1,066,408	(19,977)	(302)	(6,958)	1,039,171

The net amount of "Transfers and Others" predominantly corresponds to the transfer of assets to "Intangible assets" (Note 8).

	31-12-2017 RESTATED	INCREASES	DISPOSALS AND WRITE-OFFS	TRANSFERS AND OTHERS	30-09-2018
<b>ACQUISITION COST</b>					
Land	955	-	(117)	-	838
Buildings and other constructions	378,899	2,078	(2,323)	(72)	378,582
Basic equipment	2,297,064	36,023	(28,814)	106,187	2,410,460
Transportation equipment	8,299	-	(32)	-	8,267
Tools and dies	1,347	-	(3)	33	1,377
Administrative equipment	186,850	2,014	(1,588)	1,259	188,535
Other tangible assets	41,928	190	(65)	340	42,393
Tangible assets in-progress	60,072	119,135	-	(116,194)	63,013
	2,975,415	159,440	(32,942)	(8,448)	3,093,465
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES</b>					
Land	37	-	-	(37)	-
Buildings and other constructions	208,016	8,336	(2,088)	(3,714)	210,550
Basic equipment	1,502,361	129,760	(28,686)	(957)	1,602,478
Transportation equipment	3,914	1,370	(32)	-	5,252
Tools and dies	1,282	27	(4)	-	1,305
Administrative equipment	174,763	4,112	(1,488)	957	178,344
Other tangible assets	41,104	94	(63)	561	41,696
	1,931,477	143,699	(32,361)	(3,190)	2,039,625
	1,043,939	15,740	(581)	(5,258)	1,053,840

At 30 September 2018, the tangible assets net value is composed mainly by basic equipment, namely:

- Network and telecommunications infrastructure (fibre optic network and cabling, network equipment, and other equipment) in the amount of 680.7 million euros (30 September 2017: 683.9 million euros);
- Terminal equipment installed on client premises, included under Basic equipment, amounts to 127.3 million euros (30 September 2017: 129.4 million euros).

The acquisition cost of the "Tangible assets" and "Intangible assets" held by the Group under finance lease contracts at 30 September 2017 and 2018, amounted to 207.3 million euros and 187.8 million



euros, and their net book value as of those dates amounted to 95.3 million euros and 74.5 million euros, respectively.

Tangible and intangible assets include interests and other financial expenses incurred directly related to the construction of certain tangible or intangible assets in progress. At 30 September 2018, total net value of these costs amounted to 14.5 million euros (30 September 2017: 15.0 million euros). The amount of interest capitalised in the quarter ended on 30 September 2018 amounted to 1.0 million euros (30 September 2017: 0.7 million euros).

## 8. Intangible assets

During the nine months ended on 30 September 2017 and 2018, the movements in this item were as follows:

	31-12-2016 RESTATED	INCREASES	DISPOSALS AND WRITE-OFFS	TRANSFERS AND OTHERS	30-09-2017 RESTATED
<b>ACQUISITION COST</b>					
Industrial property and other rights	1,475,963	10,749	(46)	60,002	1,546,668
Costs of obtaining and to fulfil a contract with a customer	429,258	75,412	-	-	504,670
Goodwill	641,599	-	-	(199)	641,400
Intangible assets in-progress	34,355	48,175	-	(49,583)	32,947
	2,581,175	134,336	(46)	10,220	2,725,685
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES</b>					
Industrial property and other rights	1,052,548	81,034	(14)	102	1,133,670
Costs of obtaining and to fulfil a contract with a customer	253,076	78,241	-	-	331,317
Other intangible assets	4,779	-	-	(213)	4,566
	1,310,403	159,275	(14)	(111)	1,469,553
	1,270,772	(24,939)	(32)	10,332	1,256,133

The amount of "Transfers and Others" corresponds, mainly, to the transfer of assets from "Tangible assets" (Note 7).

	31-12-2017 RESTATED	INCREASES	DISPOSALS AND WRITE-OFFS	TRANSFERS AND OTHERS	30-09-2018
<b>ACQUISITION COST</b>					
Industrial property and other rights	1,563,282	2,847	(14)	44,932	1,611,047
Costs of obtaining and to fulfil a contract with a customer	528,439	70,384	(109,001)	-	489,822
Goodwill	641,400	-	-	-	641,400
Intangible assets in-progress	43,533	47,713	-	(41,239)	50,007
	2,776,654	120,944	(109,015)	3,693	2,792,276
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES</b>					
Industrial property and other rights	1,161,048	75,139	(2)	782	1,236,967
Costs of obtaining and to fulfil a contract with a customer	357,642	78,271	(109,001)	-	326,912
Intangible assets in-progress	4,566	-	-	(1,600)	2,966
	1,523,256	153,410	(109,003)	(818)	1,566,845
	1,253,398	(32,466)	(12)	4,511	1,225,431

At 30 September 2018, the item "Industrial property and other rights" includes mainly:

- (1) A net amount of 120.8 million euros (30 September 2017: 129 million euros) mainly related to the investment, net of amortisation, made in the development of the UMTS network by NOS SA, including: (i) 38.2 million euros (30 September 2017: 40.8 million euros) related to the license, (ii) 12.8 million euros (30 September 2017: 13.6 million euros) related to the agreement signed in 2002 between Oni Way and the other three mobile telecommunication operators with activity in Portugal, (iii) 3.9 million euros (30 September 2017: 4.2 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) 55.9 million euros (30 September 2017: 59.8 million euros) related with the programme "Initiatives E"; and (v) the net amount of

6.6 million euros (30 September 2017: 7.1 million euros) corresponding to the valuation of the license in the fair value allocation process resulting from the merger;

- (2) A net amount of 87.4 million euros (30 September 2017: 91.2 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 3.0 million euros (30 September 2017: 3.2 million euros) corresponding to the valuation of the license in the fair value allocation process resulting from the merger;
- (3) A net amount of 42.3 million euros (30 September 2017: 50 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 16.6 million euros (30 September 2017: 17.5 million euros) corresponding to the future rights to use movies and series;

Increases in the nine months ended on 30 September 2018 correspond mainly to customer acquisition costs, in the amount of 44.9 million euros, movies and series usage rights, for an amount of 19 million euros and software acquisition and development, for an amount of 21.7 million euros.

#### Impairment tests on Goodwill

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

	31-12-2017 RESTATED	30-09-2018
Telco	564,799	564,799
Audiovisuals	76,601	76,601
	641,400	641,400

In 2017, 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 growth forecast 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)	7.4%	7.4%	7.4%
Assessment period	5 years	5 years	5 years
EBITDA* Growth	3.6%	-0.6%	2.4%
Perpetuity growth rate	1.4%	1.4%	1.4%

\* 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 based on the most appropriate criterion for the valuation of each cash-generating unit.

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

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

At 30 September 2018, it was understood that the assumptions made in the impairment tests carried out in 2017 did not have material variations, and therefore there are no indications of any impairment.

## 9. Investments in jointly controlled companies and associated companies

At 31 December 2017 and 30 September 2018, this item was composed as follows:

	31-12-2017 RESTATED	30-09-2018
INVESTMENTS - EQUITY METHOD		
Sport TV	4,693	6,154
Dreamia	3,658	3,841
Finstar	28,389	10,442
Mstar	(425)	196
Upstar	279	370
Canal 20 TV, S.A.	12	-
Big Picture 2 Films	100	108
	36,706	21,111
ASSETS	37,130	21,111
LIABILITIES (NOTE 22)	(425)	-

Movements in "Investments in jointly controlled companies and associated companies" in the nine months ended on 30 September 2017 and 2018 were as follows:

	9M 17 RESTATED	9M 18
AS AT JANUARY 1	7,063	36,706
Gains / (losses) of exercise (Note 33)	13,746	(4,623)
Gains with the entrance of new shareholders (Note 33) i)	1,237	-
Changes in equity ii)	(16)	(10,971)
AS AT SEPTEMBER 30	22,030	21,111

- i) Gains generated by the entrance of new shareholder MEO in the share capital of Sport TV (Note 4).
- ii) 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 currencies other than euro and impact of Angola's consideration as a hyperinflationary economy (Note 33).

The Group's interest in the results and assets and liabilities of the jointly controlled companies and associated companies in the periods ended on 31 December 2017 and 30 September 2018, is as follows:

31-12-2017 RESTATED							
ENTITY	ASSETS	LIABILITIES	EQUITY	REVENUE	NET INCOME	% HELD	GAIN/(LOSS) ATTRIBUTED TO THE GROUP
Sport TV*	146,300	127,529	18,771	185,213	4,947	25.00%	1,237
Dreamia	15,028	7,712	7,316	2,772	756	50.00%	378
Finstar	329,006	234,373	94,633	302,683	66,305	30.00%	19,892
Mstar	7,704	9,122	(1,418)	20,652	1,467	30.00%	440
Upstar	210,915	209,986	929	105,690	466	30.00%	140
Canal 20 TV, S.A.	25	1	24	-	(2)	50.00%	(1)
East Star**	-	-	-	-	-	30.00%	(36)
Big Picture 2 Films	3,745	3,244	501	10,411	101	20.00%	20
	712,723	591,967	120,756	627,421	74,040		22,070

\* The equity is adjusted, against liabilities, totalling 10.2 million euros resulting from supplementary payments rendered by other two shareholders which are above the held percentage.

\*\* Company dissolved on December 27, 2017.

30-09-2018							
ENTITY	ASSETS	LIABILITIES	EQUITY	REVENUE	NET INCOME	% HELD	GAIN/(LOSS) ATTRIBUTED TO THE GROUP
Sport TV*	205,934	181,318	24,616	141,083	5,845	25.00%	1,461
Dreamia	15,787	8,106	7,681	2,161	365	50.00%	183
Finstar	245,181	210,376	34,805	240,708	(23,215)	30.00%	(6,965)
Mstar	7,843	7,189	654	16,324	2,033	30.00%	610
Upstar	199,458	198,225	1,233	56,355	305	30.00%	92
Canal 20 TV, S.A. **	-	-	-	-	-	50.00%	(12)
Big Picture 2 Films	3,668	3,128	540	6,663	39	20.00%	8
	677,871	608,342	69,529	463,294	(14,628)		(4,623)

\* The equity is adjusted, against liabilities, totalling 10.2 million euros resulting from supplementary payments rendered by other two shareholders which are above the held percentage.

\*\* Company dissolved on September 1, 2018.

Consolidated adjustments are reflected in the indicators presented in the tables above.

## 10. Accounts receivable – other

At 31 December 2017 and 30 September 2018, this item was composed as follows:

	31-12-2017 RESTATED		30-09-2018	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Accounts receivables	7,284	7,013	3,255	6,067
Advances of suppliers	3,752	-	1,559	-
Unbilled revenues	2	-	-	-
	11,038	7,013	4,814	6,067
Impairment of other receivable	(672)	(828)	(316)	(828)
	10,366	6,185	4,498	5,239

The summary of movements in impairment of other accounts receivable is as follows:

	9M 17 RESTATED	9M 18
AS AT JANUARY 1	1,676	1,500
Increases (Note 32)	(7)	162
Utilizations / Others	(119)	(518)
AS AT SEPTEMBER 30	1,550	1,144

## 11. Taxes payable and receivable

At 31 December 2017 and 30 September 2018, these items were composed as follows:

	31-12-2017 RESTATED		30-09-2018	
	RECEIVABLE	PAYABLE	RECEIVABLE	PAYABLE
NON CURRENT				
Debt regularization	149	-	149	-
	149	-	149	-
CURRENT				
Value-added tax	943	13,739	810	19,490
Income taxes (i)	13,583	1,293	-	29,845
Personnel income tax withholdings	-	2,140	-	1,961
Social Security contributions	-	1,878	-	1,848
Others	419	172	420	145
	14,945	19,222	1,230	53,289
	15,094	19,222	1,379	53,289

- (i) At 31 December 2017 and 30 September 2018, this item includes the amount of 1.3 million euros **to be paid in 2018, following the Group's adhesion to the optional regime of revaluation of fixed tangible assets and investment property in 2016.**

At 31 December 2017 and 30 September 2018, the amounts of IRC (Corporate Income Tax) receivable and payable were composed as follows:

	31-12-2017 RESTATED	30-09-2018
Estimated current tax on income	(12,504)	(44,156)
Payments on account	19,680	12,929
Withholding income taxes	4,383	697
Others	731	685
	12,290	(29,845)

## 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, this rate was raised by 3% and will be applied to the company's taxable profit between 1.5 million euros and 7.5 million

euros, by 5% to the company's taxable profit which exceeds 7.5 million euros, and by 9% 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 Regime for Taxation of Corporate Groups, which covers the companies in which it directly or indirectly holds at least 75% of their share capital and which fulfil the requirements of Article 69 of the IRC Code.

The companies covered by the Special Regime for Taxation of Corporate Groups in 2018 are:

- NOS (parent company)
- Empracine
- Lusomundo Imobiliária
- Lusomundo SII
- NOS Açores
- NOS Audiovisuais
- NOS Audiovisuais SGPS
- NOS Cinemas
- NOS Comunicações SA
- NOS Inovação
- NOS Internacional SGPS
- NOS Lusomundo TV
- NOS Madeira
- NOSPUB
- 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 when 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 might be extended or suspended.

The Board of Directors of NOS, based on information from its tax advisers, believes that these and any other revisions and corrections to these tax declarations, as well as other contingencies of a fiscal nature, will not have a significant effect on the consolidated financial statements as at 30 September 2018.

#### 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 periods ended on 31 December 2017 and 30 September 2018 were as follows:

	31-12-2016 RESTATED	DEFERRED TAXES OF THE PERIOD		30-09-2017 RESTATED
		INCOME (NOTE B)	EQUITY	
DEFERRED INCOME TAX ASSETS				
Doubtful accounts receivable	7,380	(205)	-	7,175
Inventories	2,482	(175)	-	2,307
Other provision and adjustments	84,371	(1,864)	-	82,507
Intragroup gains	23,034	(1,091)	-	21,943
Liabilities recorded as part of the allocation of fair value to the liabilities acquired in the merger	7,801	(271)	-	7,530
Derivatives	901	26	(293)	634
	125,969	(3,580)	(293)	122,096
DEFERRED INCOME TAX ASSETS				
Revaluations of assets as part of the allocation of fair value to the assets acquired in the merger	7,879	(2,229)	-	5,650
Derivatives	10	(12)	4	2
Assets recognised under application of IFRS 15 (Note 2)	19,898	(782)	-	19,116
Others	2,317	(9)	-	2,308
	30,104	(3,032)	4	27,076
NET DEFERRED TAX	95,865	(548)	(297)	95,020
	31-12-2017 RESTATED	DEFERRED TAXES OF THE PERIOD		30-09-2018
		INCOME (NOTE B)	EQUITY	
DEFERRED INCOME TAX ASSETS				
Doubtful accounts receivable	4,981	(1,692)	-	3,289
Inventories	2,340	(295)	-	2,045
Other provision and adjustments	71,500	(8,684)	-	62,816
Intragroup gains	20,926	2,101	-	23,027
Liabilities recorded as part of the allocation of fair value to the liabilities acquired in the merger	7,396	(707)	-	6,689
Derivatives	557	(30)	(189)	338
	107,700	(9,307)	(189)	98,204
DEFERRED INCOME TAX LIABILITIES				
Revaluations of assets as part of the allocation of fair value to the assets acquired in the merger	4,851	(1,951)	-	2,900
Derivatives	-	9	-	9
Assets recognised under application of IFRS 15 (Note 2)	18,383	(18,383)	-	-
Others	2,289	(32)	-	2,257
	25,523	(20,357)	-	5,166
NET DEFERRED TAX	82,177	11,050	(189)	93,038

At 30 September 2018, the deferred tax assets related to the other provisions and adjustments are mainly due: i) Impairments and acceleration of amortisations beyond the acceptable fiscally and other adjustments in fixed tangible assets and intangible assets, amounted to 48.2 million euros (31 December 2017: 50.3 million euros; and ii) Other provisions amounted to 14.7 million euros (31 December 2017: 13.0 million euros).

At 30 September 2018, the deferred tax liability is 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 September 2018, deferred tax assets were not recognised for an amount of 2.2 million euros, corresponding mainly to tax incentives.

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

At 30 September 2018, the tax rate used to calculate the deferred tax assets relating to tax losses carried forward was 21% (2017: 21%). In the case of temporary differences, the rate used was 22.5% (2017: 22.5%) increased to a maximum of 5.13% (2017: 5.13%) 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.

Additionally, 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 in taxation periods that begin on or after 1 January 2017, the carryover is over a five-year period up to the limit of 70% of the taxable profit.

## B) Effective tax rate reconciliation

In the nine months ended on 30 September 2017 and 2018, the reconciliation between the nominal and effective rates of tax was as follows:

	3° QUARTER 17	9M 17 RESTATED	3° QUARTER 18	9M 18
Income before taxes	42,222	125,685	53,572	144,854
Statutory tax rate	22.5%	22.5%	22.5%	22.5%
ESTIMATED TAX	9,500	28,279	12,054	32,592
Permanent differences i)	(1,706)	(3,565)	(584)	163
Differences in tax rate of group companies	(434)	(3,193)	(440)	(1,227)
Record of deferred taxes	(2)	(830)	(63)	(3,862)
Tax benefits ii)	-	(5,098)	-	(11,398)
State surcharge	1,838	5,268	2,915	9,487
Autonomous taxation	193	597	172	574
Provisions (Note 22)	(7)	(1,181)	(4,727)	(4,776)
Others	33	(47)	263	898
INCOME TAXES	9,415	20,230	9,590	22,451
Effective Income tax rate	22.3%	16.1%	17.9%	15.5%
Income tax	10,559	19,682	9,394	33,501
Deferred tax	(1,144)	548	196	(11,050)
	9,415	20,230	9,590	22,451



i) At 30 September 2017 and 2018, the permanent differences were composed as follows:

	3° QUARTER 17	9M 17 RESTATED	3° QUARTER 18	9M 18
Equity method (Note 33)	(6,012)	(14,983)	(1,276)	4,451
Others	(1,570)	(863)	(1,322)	(3,727)
	(7,582)	(15,846)	(2,598)	724
	22.5%	22.5%	22.5%	22.5%
	(1,706)	(3,565)	(584)	163

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 and RFAI (Investment Tax Incentive Regime) introduced by Law 10/2009 of 10 March. During the nine months ended on 30 September 2018, following the different dates to submission and approval of applications, tax incentives related to RFAI and SIFIDE of the years of 2016 and 2017 were recognised. Whilst in the nine months ended on 30 September of 2017, only RFAI of the year of 2016 and SIFIDE of 2015 were recognised. 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 2017 and 30 September 2018, this item was composed as follows:

	31-12-2017 RESTATED	30-09-2018
INVENTORIES		
Telco	39,261	40,119
Audiovisuals	1,744	1,311
	41,005	41,430
IMPAIRMENT OF INVENTORIES		
Telco	(8,044)	(7,158)
Audiovisuals	(917)	(609)
	(8,961)	(7,767)
	32,044	33,663

The movements occurred in impairment adjustments were as follows:

	9M 17 RESTATED	9M 18
AS AT JANUARY 1	9,523	8,961
Increase and decrease - Cost of products sold (Note 30)	(253)	(59)
Utilizations / Others	(533)	(1,135)
AS AT SEPTEMBER 30	8,737	7,767

## 14. Accounts receivable – trade

At 31 December 2017 and 30 September 2018, this item was as follows:

	31-12-2017 RESTATED	30-09-2018
Trade receivables	351,400	336,577
Doubtful accounts for trade receivables	139,484	117,182
Unbilled revenues i)	55,504	54,137
Contract assets ii)	47,424	56,457
	593,812	564,353
Impairment of trade receivable	(139,484)	(117,182)
	454,328	447,171

- i) The amounts to be invoiced correspond mainly to the value of contractual obligations already met or partially met and whose invoicing will occur subsequently.
- ii) The amount of assets related to contract with costumers was introduced in the light of the adoption of IFRS 15 and consists on the early recognition of revenues resulting from the allocation of contract discounts for bundle offers to different performance obligations.

The movements occurred in impairment adjustments were as follows:

	9M 17 RESTATED	9M 18
AS AT JANUARY 1	157,753	139,484
Increases and decreases (Note 32)	1,752	4,467
Penalties - i)	10,794	10,995
Utilizations / Others	(19,406)	(37,764)
AS AT SEPTEMBER 30	150,893	117,182

- i) Penalties correspond to the estimated amount of uncollectible invoiced penalties recognised in the period, deducted from revenue, as described in Note 40.6.

## 15. Prepaid Expenses

At 31 December 2017 and 30 September 2018, this item was composed as follows:

	31-12-2017 RESTATED	30-09-2018
Programming costs	13,884	13,481
Costs of litigation procedure activity	16,990	11,587
Rentals	3,141	3,258
Taxes	173	4,903
Advertising	1,213	1,083
Others	11,126	14,893
	46,527	49,205

## 16. Non-current assets held-for-sale

During the first quarter of 2017, a contract was signed for the purchase and sale of the assets of the FTTH network of NOS Comunicações SA, located in the metropolitan areas of Lisbon and Porto,

following the announcement of the non-opposition decision of the Competition Authority to the operation of merger between ZON and Optimus of 26 August 2013.

## 17. Derivative financial instruments

### Exchange rate derivatives

At the date of the statement of the financial position there were foreign currency forwards open for 4.248 thousand euros (31 December 2017: 3,141 thousand euros), the fair value is the positive amount of 40 thousand euros (2017: loss of about 33 thousand euros).

### Interest rate derivatives

At 30 September 2018, NOS had contracted two interest rate swaps totalling 250 million euros (31 December 2017: 250 million euros) whose swap maturities expire in 2019. The fair value of interest rate swaps, in the negative amount of 1.6 million euros (31 December 2017: negative amount of 2.5 million euros), was recorded in liabilities, against shareholder's equity.

### Own shares derivatives

At 30 September 2018, NOS had contracted four own shares derivatives, in the amount of 2.641 thousand euros (31 December 2017: 2.318 thousand euros), maturing in March 2019, 2020 and 2021, in order to cover the delivery of share plans liquidated in cash.

31-12-2017 RESTATED					
	NOTIONAL	ASSETS		LIABILITIES	
		CURRENT	NON CURRENT	CURRENT	NON CURRENT
Interest rate swaps	250,000	-	-	-	2,453
Equity Swaps	2,318	19	-	-	9
Exchange rate forward	3,141	-	-	-	-
	255,459	19	-	-	2,462

  

30-09-2018					
	NOTIONAL	ASSETS		LIABILITIES	
		CURRENT	NON CURRENT	CURRENT	NON CURRENT
Interest rate swaps	250,000	-	-	-	1,585
Equity swaps	2,641	21	65	-	-
Exchange rate forward	4,248	40	-	-	-
	256,889	61	65	-	1,585

Movements during the nine months ended ended on 30 September 2017 and 2018 were as follows:

	31-12-2016 RESTATED	RESULT	EQUITY	30-09-2017 RESTATED
Fair value interest rate swaps	(4,027)	-	1,303	(2,724)
Fair value exchange rate forward	37	(30)	-	7
Fair value equity swaps	23	(138)	20	(95)
DERIVATIVES	(3,967)	(168)	1,323	(2,812)
Deferred income tax liabilities	(10)	12	(4)	(2)
Deferred income tax assets	901	26	(293)	634
DEFERRED INCOME TAX	890	38	(297)	632
	(3,077)	(130)	1,026	(2,180)

  

	31-12-2017 RESTATED	RESULT	EQUITY	30-09-2018
Fair value interest rate swaps	(2,453)	-	868	(1,585)
Fair value exchange rate forward	(33)	73	-	40
Fair value equity swaps	10	102	(26)	86
DERIVATIVES	(2,476)	175	842	(1,459)
Deferred income tax liabilities	-	(9)	-	(9)
Deferred income tax assets	557	(30)	(189)	338
DEFERRED INCOME TAX	557	(39)	(189)	329
	(1,919)	136	653	(1,130)

## 18. Cash and cash equivalents

At 31 December 2017 and 30 September 2018, this item was composed as follows:

	31-12-2017 RESTATED	30-09-2018
Cash	2,002	1,329
Other deposits i)	579	679
Deposits	396	476
	2,977	2,484

- i) At 31 December 2017 and 30 September 2018, term deposits have short-term maturities and bear interest at normal market rates.

## 19. Shareholder's equity

### 19.1. Share capital

At 31 December 2017 and 30 September 2018, 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 2017 and 30 September 2018 are:

	31-12-2017 RESTATED		30-09-2018	
	NUMBER OF SHARES	% SHARE CAPITAL	NUMBER OF SHARES	% SHARE CAPITAL
ZOPT, SGPS, SA (1)	268,644,537	52.15%	268,644,537	52.15%
Blackrock, Inc	11,562,497	2.24%	11,562,497	2.24%
MFS Investment Management	11,049,477	2.14%	11,049,477	2.14%
Norges Bank	10,891,068	2.11%	10,891,068	2.11%
Banco BPI, SA	14,275,509	2.77%	-	-
<b>TOTAL</b>	<b>316,423,088</b>	<b>61.42%</b>	<b>302,147,579</b>	<b>58.65%</b>

(1) In accordance with subparagraphs 1.b) and 1.c) of Article 20 and Article 21 of the Portuguese Securities Code, a qualified shareholding of 52.15% of the share capital and voting rights of company, calculated in accordance with Article 20 of the Securities Code, is attributable to ZOPT SGPS S.A., Sonaecom SGPS S.A. 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 SGPS S.A., a jointly controlled company by its shareholders Kento Holding Limited, Unitel International Holdings B.V. and Sonaecom SGPS S.A., under the shareholder agreement signed between them; and,
- b. Entities in a control relationship with Sonaecom SGPS S.A., namely, SONTEL, BV and SONAE, SGPS, S.A, companies directly and indirectly controlled by Efanor Investimentos, SGPS, S.A., also due of such control and of the shareholder agreement mentioned in a.

Efanor Investimentos, SGPS, S.A, with effects after 29 November 2017, has no longer a control shareholder, in accordance and for the effects of Articles 20 and 21 of the Securities Code.

## 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 for an 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 September 2018 there were 2,073,859 own shares, representing 0.403% of share capital (31 December 2017: 2,040,234 own shares, representing 0.390% of the share capital)

Movements in the three and nine months ended on 30 September 2017 and 2018 were as follows:

	QUANTITY	VALUE
BALANCE AS AT 1 JANUARY 2017	3,017,603	18,756
Distribution of own shares - share incentive scheme	(931,471)	(5,790)
Distribution of own shares - other remunerations	(45,898)	(285)
BALANCE AS AT 30 SEPTEMBER 2017	2,040,234	12,681
BALANCE AS AT 1 JANUARY 2018	2,040,234	12,681
Acquisition of own shares	650,000	3,096
Distribution of own shares - share incentive scheme	(598,725)	(3,515)
Distribution of own shares - other remunerations	(17,650)	(103)
BALANCE AS AT 30 SEPTEMBER 2018	2,073,859	12,159

### 19.4. Reserves

#### Legal reserve

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

#### Other reserves

Under Portuguese law, the amount of distributable reserves is determined according to the individual financial statements of the company prepared in accordance with IAS / IFRS. Thus, on 30 September 2018, NOS had reserves, which by their nature are considered distributable for an amount of approximately 1.4 million euros, not including the net income.

## 20. Non-controlling interests

The movements of the non-controlling interests occurred during the nine months ended on 30 September 2017 and 2018 and the results attributable to non-controlling interests for the year are as follows:

	31-12-2016 RESTATED	ATTRIBUTABLE PROFITS	OTHERS	30-09-2017 RESTATED
NOS Madeira	5,544	485	4	6,033
NOS Açores	2,174	(160)	1	2,015
Lusomundo SII	23	-	-	23
Lusomundo Imobiliária 2	34	-	-	34
	7,775	325	5	8,105

  

	31-12-2017 RESTATED	ATTRIBUTABLE PROFITS	OTHERS	30-09-2018
NOS Madeira	5,898	(328)	(3)	5,567
NOS Açores	1,924	(270)	(2)	1,652
	7,822	(598)	(5)	7,219

## 21. Borrowings

At 31 December 2017 and 30 September 2018, the composition of borrowings was as follows:

	31-12-2017 RESTATED		30-09-2018	
	CURRENT	NON-CURRENT	CURRENT	NON-CURRENT
LOANS - NOMINAL VALUE	182,987	873,333	163,488	880,000
Debenture loan	-	585,000	50,000	610,000
Commercial paper	122,901	215,000	65,000	215,000
Foreign loans	18,333	73,333	18,333	55,000
Bank overdrafts	41,753	-	30,155	-
LOANS - ACCRUALS AND DEFERRALS	582	(2,992)	741	(4,276)
LOANS - AMORTISED COST	183,569	870,341	164,229	875,724
FINANCIAL LEASES	26,567	84,317	26,407	68,794
Long Term Contracts	12,858	63,475	12,242	55,893
Other	13,709	20,842	14,165	12,901
	210,136	954,658	190,636	944,518

During the period ended on 30 September 2018, the average cost of debt of the used lines was approximately 1.7% (2017: 2.0%).

### 21.1. Debenture loans

At 31 December 2017 and 30 September 2018, NOS has the following bonds issued, totalling 585 million euros and 660 million euros, respectively, and with maturity after one year:

- 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 semi-annually.

- ii) A bond loan organized by four financial institutions in September 2014 amounting to 175 million euros. This was refunded in advance in May 2018. The loan bore interest at variable rates, indexed to Euribor and paid semi-annually.
- 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 semi-annually.
- iv) Two bond issues organised by Caixabank amounting to 50 million euros each, and both are maturing in September 2019. The first issue, held in September 2015, was refunded in advance in September 2018 and bore interests quarterly at a fixed rate. The issue made in July 2015, bears interest at a variable rate indexed to Euribor and paid semi-annually.
- v) A bond loan for an amount of 60 million euros signed in September 2016 and organised by ING, whose maturity occurs in September 2023. The issue bears interest at a variable rate indexed to Euribor and paid semi-annually.
- vi) Public issuance of bonds, in the amount of 300 million euros, in May 2018 and maturing in May 2023. This issue bears annual interest at fixed rate.

At 30 September 2018, an amount of 590 thousand euros, corresponding to interest and commissions, was added **from this amount and recorded in the item "Loans - accruals and deferrals"**.

## 21.2. Commercial paper

At 30 September 2018, the Company has borrowings of 280 million euros in the form of commercial paper, of which 15 million euros was issued under non-underwritten programs. The total amount contracted, under underwriting securities, is of 520 million euros, corresponding to eleven programmes, with four banks, 445 million euros of which bear interest at market rates and 75 million euros are issued in fixed rate. Commercial paper programmes with maturities over one year totalling 265 million euros are classified as non-current, since the Company has the ability to renew **unilaterally current issues on or before the programmes' maturity dates and because they are** underwritten by the organiser. 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 September 2018 an amount of 99 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

In November 2013, NOS signed a Finance Contract with the European Investment Bank for an amount of 110 million euros to support the development of the mobile broadband network in Portugal. In September 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 18,3 million euros per year as of September 2017.

On 14 December 2017, NOS concluded a mutual contract with Millennium BCP for an amount of 50 million euros that bears interest at a variable rate indexed to Euribor that is due on 14 March 2018.

At 30 September 2018, an amount of 4.126 thousand euros was deducted from this amount, corresponding to the benefit associated with the fact that the loan with BEI is at a subsidised rate.

All bank borrowings contracted (with the exception of BEI loan of 73.3 million euros, bond loan in the amount 50 million euros, refunded in June 2018, public issuance of bonds of 300 million euros,



issued in fixed rate, and finance leases) are negotiated at variable short-term interest rates and their book value is therefore broadly similar to their fair value.

#### 21.4. Financial leases

On 31 December 2017 and 30 September 2018, 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.

The 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

	31-12-2017 RESTATED	30-09-2018
Until 1 year	26,567	26,407
Between 1 and 5 years	56,525	47,033
Over 5 years	27,793	21,761
	110,884	95,201

##### Financial leases – present value

	31-12-2017 RESTATED	30-09-2018
Until 1 year	31,255	30,767
Between 1 and 5 years	66,436	55,048
Over 5 years	30,208	23,024
	127,899	108,839
Future financial costs (lease)	(17,015)	(13,638)
PRESENT VALUE OF FINANCE LEASE LIABILITIES	110,884	95,201

The maturities of the loans obtained are as follows:

	31-12-2017 RESTATED			30-09-2018		
	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS
Debenture loan	1,431	523,130	59,970	53,013	547,577	60,000
Commercial paper	122,637	177,500	37,500	64,901	165,000	50,000
Foreign loans	17,748	72,241	-	16,160	53,147	-
Bank overdrafts	41,753	-	-	30,155	-	-
Financial leases	26,567	56,525	27,793	26,407	47,033	21,761
	210,136	829,396	125,262	190,636	812,757	131,761

## 22. Provisions

At 31 December 2017 and 30 September 2018, the provisions were as follows:

	31-12-2017 RESTATED	30-09-2018
Litigation and other - i)	52,261	53,760
Financial investments - ii)	425	-
Dismantling and removal of assets - iii)	31,651	34,133
Contingent liabilities - iv)	32,490	32,490
Contingencies - other - v)	16,435	17,360
	133,262	137,743

- 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 financial year ended at 31 December 2010, NOS SA was notified of the Report of Tax Inspection, when 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 for 5 years). NOS SA challenged the decisions regarding the 2009 to 2013 fiscal year and will appeal for the judicial review in due time the decision regarding the 2008 to 2013 fiscal year. Regarding the year 2008, the Administrative and Fiscal Court of Porto has already decided unfavourably, in March 2014. The company has appealed;
  - b. Supplementary Capital: the fiscal authorities believe 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 favourably. This decision is concluded (favourably), 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 unfavourably. As for the year 2005, the Court decided favourably, however, the Tax Authorities contested the decision and the company has contested these decisions, so the final decision of these 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:
- a. Extraordinary contribution toward the fund for the compensation of the net costs of the universal service of electronic communications (CLSU): The Extraordinary contribution toward the fund for the compensation of the net costs of the universal service of electronic communications (CLSU) is legislated in Articles 17 to 22 of Law no 35/2012, of 23 August. From 1995 until September 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 September 2014, condemned the Portuguese State to pay a fine of 3 million euros for illegally designating MEO. In accordance with Article 18 of the abovementioned Law 35/2012, the net costs incurred by the operator responsible for providing the universal service, approved by ANACOM, must be shared between other companies who provide, in national territory public communication networks and publicly accessible electronic communications services. NOS is therefore within the scope of this extraordinary contribution given that MEO has been requesting the payment of CLSU to the compensation fund of the several periods during which it was responsible for providing the services. In accordance with law, the compensation fund can be activated to compensate the net costs of the electronic communications universal service, relative to the period before the designation of the provider by tender, whenever, cumulatively (i) there are net costs, considered excessive, the amount of which is approved by ANACOM, following an audit to their preliminary calculation and support documents, which are provided by the universal service provider, and (ii) the universal service provider requester the Government compensation for the net costs approved under the terms previously mentioned.

Therefore:

- 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 that was contested by the Company. In January 2015, ANACOM issued the settlement notes in the amount of 18.6 million euros related to NOS, SA, NOS Madeira and NOS Açores which were contested by NOS and for which a bail was presented by NOS SGPS (Note 38) to avoid Tax Execution Proceedings. The guarantees have been accepted by ANACOM.
- In 2014, ANACOM deliberated to approve the final results of the CLSU audit by MEO, relative to the period from 2010 to 2011, in a total amount of 47.1 million euros, a decision also contested by NOS. In February 2016, ANACOM issued the settlement notes in the amount of 13 million euros, related to NOS, SA, NOS Madeira and NOS Açores which were also contested and for which it was before also presented bail by NOS SGPS in order to avoid the promotion of respective tax enforcement processes, guarantees that have been accepted by ANACOM.
- In 2015, ANACOM deliberated to approve the final results of the audit to CLSU presented by MEO relative to the period from 2012 to 2013, in the amount of 26 million euros and 20 million euros, respectively, and as the others, it was contested by NOS. In December 2016, the notices of settlement were issued relating to NOS, SA, NOS Madeira and NOS Açores, corresponding to that period, totalling 13.6 million euros that were contested by NOS and for which guarantees have been already presented by NOS SGPS in order to avoid the promotion of the respective proceedings of tax execution. The guarantees were also accepted by ANACOM.

- In 2016, ANACOM approved the results of the audit to the CLSU presented by MEO related with the period between January and September 2014, for an amount of 7.7 million euros that was contested by NOS, in standard terms.
- In 2017, NOS, SA, NOS Madeira and NOS Açores were notified of the decision of ANACOM concerning the entities that are obliged to contribute toward the compensation fund and the setting of the values of contributions corresponding to CLSU that have to be compensated and relating to the months of 2014 in which MEO still remained as provider of the Universal Service, which establishes for all these companies a contribution totaling close to 2.4 million euros. In December 2017, the settlement notes relating to NOS, SA, NOS Madeira and NOS Açores, concerning that period, were issued in the amount of approximately 2.4 million euros, which were challenged by NOS and for which guarantees have also been presented by NOS SGPS, in order to avoid the promotion of their tax enforcement procedures. The guarantees were also accepted by ANACOM.

It is the opinion of the Board of Directors of NOS that these extraordinary contributions to Universal Service (not designated through a tender procedure) flagrantly violate the Directive of Universal Service. Moreover, considering the existing legal framework since NOS began its activity, the request of payment of the extraordinary contribution violates the principle of the protection of confidence, recognised on a legal and constitutional level in Portuguese domestic law. For these reasons, NOS will continue judicially challenge either the approval of audit results of the net cost of universal service related to the pre-competitive period, and the liquidation of each extraordinary contribution, once the Board of Directors is convinced it will be successful in all challenges, both future and already undertaken;

- b. Other tax proceedings: which the Board of Directors is convinced that there are strong arguments to obtain a favourable decision for NOS SA, but considers that they correspond to a contingent liability under the fair value allocation of assumed liabilities related to the merger operation;
- v) The amount under the caption "Contingencies - other" refers to provisions for risks related to miscellaneous events/disputes of various kinds, the settlement of which may result in outflows of cash, and other likely liabilities related to several transactions from previous periods, and whose outflow of cash is probable, namely, costs charged to the current period or previous years, for which it is not possible to estimate reliably the time of occurrence of the expense.

During the nine months ended on 30 September 2017, movements in provisions were as follows:

	31-12-2016 RESTATED	INCREASES	DECREASES	OTHERS	30-09-2017 RESTATED
Litigation and other	57,697	6,566	(11,522)	(2,588)	50,153
Financial investments	825	-	(210)	-	615
Dismantling and removal of assets	29,694	582	(358)	1,512	31,430
Contingent liabilities	33,486	-	(996)	-	32,490
Contingencies - other	24,585	1,457	(168)	(4,083)	21,791
	146,287	8,605	(13,254)	(5,159)	136,479

During the nine months ended on 30 September 2017, increases mainly refer to increases of provisions to tax proceedings plus interest and charges, resulting from unfavourable decision of lawsuit relating to the year 2007. Nevertheless, an appeal against this decision was filled by the company.

During the nine months ended 30 September 2017, the reductions are related predominantly to the increase of provisions for legal proceedings as a result of favourable decisions and agreements reached, namely the process of misconduct interposed by ANACOM.

**Additionally, the movement recorded under "Others" amounting to 2.6 million euros, under "Litigation and others", was recorded by counterpart of the asset.** In addition, the movements recorded in "Other" in the amount of 4.1 million euros refer mainly to the use of provisions created for employee compensation amounting to 2.4 million euros and to the reclassification of cost estimates in which it is not possible to estimate with great reliability the moment of implementation of the expenditure in the amount of 1.6 million euros.

During the nine months ended on 30 September 2018, movements in provisions, were as follows:

	31-12-2017 RESTATED	INCREASES	DECREASES	OTHERS	30-09-2018
Litigation and other	52,261	9,013	(7,514)	-	53,760
Financial investments	425	-	(425)	-	-
Dismantling and removal of assets	31,651	340	(37)	2,179	34,133
Contingent liabilities	32,490	-	-	-	32,490
Contingencies - other	16,435	1,710	(464)	(321)	17,360
	133,262	11,063	(8,440)	1,858	137,743

During the nine months ended on 30 September 2018, the increases refer mainly to provisions for legal claims plus interests and charges and the reductions refer to the reassessment of various tax and legal contingencies.

The net movements for the nine months ended on 30 September 2017 and 2018 reflected in the income statement under Provisions were as follows:

	9M 17 RESTATED	9M 18
Provisions and adjustments (Note 32)	(3,191)	(1,288)
Financial investments (Note 9)	(210)	(425)
Other losses / (gains) non-recurrent (Note 35)	1,409	8,429
Interests - dismantling	225	303
Other interests	(1,701)	380
Income tax (Note 12)	(1,181)	(4,776)
INCREASES AND DECREASES IN PROVISIONS	(4,649)	2,623

## 23. Accrued expenses

At 31 December 2017 and 30 September 2018, this item was composed as follows:

	31-12-2017 RESTATED	30-09-2018
NON-CURRENT		
Contractual obligations i)	8,139	5,853
Others	628	519
	8,767	6,372
CURRENT		
Invoices to be issued by operators ii)	64,136	48,248
Investments in tangible and intangible assets	37,532	26,879
Vacation pay and bonuses	26,504	24,098
Programming services	7,946	16,429
Professional services	14,628	12,467
Advertising	17,298	12,287
Content and film rights	16,892	11,867
ANACOM taxes and Cinema Law iii)	111	7,866
Costs of litigation procedure activity	5,078	7,277
Comissions	5,122	6,487
Energy and water	3,474	5,049
Maintenance and repair	2,304	2,076
Rentals	1,570	1,475
Other accrued expenses	10,970	9,809
	213,564	192,315

- 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 licenses and other ICA fees, whose invoicing is issued in subsequent periods.

## 24. Deferred income

At 31 December 2017 and 30 September 2018, this item was composed as follows:

	31-12-2017 RESTATED		30-09-2018	
	CURRENT	NON-CURRENT	CURRENT	NON-CURRENT
Advanced billing i)	26,415	-	30,697	-
Investment subsidy ii)	632	3,773	417	5,662
	27,047	3,773	31,114	5,662

- 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 BEI loans were obtained at interest rates below market value (Note 21). During the second quarter of 2018, the calculation of the implicit subsidy was updated following the revision of the initial contractual conditions.

## 25. Accounts payable - trade

At 31 December 2017 and 30 September 2018, this item was composed as follows:

	31-12-2017 RESTATED	30-09-2018
Suppliers current account	222,840	248,864
Invoices in reception and conference	2,024	4,242
	224,864	253,106

## 26. Accounts payable - other

At 31 December 2017 and 30 September 2018, this item was composed as follows:

	31-12-2017 RESTATED	30-09-2018
NON-CURRENT		
Assignment of receivables without recourse i)	17,615	11,583
	17,615	11,583
CURRENT		
Fixed assets suppliers	40,753	28,723
Assignment of receivables without recourse i)	15,493	11,309
Advances from customers	179	226
Others	1,730	1,640
	58,155	41,898
	75,770	53,481

- i) NOS Comunicações, SA materialised a credit assignment transaction, that was coordinated by Banco Comercial Português and Caixa Geral de Depósitos, which it ceded future credits to be generated by a portfolio of Corporate customers. In the period of nine months ended on 30 September 2018, the balance amounts to 22.9 million euros. This does not imply any change in the accounting treatment of the receivables or in the relationship with their customers.

## 27. Operating revenues

Consolidated operating revenues, for the three and nine months ended on 30 September 2017 and 2018, were as follows:

	3° QUARTER 17	9M 17 RESTATED	3° QUARTER 18	9M 18
SERVICES RENDERED:				
Telco i)	346,638	1,028,047	350,313	1,038,259
Audiovisuals and cinema exhibition ii)	18,692	58,382	17,516	48,663
	365,330	1,086,429	367,829	1,086,922
SALES:				
Telco iii)	18,812	47,771	17,284	49,022
Audiovisuals and cinema exhibition iv)	4,894	13,432	4,505	12,278
	23,706	61,203	21,789	61,300
OTHER OPERATING REVENUES:				
Telco	2,916	11,459	5,106	18,176
Audiovisuals and cinema exhibition	131	600	272	885
	3,047	12,059	5,378	19,061
	392,084	1,159,691	394,996	1,167,283

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 datacentre 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. Wages and salaries

In the three and nine months ended on 30 September 2017 and 2018, this item was composed as follows:

	3° QUARTER 17	9M 17 RESTATED	3° QUARTER 18	9M 18
Remuneration	17,711	50,270	16,327	46,422
Social taxes	4,235	12,630	4,233	12,520
Social benefits	515	1,471	480	1,435
Other	738	1,716	147	(171)
	23,199	66,087	21,187	60,206

In the three and nine months ended on 30 September 2017 and 2018, the average number of employees of the companies included in the consolidation was 2,498 and 2,493, respectively. At 30 September 2018, the number of employees of the companies included in the consolidation was 2,430 employees.

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 three and nine months ended on 30 September 2017 and 2018, this item was composed as follows:

	3° QUARTER 17	9M 17 RESTATED	3° QUARTER 18	9M 18
Exhibition costs	50,423	154,329	52,579	153,936
Traffic costs	52,142	154,391	49,553	160,894
Capacity costs	11,395	34,919	9,766	32,725
Costs related to corporate customers services	1,967	4,614	4,636	11,016
Shared advertising revenues	3,557	11,128	3,197	10,361
Others	1,025	3,366	838	2,714
	120,509	362,747	120,569	371,646

In the third quarter of 2018, the Group changed the presentation caption of costs related to services of large corporate customers, from "Supplies and external services" to "Direct costs", as they refer to costs directly related to the operational activity of this business segment. This change had no impact in the consolidated statement of financial position, of changes in shareholders' equity and of cash flows. The consolidated statements were restated from 1 January 2017, ascending the amount reclassified as at 30 September 2018 to 4,614 thousand euros.

## 30. Cost of products sold

In the three and nine months ended on 30 September 2017 and 2018, this item was composed as follows:

	3° QUARTER 17	9M 17 RESTATED	3° QUARTER 18	9M 18
Costs of products sold	17,818	45,134	16,840	44,674
Increases / (decreases) in inventories impairments (Note 13)	(509)	(253)	178	(59)
	17,309	44,881	17,018	44,615

## 31. Support services and supplies and external services

In the three and nine months ended on 30 September 2017 and 2018, this item was composed as follows:

	3° QUARTER 17	9M 17 RESTATED	3° QUARTER 18	9M 18
<b>SUPPORT SERVICES:</b>				
Call centers and customer support	7,721	23,812	7,256	22,876
Information systems	4,041	12,821	3,757	11,167
Administrative support and others	10,026	31,371	9,922	28,619
	21,788	68,004	20,935	62,662
<b>SUPPLIES AND EXTERNAL SERVICES:</b>				
Maintenance and repair	11,313	34,282	11,531	33,485
Rentals	10,941	32,596	10,838	29,039
Electricity	5,777	16,448	5,721	16,711
Installation and removal of terminal equipment	1,576	4,418	1,288	3,269
Professional services	3,370	9,597	3,039	8,958
Communications	2,016	5,663	1,740	5,427
Other supplies and external services	6,258	20,009	6,211	18,592
	41,251	123,013	40,368	115,481

## 32. Provisions and adjustments

In the three and nine months ended on 30 September 2017 and 2018, these items were composed as follows:

	3° QUARTER 17	9M 17 RESTATED	3° QUARTER 18	9M 18
Provisions (Note 22)	257	(3,191)	(66)	(1,288)
Impairment of account receivables - trade (Note 14)	(198)	1,752	2,509	4,467
Impairment of account receivables - others (Note 10)	(10)	(7)	16	162
Others	1	11	5	39
	50	(1,435)	2,464	3,380

## 33. Net losses / (gains) of affiliated companies

In the three and nine months ended on 30 September 2017 and 2018, this item was composed as follows:

	9M 17 RESTATED	9M 18
EQUITY METHOD (NOTE 9)		
Sport TV	(2,836)	(1,461)
Dreamia	(630)	(183)
Finstar	(11,272)	6,965
Mstar	(250)	(610)
Upstar	(18)	(92)
Others	23	4
	(14,983)	4,623
OTHERS	-	(172)
	(14,983)	4,451

During the nine months ended on 30 September 2018, the Kwanza recorded an exceptional devaluation against the Euro of approximately 46%, which generated the recognition of exchange losses in Finstar, losses that impact this item in approximately, 12 million euros.

## 34. Depreciation, amortisation and impairment losses

In the three and nine months ended on 30 September 2017 and 2018, this item was composed as follows:

	3° QUARTER 17	9M 17 RESTATED	3° QUARTER 18	9M 18
<b>TANGIBLE ASSETS</b>				
Buildings and other constructions	2,315	8,125	2,753	8,336
Basic equipment	47,785	136,438	41,050	129,760
Transportation equipment	377	1,248	473	1,370
Tools and dies	8	24	10	27
Administrative equipment	1,441	2,971	1,260	4,112
Other tangible assets	2	6	5	94
	51,928	148,812	45,551	143,699
<b>INTANGIBLE ASSETS</b>				
Industrial property and other rights	26,272	81,034	23,685	75,139
Costs of obtaining and to fulfil a contract with a customer	26,215	78,241	25,952	78,271
	52,487	159,275	49,637	153,410
<b>INVESTMENT PROPERTY</b>				
Investment property	1	2	1	2
	1	2	1	2
	104,416	308,089	95,189	297,111

During the nine months ended on 30 September 2018, following the modernisation project of the NOS mobile network, impairment losses were recognised on the current assets for an approximate amount of 30 million euros.

## 35. Other losses/ (gains) non-recurrent, net

In the three and nine months ended on 30 September 2017 and 2018, the other non-recurring costs / (gains) was composed as follows:

	3° QUARTER 17	9M 17 RESTATED	3° QUARTER 18	9M 18
<b>GAINS:</b>				
Default interests - offsetting of credits i)	-	-	-	(27,318)
	-	-	-	(27,318)
<b>COSTS:</b>				
Provisions and costs with lawsuits	-	-	-	12,529
Others	3,911	5,694	282	2,396
	3,911	5,694	282	14,925
<b>TOTAL</b>	3,911	5,694	282	(12,393)

- i) Following the dispute between the subsidiary NOS SA and MEO - Serviços de Comunicações e Multimédia, SA (formerly TMN - Telecomunicações Móveis Nacionais, SA), relating to the lack of definition of interconnection prices for 2001, and subsequent assignment from TMN to MEO and unilateral compensation by MEO of interconnection related credits, NOS filed an action against it, in which it required that (i) the compensation be declared ineffective and (ii) the payment of the debt, plus interest. After all appeals and claims in court, promoted by MEO, were dismissed, including by the Constitutional Court, NOS received and recognised an income of interests on these loans amounting to 27.3 million euros. This amount was received at 3 July 2018.

## 36. Financing costs and other financial expenses / (income)

In the three and nine months ended on 30 September 2017 and 2018, financing costs and other financial expenses / (income) were composed as follows:

	3° QUARTER 17	9M 17 RESTATED	3° QUARTER 18	9M 18
FINANCING COSTS:				
INTEREST EXPENSE:				
Borrowings	3,979	12,115	3,248	9,985
Finance leases	1,295	4,180	1,155	3,405
Derivatives	431	1,793	410	1,217
Others	350	1,685	269	1,160
	6,056	19,773	5,082	15,767
INTEREST EARNED	(1,239)	(3,987)	(979)	(3,104)
	4,817	15,786	4,103	12,663
NET OTHER FINANCIAL EXPENSES /(INCOME):				
Comissions and guarantees	1,268	3,721	971	4,212
Others	370	(1,329)	223	2,497
	1,638	2,392	1,194	6,709

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 interest were reversed in Other under Net financial expenses / (income) (Note 22).

## 37. Net earnings per share

Earnings per share for the three and nine months ended on 30 September 2017 and 2018 were calculated as follow:

	3° QUARTER 17	9M 17 RESTATED	3° QUARTER 18	9M 18
Consolidated net income attributable to shareholders	32,893	105,130	44,110	123,001
Number of ordinary shares outstanding during the period (weighted average)	513,116,080	512,848,192	513,081,276	513,090,643
Basic earnings per share - euros	0.06	0.20	0.09	0.24
Diluted earnings per share - euros	0.06	0.20	0.09	0.24

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

## 38. Guarantees and financial undertakings

### 38.1. Guarantees

At 31 December 2017 and 30 September 2018, the Group had furnished sureties, guarantees, and comfort letters in favour of third parties corresponding to the following situations:

	31-12-2017 RESTATED	30-09-2018
Financial institutions i)	91,843	-
Tax authorities ii)	13,112	12,819
Others iii)	11,479	10,691
	116,434	23,510

- i) At 31 December 2017, this amount relates to guarantees issued by NOS in connection with the loans from BEI. In the nine months ended on 30 September 2018, these guarantees were cancelled after renegotiations with BEI.
- ii) At 31 December 2017 and 30 September 2018, this amount relates to guarantees demanded by the tax authorities in connection with tax proceedings contested by the Company and its subsidiaries (Note 40).
- iii) At 31 December 2017 and 30 September 2018, 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 Banco Comercial Português, totalling 10 million euros, NOS signed a promissory note, proportional to the participation held, of 30% of the loan.

During the first semester of 2015, 2016, 2017 and 2018, and following the settlement notes to CLSU 2007-2009, 2010-2011, 2012-2013 and 2014, respectively, NOS constituted guarantees in favour of the Universal Service Compensation Fund in the amount of 23.6 million euros, 16.7 million euros and 17.5 million euros and 3.0 million euros, respectively, in order to prevent the introduction of tax enforcement proceedings in order to enforce recovery of the amounts paid.

On 30 September 2016, NOS constituted guarantees on behalf of Sport TV, to the Football Association League Limited for an amount of 29.1 million euros, which, at 30 September 2018, amounted to 5.3 million euros. The guarantee ends on the last quarter of 2018.

NOS provided a guarantee to Warner Brothers, under the contract renewal of cinema distribution 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, which NOS was a surety for NOS SA for an amount of 15.3 million euros.

### 38.2. Operating leases

The rentals due on operating leases have the following maturities:

	31-12-2017 RESTATED				30-09-2018			
	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	1,037	22,041	50,033	17,647	1,353	20,711	54,516	16,592
Telecommunication towers and rooftops	2,068	22,407	60,211	19,048	1,950	22,923	63,180	21,868
Equipments	-	8,922	18,229	-	-	7,019	15,396	-
Vehicles	-	2,253	2,577	-	-	1,868	2,165	-
	3,105	55,623	131,050	36,695	3,303	52,521	135,257	38,460

### 38.3. Other undertakings

#### Covenants

Of the loans obtained (excluding finance leases), in addition to being subject to the Group complying with its operating, legal and fiscal obligations, 100% are subject to cross-default, Pari Passu and Negative Pledge clauses and 76% to ownership clauses.

In addition, approximately 27% 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, approximately 6% of the total loans obtained require that the consolidated net financial debt does

not exceed 4 times consolidated EBITDA and approximately 4% require that the consolidated net financial debt does not exceed 5 times consolidated EBITDA.

EBITDA = Operational Result + Depreciation, amortisation and impairment losses + Restructuring costs + Losses / (gains) on sale of assets + Other losses / (gains) non recurrent

#### 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, had an initial duration of three years, and might be renewed by decision of either party up to a total of 10 sports seasons, with the overall financial consideration reaching the amount of 400 million euros, divided into progressive annual amounts.

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

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

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

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

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

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

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

- 1) C. D. Tondela – Futebol, SDUQ, Lda
- 2) Clube Futebol União da Madeira, Futebol, SAD

- 3) Grupo Desportivo de Chaves – Futebol, SAD
- 4) Sporting Clube da Covilhã – Futebol, SDUQ, Lda
- 5) Clube Desportivo Feirense – Futebol, SAD
- 6) Sport Clube de Freamunde – Futebol, SAD
- 7) Sporting Clube Olhanense – Futebol, SAD
- 8) Futebol Clube de Penafiel, SDUQ, Lda
- 9) Portimonense Futebol, SAD

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

In May 2016, NOS and Vodafone have agreed on reciprocal availability, for several sports seasons, of sports content (national and international) owned by the companies, in order to assure to both companies, directly by the assigning party or indirectly through the transfer to third party content distribution channels or models, 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	2018/19	following
Estimated cash-flows with the contract signed by NOS with the sports entities*	74.1 M€	1,017 M€
NOS estimated cash-flows for the contracts signed by NOS (net amounts charged to the operators) and for the contracts signed by the remaining operators	67.3 M€	559 M€

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

#### Network sharing contract with Vodafone

NOS and Vodafone Portugal celebrated on 29 September 2017 an agreement of infrastructure development and sharing with a nationwide scope. This partnership allows the two Operators providing their commercial offers under a shared network at the beginning of 2018.

The agreement covers the reciprocal sharing of dark fibre in approximately 2.6 million of homes in which each of the entities shares with the other one an equivalent investment value, in other words, they share similar goods. It is assumed that both companies retain full autonomy, independence, and confidentiality concerning the design of the commercial offers, the management of the **customers' database and the choice of technological solutions they might decide to implement, that**

did not originate any impact on the consolidated financial statements (according to IAS 16, this exchange of similar non-monetary assets will be presented on a net basis).

The partnership was also widened to the sharing of the mobile infrastructure and the minimum share of 200 mobile towers was agreed.

## 39. Related parties

### 39.1. 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 2017 and 30 September 2018 and transactions in the nine months ended on 30 September 2017 and 2018 between NOS Group and its associated companies, joint ventures and other related parties are as follows:

#### Balances at 31 December 2017

	ACCOUNTS RECEIVABLES	ACCOUNTS PAYABLE	ACCRUED EXPENSES	DEFERRED INCOME	PREPAID EXPENSES
<b>SHAREHOLDERS</b>					
BPI	1,519	41	47	-	-
<b>ASSOCIATED COMPANIES</b>					
Big Picture 2 Films	60	123	628	-	-
Sport TV	1,418	4,795	3,680	-	13,568
<b>JOINTLY CONTROLLED COMPANIES</b>					
Dreamia Holding BV	2,693	-	-	-	-
Dreamia SA	1,801	1,470	211	-	-
Finstar	10,411	-	-	-	-
Mstar	1	-	-	-	-
Upstar	34,025	58	-	12	-
ZAP Cinemas	373	-	-	-	-
ZAP Media	3,744	-	-	-	-
<b>OTHER RELATED PARTIES</b>					
Centro Colombo	25	21	-	-	126
Digitmarket	117	85	-	2	170
Efacec Engenharia	35	237	-	-	-
Itrust - Cyber Security and Intellig. , S.A.	7	292	-	-	117
Maiashopping	8	50	-	-	51
Modelo Continente Hipermercados	976	10	54	-	2
MDS - Corretor de Seguros	74	-	(0)	-	238
Norteshopping	43	23	-	-	126
Saphety Level - Trusted Services	25	82	-	-	-
SC-Consultadoria	162	-	-	-	-
Sonae Indústria PCDM	114	-	-	-	-
Sierra Portugal	475	18	0	-	28
Sonae Center II	627	-	-	-	-
Sonaecom	86	-	365	-	-
UNITEL	4,564	3,187	1,607	-	-
Vasco da Gama	8	49	-	-	79
We Do Consulting-Sist. de Informação	93	2,880	-	-	151
Worten - Equipamento para o Lar	1,988	2	285	-	-
Other related parties	867	222	(2)	-	187
	66,340	13,646	6,876	14	14,844



## Transactions in the nine months ended on 30 September 2017

	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
<b>SHAREHOLDERS</b>									
Banco BPI	3,802	-	314	-	-	4	-	(295)	-
<b>ASSOCIATED COMPANIES</b>									
Big Picture 2 Films	33	-	3,965	-	-	46	-	-	-
Sport TV	167	-	57,773	-	-	-	-	-	-
<b>JOINTLY CONTROLLED COMPANIES AND ASSOCIATED COMPANIES</b>									
Dreamia Holding BV	118	-	-	-	-	-	-	97	-
Dreamia SA	1,641	(3)	(39)	25	(1)	(9)	-	-	-
Finstar	670	-	-	-	-	-	-	-	-
Mstar	25	-	-	-	-	-	-	-	-
Upstar	11,841	-	(216)	17	-	-	-	-	-
ZAP Cinemas	7	-	-	-	-	-	-	-	-
ZAP Media	227	-	-	-	-	-	-	-	-
<b>OTHER RELATED PARTIES</b>									
CascaShopping	12	-	-	(3)	-	499	-	-	-
Centro Colombo	4	-	-	3	-	364	-	-	-
Continente Hipermercados	209	-	-	-	-	4	-	-	11
Digitmarket	143	-	20	1	161	161	-	-	4,761
Efacec Energia	69	-	-	-	-	36	-	-	17
Maxmat	136	-	-	-	-	-	-	-	-
Modelo continente hipermercados	3,889	-	6	112	-	(58)	-	-	-
MDS - Corretor de Seguros	377	-	-	-	-	129	-	-	-
Itrust - Cyber Security and Intellig	14	-	(246)	-	57	166	-	-	152
Modalfa	130	-	-	-	-	-	-	-	-
Norteshopping	5	-	-	5	-	476	-	-	-
Pharmacontinente	124	-	-	-	-	-	-	-	-
Publico	116	-	-	27	-	-	-	-	-
Saphety Level - Trusted Services	77	-	-	-	227	1	-	-	19
SC-Consultadoria	1,046	-	-	-	-	-	-	-	-
Sonae Indústria PCDM	331	-	-	-	-	-	-	-	-
Sistavac	114	-	-	-	-	22	-	-	245
Sierra Portugal	2,576	-	-	217	-	1,695	-	-	-
Solinca HF	182	-	-	-	-	-	-	-	-
Sonae Center II	2,054	-	-	-	-	-	-	-	-
Sonaecom	25	-	-	-	-	17	97	-	-
Spinvpi	-	-	-	-	-	174	-	-	-
SDSR	218	-	-	-	-	-	-	-	-
UNITEL	1,864	-	1,298	-	-	-	-	-	-
Vasco da Gama	11	-	-	-	-	555	-	-	-
We Do Consulting-Sist. de Informação	330	-	-	-	2,130	2	-	-	3,023
Worten - Equipamento para o Lar	4,146	-	-	76	-	468	-	-	-
Outras partes relacionadas	1,285	-	-	36	13	258	-	-	30
	38,018	(3)	62,875	516	2,587	5,011	97	(198)	8,257

## Balances at 30 September 2018

	ACCOUNTS RECEIVABLES	ACCOUNTS PAYABLE	ACCRUED EXPENSES	DEFERRED INCOME	PREPAID EXPENSES
ASSOCIATED COMPANIES					
Big Picture 2 Films	8	184	158	-	-
Sport TV	3,291	760	6,054	4,621	8,479
JOINTLY CONTROLLED COMPANIES					
Dreamia Holding BV	2,807	-	-	-	-
Dreamia SA	2,834	2,428	375	-	-
Finstar	9,733	-	-	-	-
Mstar	1	-	-	-	-
Upstar	28,385	59	-	939	-
ZAP Cinemas	383	-	-	-	-
ZAP Media	3,943	-	-	-	-
OTHER RELATED PARTIES					
Centro Colombo	4	4	4	-	129
Centro Vasco da Gama	14	28	-	-	78
Digitmarket	31	54	-	-	241
Efacec Engenharia	34	96	-	-	-
Itrust - Cyber Security and Intellig. , S.A.	6	324	-	-	139
Modelo Continente Hipermercados	833	45	2	-	2
Norteshopping	6	22	-	-	112
Saphety Level - Trusted Services	26	109	-	-	2
SC-Consultadoria,SA	256	-	-	-	-
Sonae Arauco Portugal, S.A.	157	-	-	-	-
Sierra Portugal	598	18	17	-	12
Sonae Center II	679	43	-	-	-
Sonaecom	78	-	427	-	-
UNITEL	4,984	3,805	1,344	-	-
We Do Consulting-Sist. de Informação	227	1,874	-	-	82
Worten - Equipamento para o Lar	1,288	91	363	-	-
Outras partes relacionadas	925	42	(1)	-	191
	61,532	9,986	8,743	5,560	9,466

## Transactions in the nine months ended on 30 September 2018

	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
<b>ASSOCIATED COMPANIES</b>									
Big Picture 2 Films	24	-	3,426	(2)	-	39	-	-	-
Sport TV	1,542	-	55,760	-	-	-	-	-	-
<b>JOINTLY CONTROLLED COMPANIES</b>									
Dreamia Holding BV	13	-	-	-	-	-	-	100	-
Dreamia SA	2,635	4	(12)	45	-	(32)	-	0	-
Finstar	652	-	-	-	-	-	-	-	-
MSTAR	25	-	-	-	-	-	-	-	-
Upstar	7,934	-	(153)	1	-	-	-	-	-
ZAP Cinemas	10	-	-	-	-	-	-	-	-
ZAP Media	199	-	-	-	-	-	-	-	-
<b>OTHER RELATED PARTIES</b>									
Cascaishopping	12	-	-	6	-	611	-	-	-
Centro Colombo	18	-	-	8	-	1,347	-	0	-
Centro Vasco da Gama	14	-	-	4	-	705	-	-	-
Continente Hipermercados, S.A.	219	0	-	-	-	67	-	-	-
CYBER SECURI AND INTELLIGEN,SA	-	-	-	-	-	-	-	-	434
Digitmarket	233	-	56	2	295	134	0	-	5,040
EFACEC Engenharia e Sistemas	94	-	-	-	-	34	-	-	371
Galashopping	27	-	-	4	-	307	-	-	-
Itrust - Cyber Security and Intellig	22	-	100	-	194	76	-	-	-
Maishopping	13	-	-	2	-	236	-	0	-
Modalfa-Comércio e Serviços,SA	115	-	-	-	-	-	-	-	-
Modelo Continente Hipermercados	2,935	-	(0)	2	-	(6)	-	-	-
MDS Corretor de Seguros, SA	395	-	-	-	-	-	-	-	-
Norteshopping	16	-	-	7	-	1,078	-	-	-
PHARMACONTINENTE - Saúde e Higiene, S.A.	119	-	-	-	-	-	-	-	-
Público-Comunicação Social,SA	110	-	(1)	14	-	0	-	-	-
RACE-Refrig. & Air Condit Engineering,SA	110	-	-	-	-	1	-	-	-
Rio Sul - Centro Comercial, SA	7	-	-	7	-	91	-	-	-
Saphety Level - Trusted Services	75	-	55	-	191	1	-	-	-
SC-Consultadoria,SA	956	-	-	-	-	-	-	-	-
SDSR - Sports Division SR, S.A.	197	-	-	-	-	-	-	-	-
SFS - Serviços de Gestão e Marketing	-	-	1	263	-	-	-	-	-
Sonae Arauco Portugal, S.A.	823	-	-	-	-	-	-	-	-
Sierra Portugal	2,468	-	-	37	(0)	135	-	-	-
Solinca HF	275	-	-	-	-	-	-	-	-
Sonae Center II	2,609	45	-	-	-	1	-	-	-
Spinveste - Promoção Imobiliária, SA	-	-	-	-	-	174	-	-	-
Trolaverde-Expl.Hoteleira Imob.,SA	102	-	-	-	-	-	-	-	-
UNITEL S.a.r.l.	1,820	-	1,286	-	-	-	-	-	-
We Do Consulting-Sist. de Informação	341	-	-	13	1,982	0	-	-	2,563
Worten - Equipamento para o Lar	2,629	-	-	484	-	698	0	0	-
Outras partes relacionadas	1,508	-	13	26	18	389	62	-	44
	31,296	49	60,531	923	2,680	6,083	62	100	8,452

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

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

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

## 40. Legal actions and contingent assets and liabilities

### 40.1. Legal actions with regulators

- **NOS SA, NOS Açores and NOS Madeira brought actions for judicial review of ANACOM's** decisions in respect of the payment of the Annual Fee of Activity (for 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016 and 2017) as Electronic Communications Services Networks Supplier, and furthermore the refund of the amounts that meanwhile were paid within the scope of the mentioned acts of settlement was requested. The settlements for the year 2017 were impugned in the first semester of 2018.

The settlement amounts are, respectively, as follows:

- 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, 2016: 8,242 thousand euros, and 2017: 9,099 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; 2016: 105 thousand euros, 2017: 104 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, 2016: 177 thousand euros and 2017: 187 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, namely: i) addition to defects of unconstitutionality and illegality, related to the inclusion in the cost accounting of ANACOM of the provisions made by the latter, due to judicial proceedings against the latter (including these appeals of the activity rate) 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.

Four sentences on the matter were given, i.e. in December 2012, in September 2017, in April 2018 and in May 2018, respectively, within the scope of the contestation of the annual rate of 2009, 2010 (NOS Comunicações) and 2012 (Ex-ZON and also Ex-Optimus). The first judgment ruled in favour of the respective contestation, only based on lack of prior hearing, but ordered ANACOM to pay interest. ANACOM submitted an appeal concerning that decision, but the Court of Appeal declined it by decision in July 2013. The three remain decisions judge also, in turn, ruled in favour of the respective contestations, but, this time for fundamental reasons, annulled the contested act by unlawfulness with the legal consequences, namely imposing the refund of the tax that was paid but still not refunded to NOS and ordering ANACOM to pay compensatory interest. This decisions were the subject of an appeal from ANACOM to the Tribunal Central Administrativo – Sul (Central Administrative Court – South), where it are pending.

The remaining proceedings are awaiting trial and/or decision.

- During the first quarter of 2017, NOS was notified by ANACOM of the initiation of an infraction process related to communications of prices update at the end of 2016. On this date, it is impossible to determine what the scope of the infraction proceedings is to be.

## 40.2. Tax authorities

During the course of the 2003 to 2018 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 19 million euros, added interest, and charges. Note that the Group considered that the corrections were unfounded, and contested the amounts mentioned. The Group provided the bank guarantees demanded by the tax authorities in connection with these proceedings, as stated in Note 38.

At end of year 2013 and taking advantage of the extraordinary settlement scheme of tax debts, the Group settled 7.7 million euros.

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.

## 40.3. Actions by MEO against NOS SA, NOS Madeira and NOS Açores and by NOS SA against MEO

- In 2011, MEO brought against NOS SA, in the Judicial Court of Lisbon, a claim for the compensation of 10.3 million of Euros, as compensation for alleged unauthorized portability of NOS SA in the period between March 2009 and July 2011. NOS SA presented its defence and reply, and the Court ordered an expert opinion, which was, meanwhile, deemed without effect. The discussion and trial hearing took place at the end of April and beginning of May 2016, and a judgment was rendered in September of the same year, which considered the action to be partially justified, based not on the occurrence of improper portability, which the Court has determined to restrict itself to those which do not correspond to the will of the proprietor, but of mere delay in sending the documentation by the Recipient Carrier (NOS) to the Holding Provider (MEO). In that regard, it sentenced NOS to the payment of approximately 5.3 million euros to MEO, a decision of which only NOS appealed to the Lisbon Court of Appeal. MEO, on the other hand, was satisfied and did not appeal against the part of the sentence that acquitted the NOS of the requests for compensation that it formulated - in the amount of approximately 5.0 million euros - regarding alleged improper portabilities. This Court, in the first quarter of 2018, upheld the decision of the Court of First Instance, except for interests, in which gave reason to the claims of NOS, in the sense that they should be counted from the citation to the action and not from the due date of the invoices. NOS filed an extraordinary appeal with the Supreme Court of Justice.
- MEO made three court notices to NOS SA (April 2013, July 2015 and March 2016), three to NOS Açores (March and September 2013 and May 2016) and three to NOS Madeira (March and September 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.
- At the beginning of July 2018, NOS, SA was notified of the filing by MEO of a lawsuit concerning portability compensations in which MEO claims from NOS the right, in this respect, to approximately 26.8 million euros intending to proceed with the special judicial notification sent

to the NOS in July 2015, as mentioned above. NOS contested the action during the month of October.

- 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 of technical nature. At the same time, it was requested by NOS and accepted by the Court an economic and financial expert analysis, which has already started. The related expert report has already been made available to the Court and parties. The period of clarifications to experts responsible for this second expert analysis of the issues each party has raised, with regard to the analysis report, is underway.

It is the understanding of the Board of Directors, supported by lawyers who monitor the process, that there is, in substance, a good chance of NOS SA winning the action, because MEO has already been convicted for the same offense, by ANACOM. Nevertheless, it is impossible to determine the outcome of the action.

#### 40.4. Action brought by DECO

In March 2018, the NOS was notified of a lawsuit brought by DECO against NOS, MEO and NOWO, in which a declaration of nullity of the obligation to pay the price increases imposed on customers at the end of 2016 is requested. In April and May 2018, the operators, including NOS, lodged a defence and are awaiting further developments in the process. The Board of Directors is convinced that the arguments used by the author are not justified, which is why it is believed that the outcome of the proceeding should not result in significant impacts for the Group's financial statements.

#### 40.5. Interconnection tariffs

At 30 September 2018, accounts receivable and accounts payable include 23,577,768 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 non-definition of interconnection tariffs of 2001. In what concerns to that dispute, the result were totally favourable to NOS S.A., having already become final.

#### 40.6. 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 pay damages immediately.

Until December 31st, 2014, the revenue from penalties, in the face of the inherent uncertainties, was only recognised at the time of receipt, and on September 30, 2018, the amounts receivable by NOS SA, NOS Madeira and NOS Açores from these invoiced compensations amounted to 62.303 thousand euros. During the period ended on 30 September 2018, receipts in the amount of 756 thousand euros of the amounts outstanding as of 31 December 2014 were recognised as revenues.

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 the uncollectible calculated values of these amounts are recorded as impairment by deducting the revenue recognised at the time of invoicing (Note 14).

## 41. Share incentive scheme

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

At 30 September 2018, the unvested plans are:

	NUMBER OF SHARES
NOS PLAN	
Plan 2015	878
Plan 2016	733,306
Plan 2017	842,022
Plan 2018	850,454

During the nine months ended on 30 September 2018, the movements that occurred in the plans are detailed as follows:

	STANDARD PLAN	NOS PLAN
BALANCE AS AT 31 DECEMBER 2017:	60,378	2,235,860
MOVEMENTS IN THE PERIOD:		
Awarded	-	856,941
Vested	(58,519)	(540,206)
Cancelled / elapsed / corrected <sup>(1)</sup>	(1,859)	(125,935)
BALANCE AS AT 30 SEPTEMBER 2018	-	2,426,660

- (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, for plans settled in shares, or at the closing date, for plans settled in cash. As at 30 September 2018, the outstanding responsibility related to these plans is 5,526 thousand euros and is recorded in Reserves, for an amount of 4,507 thousand euros, for plans liquidated in shares and in Accrued expenses, for an amount of 1,019 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 2017	1,226	5,252	6,478
Costs of plans vested in the period	(500)	(3,602)	(4,102)
Costs incurred in the period and others	293	2,857	3,150
TOTAL COST OF THE PLANS	1,019	4,507	5,526

## 42. Subsequent events

As of the date of approval of this document, there have been no other relevant subsequent events that merit disclosure in the present report.

## 43. 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 30-09-2018	EFFECTIVE 30-09-2018
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	Commercialization 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%



## B) Associated companies

COMPANY	HEADQUARTERS	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP		
				EFFECTIVE 31-12-2017	DIRECT 30-09-2018	EFFECTIVE 30-09-2018
Big Picture 2 Films, S.A.	Oeiras	Import, distribution, commercialization and production of audiovisual products	NOS Audiovisuais	20.00%	20.00%	20.00%
Big Picture Films, S.L.	Madrid	Distribution and commercialization of movies	Big Picture 2 Films, S.A.	20.00%	100.00%	20.00%
Canal 20 TV, S.A. (a)	Madrid	Production and distribution of TV products rights	NOS	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	25.00%	25.00%	25.00%

a) Company liquidated and dissolved during the year 2018.

## C) Jointly controlled companies

COMPANY	HEADQUARTERS	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP		
				EFFECTIVE 31-12-2017	DIRECT 30-09-2018	EFFECTIVE 30-09-2018
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%
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 31-12-2017	DIRECT 30-09-2018	EFFECTIVE 30-09-2018
Turismo da Samba (Tusal), SARL (a)	Luanda	n.a.	NOS	30.00%	30.00%	30.00%
Filmes Mundafrica, 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	0.02%	0.02%	0.02%

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

# Limited review report prepared by Auditor registered in CMVM



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*(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 September 2018 (which shows a total of 2,943,245 thousand Euros and a shareholders' equity total of 1,068,259 thousand Euros), including a consolidated net profit attributable to equity holders of the parent of 123,001 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 nine 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 September 2018, 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, 8 November 2018

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

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