

The left side of the cover features a photograph of a modern building's glass and metal facade. A large, abstract graphic is overlaid on this image, consisting of a white rectangular frame that is partially filled with a bright green color, creating a geometric design.

Consolidated Management Report

1H18



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1H18 Highlights

1H18 Highlights	1H17	1H18	1H18 / 1H17
Financial Highlights			
Operating Revenues	767.6	772.3	0.6%
Telco Revenues	730.0	739.9	1.4%
EBITDA	297.9	305.5	2.6%
EBITDA Margin	38.8%	39.6%	0.8pp
Telco	273.1	284.4	4.1%
EBITDA Margin	37.4%	38.4%	1.0pp
Net Income Before Associates & Non-Controlling Interests	63.7	84.1	32.1%
Operating Cash Flow	106.7	110.9	4.0%
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	102.1	92.0	(9.9%)
Operational Highlights (EoP)			
Homes Passed	3,787.2	4,157.3	9.8%
Total RGUs	9,254.3	9,498.8	2.6%
Mobile	4,549.1	4,728.1	3.9%
Pay TV Fixed Access	1,282.4	1,301.8	1.5%
Fixed Voice	1,751.1	1,764.8	0.8%
Broadband	1,308.0	1,358.1	3.8%
Convergent RGUs	3,585.9	3,786.8	5.6%
Convergent Customers	710.8	749.3	5.4%
Convergent Customers as % of Fixed Access Customers	47.1%	49.3%	2.3pp

Continued EBITDA performance in core Telco operations driving strong FCF momentum. Securing long-term competitiveness with strategic investments in technological and operational transformation projects.

1H18

Positive revenue performance in a mature market

- Telco revenues grew by 1.4% yoy in 1H18 to 739.9 million euros with growth in consolidated revenues of 0.6% to 772.3 million euros diluted by decline in audiovisuals and cinema revenues;

EBITDA momentum driven by operating leverage and focus on efficiency

- Telco EBITDA increased 4.1% to 284.4 million euros, reflecting a yoy increase in margin of 1.0pp to 38.4%;

- Consolidated EBITDA grew 2.6% to 305.5 million euros, reflecting a consolidated EBITDA margin of 39.6%, 0.8pp higher yoy;
- Consolidated Net Income was 9.2% higher yoy at 78.9 million euros;

Transformational investments in network assets securing long term competitive differentiation

- Technical CAPEX increased to 100.3 million euros in 1H18, reflecting ongoing investment projects in the network;
- Customer related CAPEX reduced 13.3% yoy to 65.9 million euros on the back of lower commercial activity as anticipated;

Free Cash Flow supportive of continued attractive shareholder returns

- Total FCF Before Dividends and Disposals in 1H18 grew by 19.6% to 91.8 million euros led by an increase in Operating Cash Flow of 4.0% to 110.9 million euros (14.4% of Revenues);

Solid operating performance in an improving market environment

- Solid RGU growth of 2.6% to 9.499 million;
- Growth in convergent RGU's of **5.6% yoy to 3.8 million services taking convergent penetration to 49.3% (+2.3 pp yoy)** and with growth in unique convergent customers of 5.4% yoy to 749.3 thousand.
- Mobile subscribers grew by 3.9% yoy to 4.728 million with net adds of 55.1 thousand in 1H18;
- Fixed access Pay TV subs up 1.5% in 1H18 to 1.302 million, representing 31% penetration of NGN footprint;

Governing Bodies

As at the date of this report, 20 July 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 Luis Nascimento
Members	Ângelo Paupério António Domingues António Lobo Xavier Catarina Távira Van-Dûnem 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	Luis Filipe da Silva Ferreira

Officials of the General Meeting of Shareholders

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

Statutory Auditor

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

Management Report

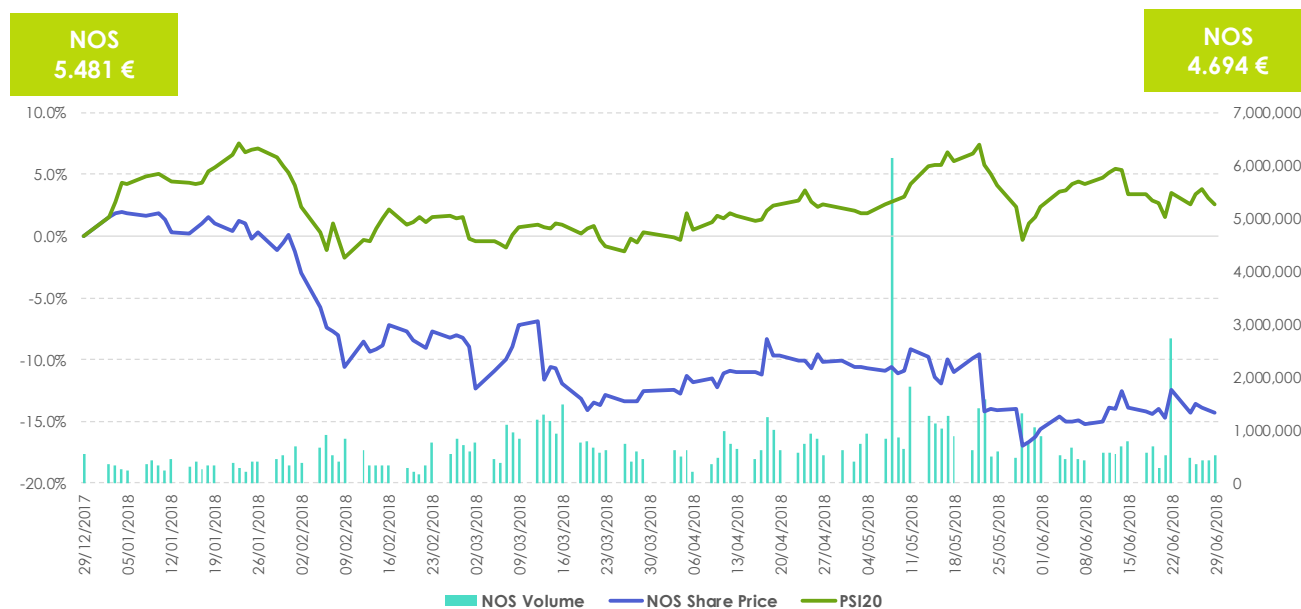
Capital Markets

NOS' Share Performance

On 29 June 2018, the close price of NOS' shares was 4.694 euros, which represents a 14.4% decline since the beginning of the year, and which compares with a 2.6% improvement of the main Portuguese share index, PSI20.

Taking into account the payment of a dividend of 0.30 euros per share, which took place on 25 May 2018, NOS' Total Shareholder Return in 1H18 amounted to -8.9%.

In 1H18 more than 88.2 million NOS shares were traded, which translates to an average daily volume of 695.1 thousand shares per market session.



As such, the daily average volume of NOS in 1H18 represents 0.13% of its total number of shares outstanding.

The highest price at which NOS shares were traded this semester was 5.620 euros (on 18 January 2018), while their lowest trade price was 4.528 euros (on 30 May 2018).

As previously mentioned, the main Portuguese share index, PSI20, posted in 1H18 an increase of 2.6%. Additionally, the Spanish index, IBEX35, declined by 4.2%. FTSE100 (United Kingdom) posted a decline of 0.7%, as well as DAX (Germany), which declined by 4.7%. The CAC40 index (France) improved by 0.2% in 1H18.

1H18 Market Announcements

Below we present the major Investor Relation events, which took place in 1H18. The activity developed by the Investor Relations Office also provides permanent and updated information to the financial community about the activities of NOS, through regular press releases, presentations and communications on the quarterly, half-yearly and annual results, as well as any other relevant events that may occur.

24 January	NOS informs on "NOS/2015 - EUR 50.000.000 FLOATING RATE NOTES DUE 2019" Bonds Interest Payment
05 March	NOS informs on "NOS/2015 - EUR 50.000.000 FIXED RATE NOTES DUE 2019" Bonds interest payment
12 March	NOS informs on FY17 Earnings Announcement
13 March	NOS informs on the qualified shareholding of Banco BPI, SA
14 March	NOS informs on "Investment Grade" credit rating assigned by Standard & Poor's and Fitch
15 March	NOS informs on "NOS/2014 EUR 175M FLOATING RATE NOTES DUE SEPTEMBER 2020" Bonds interest payment
19 March	NOS informs on Share Purchase Programme
20 March	NOS informs on NOS 2015/2022 Bonds Interest Payment
29 March	NOS informs on shares delivered to Board Members and employees of the NOS Group
04 April	NOS informs on Manager Transactions
09 April	NOS informs on Annual Report 2017
09 April	NOS informs on General Shareholders Meeting
23 April	NOS informs on Bond issue in the amount of 300 million Euros
26 April	NOS informs on early redemption of the "NOS/2014 EUR 175M FLOATING RATE NOTES DUE SEPTEMBER 2020"
02 May	NOS informs on ZON OPTIMUS/2014-2019 Bonds Interest Payment
10 May	NOS informs on 1Q18 Consolidated Results
10 May	NOS informs on calendar for dividend payment
10 May	NOS informs on Shareholders' Meeting Deliberations
29 May	NOS informs on Qualified Shareholding of Harris Associates, L.P.
30 May	NOS informs on 1Q18 Consolidated Management Report
04 June	NOS informs on "NOS/2015 - EUR 50.000.000 FIXED RATE NOTES DUE 2019" Bonds interest payment
07 June	NOS informs on Qualified Shareholding of Harris Associates, L.P.
08 June	NOS informs on early redemption of the "NOS/2015 - EUR 50.000.000 FIXED RATE NOTES DUE 2019"
22 June	NOS informs on "NOS 2016-2023" Bonds interest payment

1H18 Main Investor Relations Events

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

08 February	Santander Iberian Conference in Madrid
19 March	Roadshow in London
20 March	Citigroup Telecoms Conference in London
23 March	Roadshow in Madrid
18 April	Roadshow in London
18 May	Roadshow in Paris
24/25 May	Roadshow in Frankfurt/Copenhaga
04/05 June	Roadshow in NY/Boston
28 June	Roadshow in London

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

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

Rua Actor António Silva, nº 9

1600-404 Lisboa

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E-mail: ir@nos.pt

Governing Bodies Shareholdings

Under the terms and for the purposes of Article 9, Paragraph a) and numbers 6 and 7 of Article 14 of CMVM Regulation 5/2008, and according to the information provided to the Company by the Governing Bodies, NOS hereby informs on the shareholdings of the members of its Governing Bodies, including the Audit and Finance Committee and the Alternate and In Office Statutory Auditors, at 30 June 2018:

Name	Position / Job	Shares				
		Balance 31-12-2017	1H18 Transactions			Balance 30-06-2018
			Acquisitions *	Disposals	Unit Price *	Date
Jorge Manuel de Brito Pereira	Chairman of the Board of Directors	0	-	-	-	-
Miguel Nuno Santos Almeida	Chairman of the Executive Committee	39,025	14,984	-	4,750 €	29/03/2018
José Pedro Faria Pereira da Costa	Executive Member	117,392	12,880	-	4,750 €	29/03/2018
Manuel Ramalho Eanes	Executive Member	0	8,741	8,741	**	29/03/2018
Ana Paula Garrido de Pina Marques	Executive Member	18,210	8,741	-	4,750 €	29/03/2018
Cônjuge		17,641	7,070	-	4,750 €	29/03/2018
Luís Moutinho do Nascimento	Executive Member	80	-	-	-	-
Jorge Filipe Pinto Sequeira dos Santos Graça	Executive Member	0	10,152	-	4,750 €	29/03/2018
			-	10,152	4,730 €	04/03/2018
Ângelo Gabriel Ribeirinho dos Santos Paupério ⁽¹⁾	Non-Executive Member	0	-	-	-	-
ZOPT, SGPS, SA		268,644,537	-	-	-	-
António Domingues	Non-Executive Member	0	-	-	-	-
António Bernardo Aranha da Gama Lobo Xavier ⁽²⁾	Non-Executive Member	0	-	-	-	-
BPI, SA		14,275,509	500	14,276,009	-	-
ZOPT, SGPS, SA		268,644,537	-	-	-	-
Catarina Eufémia Amorim da Luz Tavira Van-Dûnem	Non-Executive Member	0	-	-	-	-
João Pedro Magalhães da Silva Torres Dalores	Non-Executive Member	0	-	-	-	-
Joaquim Francisco Alves Ferreira de Oliveira	Non-Executive Member	0	-	-	-	-
Lorena Solange Fernandes da Silva Fernandes	Non-Executive Member	0	-	-	-	-
Maria Cláudia Teixeira de Azevedo ⁽³⁾	Non-Executive Member	0	-	-	-	-
ZOPT, SGPS, SA		268,644,537	-	-	-	-
Mário Filipe Moreira Leite da Silva ⁽⁴⁾	Non-Executive Member	0	-	-	-	-
ZOPT, SGPS, SA		268,644,537	-	-	-	-
Paulo Cardoso Correia da Mota Pinto	Chairman of the Fiscal Board	0	-	-	-	-
Eugénio Luís Lopes Franco Ferreira	Member of the Fiscal Board	0	-	-	-	-
Patrícia Andrea Bastos Teixeira Lopes Couto Viana	Member of the Fiscal Board	0	-	-	-	-
Luís Filipe da Silva Ferreira	Substitute Member of the Fiscal Board	0	-	-	-	-
Ernst & Young Audit & Associados, SROC, S.A.	Statutory Auditor	0	-	-	-	-
Sandra e Sousa Amorim	Statutory Auditor	0	-	-	-	-
Rui Abel Serra Martins	Statutory Auditor	0	-	-	-	-
Paulo Jorge Luís da Silva	Substitute Statutory Auditor	0	-	-	-	-

(1) Ângelo Gabriel Ribeirinho dos Santos Paupério is member of the Board of Directors of ZOPT, SGPS, S.A., which owned, on 31 December 2017 a share correspondent to 52.15% of the share capital and voting rights of NOS and a member of the Board of Directors and Executive Committee of Sonaeacom, SGPS, S.A..

(2) António Bernardo Aranha da Gama Lobo Xavier is member of the Board of Directors and Executive Committee of Sonaeacom, SGPS, S.A. and also Vice-President of the Board of Directors of BPI, S.A..

(3) Maria Cláudia Teixeira de Azevedo is member of the Board of Directors of ZOPT, SGPS, S.A., company holding a share, on 31 December 2017, correspondent to 52.15% of the share capital and voting rights of NOS, and member of Board of Directors and Executive Committee of Sonaeacom, SGPS, S.A..

(4) Mário Filipe Moreira Leite da Silva is member of the Board of Directors of ZOPT, SGPS, S.A., company holding, on 31 December 2017 a share correspondent to 52.15% of the share capital and voting rights of NOS.

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

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

Qualified Shareholdings

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

The structure of NOS' Social Qualified Shareholdings disclosed to the company, was, in 30 June 2018, as follows:

Shareholders	Number of Shares	% Share Capital and Voting Rights
ZOPT, SGPS, SA ⁽¹⁾	268,644,537	52.15%
Harris Associates, L.P.	11,643,300	2.26%
Blackrock, Inc	11,562,497	2.24%
MFS Investment Management	11,049,477	2.14%
Norges Bank	10,891,068	2.11%
Total Identified	313,790,879	60.91%

(1) According to paragraphs b) and c) of number 1 of article 20^o and article 2^o of the Portuguese Securities Code, a qualified shareholding of 52.15% of the share capital and voting rights of NOS, SGPS, S.A. as calculated in the terms of article 20^o of the Portuguese Securities Code, is attributable to ZOPT, Sonaecom and the following companies:

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

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

As of November 29th, 2017, EFANOR INVESTIMENTOS, SGPS, S.A., no longer has a controlling shareholder under the terms and for the purposes of articles 20 and 21 of the Portuguese Securities Code.

Note: The calculation of the voting rights corresponding to each shareholder does not consider own shares held by the Company.

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

Transactions of Own Shares

By the end of 1H18, NOS held, within the scope of its Employee Share Plan and the Regulation on Short and Medium Term Variable Remuneration, aimed at NOS employees, 2,083,126 own shares.

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

Description	Number of Shares
Initial Balance	2,040,234
Acquisition	650,000
Share Incentive Scheme and Other Remuneration - Distribution	607,108
Final Balance	2,083,126

Business Review

Solid operating performance

Total RGUs grew by 2.6% yoy to 9.499 million. By the end of 1H18, convergent services represented 49.3% of the fixed access customer base, with 749.3 thousand convergent customers in total. The continued expansion of convergent penetration is one of the main drivers of growth in post-paid mobile subscribers and market share. Overall growth in mobile remained strong with net adds of 55.1 thousand in 1H18, reflecting an increase of 84.1 thousand post-paid cards and a seasonal decline in the pre-paid base which fell by 29.0 thousand.

Importantly Pay TV fixed access customers recovered net adds in 2Q18 to 6.8 thousand, up from 2.9 thousand in the previous quarter, a total of 9.6 thousand for 1H18. This inflection in fixed pay TV services is explained primarily by the improved operating environment with a return to more normalized levels of churn and to additional coverage of 61.3 thousand addressable households during 2Q18 (76.0 thousand during 1H18). Greenfield coverage will continue to expand in coming quarters with the greater pace of FttH household exchange within the context of the network sharing agreement with Vodafone. As is to be expected with the additional NGN coverage from various operators in the market, services over satellite continue to decline at a similar pace to that of the previous quarter with customers migrating to greater bandwidth fixed access technologies.

The improved operating environment was also visible in the quarter with the stabilization of residential ARPU which in 2Q18 posted a marginal increase over the previous quarter to 44.3 euros. Comparisons with the same period last year are still impacted by the the fact that we did not implement an across the board price increase in 2018 in addition to pressure on retention activity during the latter part of 2017 and early 2018 in the aftermath of the previously discussed regulatory intervention around price communication procedures. For 1H18, residential ARPU declined marginally by 0.5% to 44.3 euros.

Having completed the full Docsis 3.1 upgrade in the first months of the year, we launched a nationwide premium Gbps offer – “**NOS GIGA**” - providing customers with 1 Gbps download speeds across the footprint. The campaign has generated a lot of market hype, reinforcing our position at the forefront of technological innovation. On the other end of the price spectrum we launched an entry level, content light, triple **play offer at €29.9 (ex set top box) increasing NOS' brand awareness** in the best value for money brand attribute, a key metric in customer satisfaction surveys.

In the large corporate segment we activated some relevant new accounts during 1H18 and are progressively increasing the perimeter of services provided, in particular on the IT and data service management front. Our value proposition is leveraged by the skills and experience developed in our own corporate operations and by the significant increase in data centre capacity which has bolstered our next generation cloud management platforms to facilitate provisioning and self-service solutions. Simplification and greater segmentation of our service offering for smaller businesses is starting to show encouraging results with more consistent service revenue performance and increased operating efficiency driving greater levels of customer service and satisfaction.

Investing to secure long term competitiveness

Our mobile investment entailing the rearrangement of our network to a single RAN architecture, completely replacing existing radio equipment with the most modern technology is well on track with main urban centres to be completed in the coming months. This investment will significantly increase capacity, network flexibility and efficiency, quality of service and will support a smooth transition to 5G as and when required.

In fixed, we have rolled out the first FttH greenfield locations and already started to swap dark fibre with Vodafone within the terms of the agreement signed last year. The pace of household exchange will accelerate during the latter half of the year.

Our company wide operational transformation programme is progressing according to plan, and is a core focus of management time and resources. The benefits of the programme will take between 3-5 years to materialize in terms of organizational agility, customer satisfaction and ultimately operating efficiency and profitability. Simplification, digitalization and automation are central enablers of the various project streams. Of the 20 initiatives currently being addressed (out of a total of 60), a number have already progressed to implementation stage. More visibility on the scope of the opportunity and impacts on customer satisfaction and business efficiency will be given as and when projects start to go live throughout the organization.

Operating Indicators ('000)	1H17	1H18	1H18 / 1H17
Telco ⁽¹⁾			
Aggregate Indicators			
Homes Passed ⁽²⁾	3,787.2	4,157.3	9.8%
Total RGUs	9,254.3	9,498.8	2.6%
Mobile	4,549.1	4,728.1	3.9%
Pre-Paid	2,027.3	2,050.7	1.2%
Post-Paid	2,521.8	2,677.3	6.2%
Pay TV Fixed Access ⁽³⁾	1,282.4	1,301.8	1.5%
Pay TV DTH	331.0	314.8	(4.9%)
Fixed Voice	1,751.1	1,764.8	0.8%
Broadband	1,308.0	1,358.1	3.8%
Others and Data	32.7	31.2	(4.6%)
3,4&5P Subscribers (Fixed Access)	1,096.3	1,131.9	3.2%
% 3,4&5P (Fixed Access)	85.5%	86.9%	1.5pp
Convergent RGUs	3,585.9	3,786.8	5.6%
Convergent Customers	710.8	749.3	5.4%
Fixed Convergent Customers as % of Fixed Access Customers	47.1%	49.3%	4.8%
% Convergent Customers	44.1%	46.3%	2.3pp
Net Adds			
Homes Passed	23.2	76.0	227.2%
Total RGUs	177.5	87.1	(50.9%)
Mobile	93.4	55.1	(41.0%)
Pre-Paid	(44.0)	(29.0)	(34.2%)
Post-Paid	137.4	84.1	(38.8%)
Pay TV Fixed Access	16.7	9.6	(42.5%)
Pay TV DTH	(4.0)	(9.6)	138.5%
Fixed Voice	26.4	6.5	(75.2%)
Broadband	43.4	25.0	(42.4%)
Others and Data	1.6	0.4	(76.5%)
3,4&5P Subscribers (Fixed Access)	34.5	19.8	(42.6%)
Convergent RGUs	198.7	136.2	(31.4%)
Convergent Customers	30.6	27.9	(9.1%)

(1) Portuguese Operations.

(2) Includes DST from 3Q17.

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

Operating Indicators ('000)	1H17	1H18	1H18 / 1H17
Telco ⁽¹⁾			
Indicators per Segment			
Consumer			
Total RGUs	7,801.2	8,005.6	2.6%
Pay TV Fixed Access	1,185.0	1,200.4	1.3%
Pay TV DTH	302.1	288.3	(4.6%)
Broadband	1,182.9	1,227.7	3.8%
Fixed Voice	1,408.6	1,419.1	0.7%
Mobile	3,722.6	3,870.2	4.0%
ARPU / Unique Subscriber With Fixed Access (Euros)	44.5	44.3	(0.5%)
Net Adds			
Total RGUs	142.3	52.6	(63.1%)
Pay TV Fixed Access	13.0	6.7	(48.2%)
Pay TV DTH	(4.2)	(9.4)	123.3%
Broadband	39.3	21.4	(45.7%)
Fixed Voice	15.3	5.3	(65.2%)
Mobile	78.8	28.5	(63.8%)
Business			
Total RGUs	1,453.1	1,493.2	2.8%
Pay TV	126.2	127.9	1.4%
Broadband	157.9	161.7	2.4%
Fixed Voice	342.5	345.7	0.9%
Mobile	826.5	857.9	3.8%
ARPU per RGU (Euros)	15.7	14.8	(5.7%)
Net Adds			
Total RGUs	35.2	34.6	(1.9%)
Pay TV	3.9	2.7	(31.4%)
Broadband	5.6	4.0	(28.5%)
Fixed Voice	11.1	1.2	(89.1%)
Mobile	14.6	26.6	82.5%

Cinemas and Audiovisuals

Operating Indicators ('000)	1H17	1H18	1H18 / 1H17
Cinema ⁽¹⁾			
Revenue per Ticket (Euros)	4.8	4.9	3.4%
Tickets Sold - NOS	4,742.6	3,968.6	(16.3%)
Tickets Sold - Total Portuguese Market ⁽²⁾	7,944.1	6,590.6	(17.0%)
Screens (units)	215	212	(1.4%)

(1) Portuguese Operations

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

Our cinema and audiovisuals division's performance in 1H18 reflected the worldwide decline in cinema spectators, while still outperforming the remainder of the Portuguese market.

In 1H18, NOS' Cinema ticket sales posted a yoy decrease of 16.3% to 3.969 million tickets, reflecting the negative performance of the market as a whole which declined by 17.0%^[1], due to fewer blockbuster box office hits during the semester and a tough comparison with an exceptionally strong 1H17. After an exceptionally strong 2017, performance for 1H18 has returned to levels similar of 2016. Average revenue per ticket improved by 3.4% yoy to 4.9 euros in 1H18. The most successful films exhibited in 2Q18 were **"Fifty Shades Freed"**, **"Avengers: Infinity War"**, **"Deadpool 2"**, **"Black Panther"** and **"Tomb Raider"**. NOS' gross box-office revenues decreased by 13.4% in 1H18, which compares with a 13.9% yoy decline for the market as a whole. NOS continues to maintain its leading market position, with a market share of 61.9% in terms of gross revenues in 1H18. In the Audiovisuals arena, NOS distributed 6 of the top 10 cinema box-office hits in 1H18, **"Fifty Shades Freed"**, **"Avengers: Infinity War"**, **"Black Panther"**, **"Tomb Raider"**, **"Jurassic World: Fallen Kingdom"**, and **"The Post"**, therefore maintaining its leadership position in Cinema Distribution with a 64.2% market share of gross revenues in 1H18.

Consolidated Financial Review

Consolidated Income Statement

Profit and Loss Statement (Millions of Euros)	1H17	1H18	1H18 / 1H17
Operating Revenues	767.6	772.3	0.6%
Telco	730.0	739.9	1.4%
Consumer Revenues	478.1	481.7	0.7%
Business and Wholesale Revenues	215.3	223.4	3.8%
Others and Eliminations	36.6	34.8	(4.9%)
Audiovisuals & Cinema ⁽¹⁾	60.8	52.7	(13.4%)
Others and Eliminations	(23.2)	(20.3)	(12.7%)
Operating Costs Excluding D&A	(469.7)	(466.8)	(0.6%)
Direct Costs	(253.9)	(258.9)	2.0%
Commercial & Customer Related Costs	(63.2)	(59.6)	(5.8%)
Operating and Structure Costs	(152.7)	(148.3)	(2.8%)
EBITDA ⁽²⁾	297.9	305.5	2.6%
EBITDA Margin	38.8%	39.6%	0.8pp
Telco	273.1	284.4	4.1%
EBITDA Margin	37.4%	38.4%	1.0pp
Cinema Exhibition and Audiovisuals	24.7	21.1	(14.9%)
EBITDA Margin	40.7%	40.0%	(0.7pp)
Depreciation and Amortization	(203.7)	(201.9)	(0.9%)
(Other Expenses) / Income	(7.9)	7.6	(196.9%)
Operating Profit (EBIT) ⁽³⁾	86.3	111.2	28.8%
Share of results of associates and joint ventures	9.0	(5.7)	(163.8%)
(Financial Expenses) / Income	(11.8)	(14.2)	20.0%
Income Before Income Taxes	83.5	91.3	9.4%
Income Taxes	(10.8)	(12.9)	18.9%
Net Income Before Associates & Non-Controlling Interests	63.7	84.1	32.1%
Income From Continued Operations	72.6	78.4	7.9%
o.w. Attributable to Non-Controlling Interests	(0.4)	0.5	(214.3%)
Net Income	72.2	78.9	9.2%

(1) Includes cinema operations in Mozambique.

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

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

Operating Revenues

The already high levels of service and convergence penetration are, as anticipated, leading to lower levels of volume and topline growth, with focus shifting more to business efficiency and cash returns.

During 1H18, core Telco Revenues grew by 1.4% yoy to 739.9 million euros. Following the sector wide slump in movie going during 2018, cinema and audiovisuals revenues fell by 13.4% yoy to 52.7 million euros in 1H18. Combined, these trends led to growth in consolidated revenues of 0.6% yoy to 772.3 million euros.

Within the telco segment, Consumer revenues posted growth of 0.7% yoy to 481.7 million euros reflecting a combination of the positive effect of a higher customer base offsetting the yoy decline in residential ARPU affected by the pressure on retention promotions in the aftermath of the regulatory intervention on price communication in 2H17. Stand alone mobile revenues grew by 5.8% **as a result of a significant increase yoy in active users coupled with targeted "more for more" price** increases in specific tariff plans. Business and Wholesale revenues grew by 3.8% yoy to 223.4 million euros, led primarily by a 6.0% increase in customer revenues in large corporate business accounts, as well as 8.8% wholesale revenue growth, which more than compensated a negative performance of small and mid-sized business revenues, negatively impacted by the challenging price comparison with the previous year and additional pressure from backbook re-pricing in the aftermath of the regulatory impact last summer.

The decline in Audiovisuals and Cinema Revenues of 13.4% is consistent with the overall negative sector performance year to date. In the cinema business in particular, ticket sales at NOS fell by 16.3% in 1H18, slightly less than the overall market which posted a 17.0% reduction. This decline is explained by both the weaker line-up of blockbuster movies during the period and a tough comparison with a very strong 1H17. In addition, Audiovisuals revenues reflect the renegotiation of the value of content contracts to Angola at the end of 2017 driven by the still challenging macroeconomic environment. The value of the contract revision was partially offset by a similar reduction in the cost of the content distributed.

Consolidated Operating Costs

Work is well 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. As yet, the impacts of the transformation programme are relatively small as we are in the early stages of implementation and as such, short term improvements in the cost structure and profitability are being driven primarily by greater cost discipline and general operating efficiency.

Core Telco EBITDA increased 4.1% yoy to 284.4 million euros, driving a 1.0 pp increase in margin to 38.4% in 1H18 and driving a 2.6% increase in consolidated EBITDA to 305.5 million euros. The slowdown in revenue growth of the past quarters is successfully being compensated by improved operating efficiency, a trend that is set to continue with the acceleration of the transformation programme. Audiovisuals and Cinema EBITDA declined 14.9% yoy to 21.1 million euros, reflecting the material decline in revenues as discussed above. Total operating costs posted yoy decline of 0.6% to 466.8 million euros, demonstrating increased efficiency and operating leverage and compensating for the slower pace of revenue growth.

Direct costs grew yoy by 2.0% to 258.9 million euros, reflecting a combination of higher traffic related and programming costs over last year and flat cost of goods sold. Commercial and Customer related costs and Operating and Structure Costs fell by 5.8% and 2.8% respectively in 1H8, with continued operating efficiencies and temporary savings being achieved in practically all cost items. As the longer term impacts of the transformation programme underway start to kick in, savings will start to be reflected primarily in these two aggregates.

Depreciation and Amortization was down 0.9% yoy to 201.9 million euros, with a significant 8.3% yoy decline in 2Q18 explained primarily by the lower impact from impairment of existing mobile network equipment, as was the case in 1Q18, resulting from the major investment project underway.

Growth in EBITDA, lower Depreciation and Amortization and a non-recurrent positive contribution from a legal settlement in favour of NOS regarding a pending regulatory dispute over operator termination rate charges in 1Q18, led to the 28.8% yoy increase in EBIT to 111.2 million euros. As a proportion of Consolidated Revenues, EBIT margin grew to 14.4%, an additional 3.2 pp when compared with 1H17.

Net Income

Consolidated Net income grew 9.2% to 78.9 million euros led by the growth in EBIT. Although net interest costs were lower in 1H18, benefitting from lower average cost of debt, total Net financial expenses increased to 14.2 million euros essentially due to upfront one-off costs associated with the early repayment of existing credit facilities following the public bond issue in April, and also due to

the positive impact in the same quarter last year of the reversal of outstanding interest related with a pending legal case for which NOS reached a settlement in 2Q17. The increase in tax provision in 1H18 is a consequence of the higher level of Earnings before Tax and Associates and a higher effective tax rate due to a timing differential when recognizing deferred taxes.

CAPEX

CAPEX (Millions of Euros) ⁽¹⁾	1H17	1H18	1H18 / 1H17
Telco	154.4	166.2	7.6%
% of Telco Revenues	21.1%	22.5%	1.3pp
o.w. Technical CAPEX	78.4	100.3	27.9%
% of Telco Revenues	10.7%	13.6%	2.8pp
Baseline Telco	62.8	66.0	5.1%
Network Expansion / Substitution and Integration Projects and Others	15.6	34.3	119.5%
o.w. Customer Related CAPEX	76.0	65.9	(13.3%)
% of Telco Revenues	10.4%	8.9%	(1.5pp)
Audiovisuals and Cinema Exhibition	17.5	13.2	(24.8%)
Total Group CAPEX	171.9	179.3	4.3%

(1) CAPEX = Increase in Tangible and Intangible Fixed Assets

The structural technological investments underway in the mobile and fixed networks, as discussed in the operating review above, are leading to the anticipated spike in technical CAPEX which reached 13.6% of telco sales in 1H18. Investment is non-linear over the course of the year and dependent on the phasing of deployment. Full year technical CAPEX will meet our guidance range of 12-13% of revenues, with 2017 and 2018 closer to the high end of the range.

Customer related CAPEX within the telco business recorded a decline of 13.3% to 65.9 million euros (8.9% of telco revenues), reflecting the continued slowdown in commercial activity in a more mature market environment.

Total CAPEX was 179.3 million euros in 1H18, the main driver of the 4.3% yoy increase being the above mentioned technological investments. Weaker operating activity in Audiovisuals and Cinemas in 1H18 and the aforementioned renegotiation of content contracts, resulted in lower investment in movie rights.

Cash Flow

Cash Flow (Millions of Euros)	1H17	1H18	1H18 / 1H17
EBITDA	297.9	305.5	2.6%
Total CAPEX	(171.9)	(179.3)	4.3%
EBITDA - Total CAPEX	126.0	126.2	0.1%
% of Revenues	16.4%	16.3%	(0.1pp)
Non-Cash Items Included in EBITDA - CAPEX and Change in Working Capital	(19.3)	(15.2)	(21.0%)
Operating Cash Flow	106.7	110.9	4.0%
Long Term Contracts	(6.7)	(6.8)	1.0%
Cash Restructuring Payments	(11.3)	(5.6)	(50.3%)
Interest Paid	(11.6)	(9.2)	(21.1%)
Income Taxes Paid	(0.3)	2.5	n.a.
Disposals	25.3	0.1	(99.4%)
Other Cash Movements	0.0	(0.0)	n.a.
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	102.1	92.0	(9.9%)
Acquisition of Own Shares	0.0	(3.1)	n.a.
Dividends	(102.6)	(153.9)	50.0%
Free Cash Flow	(0.5)	(65.0)	n.a.
Debt Variation Through Financial Leasing, Accruals & Deferrals & Others	(1.4)	0.1	n.a.
Change in Net Financial Debt	1.9	64.9	n.a.

FCF before dividends and disposals increased 19.6% yoy to 91.8 million euros in 1H18 led by an improvement in Operating Cash Flow of 4.0% to 110.9 million euros. Strong EBITDA performance and positive working capital variations in 2Q18 more than compensated for the strong pick up in CAPEX. Other cash items contributed to the increase in FCF before dividends and disposals by recording interesting savings yoy, namely with cash restructuring payments almost halving at 5.6 million euros, a 21.1% decline in cash interest payments to 9.2 million euros and the positive cash tax recorded in 1Q18 due to a one-off recovery of withholding tax payments.

Total FCF was negative by 65.0 million euros after payment of 2017 dividends of 153.9 million euros – 30 cents per share. Consistent with reiterated guidance to deliver attractive shareholder remuneration through progressive and sustainable growth in DPS, whilst maintaining Net Debt / EBITDA in the range of 2x, the dividend paid in 2Q18 represents a yield of more than 6% at current prices.

Consolidated Balance Sheet

Balance Sheet (Millions of Euros)	1H17	2017	1H18	1H18/ 1H17
Non-current Assets	2,456.2	2,449.3	2,403.3	(2.2%)
Current Assets	513.1	561.2	595.8	16.1%
Total Assets	2,969.4	3,010.5	2,999.1	1.0%
Total Shareholders' Equity	1,053.4	1,111.5	1,026.4	(2.6)%
Non-current Liabilities	1,230.0	1,146.1	1,176.6	(4.3)%
Current Liabilities	686.0	753.0	796.1	16.1%
Total Liabilities	1,916.0	1,899.1	1,972.7	3.0%
Total Liabilities and Shareholders' Equity	2,969.4	3,010.5	2,999.1	1.0%

Capital Structure

At the end of 1H18, Net Financial Debt stood at 1,150.4 million euros.

Total financial debt was 1,153.5 million euros, which was offset with a cash and short-term investment position on the balance sheet of 3.1 million euros. At the end of 1H18, NOS also had 245 million euros of unissued commercial paper programmes. In 1H18, the **all-in average cost of NOS' Net Financial Debt** amounted to 2.0%, which compares with 2.1% for 1H17.

Net Financial Debt / EBITDA (last 4 quarters) now stands at 2.0x, reflecting the payment of the yearly dividend of 30 euro cents per share, 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 1H18 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 June 2018, the proportion of NOS' issued debt** paying interest at a fixed rate is approximately 78%.

In March 2018, NOS was assigned investment grade long term corporate credit rating by Standard & Poor's Global Ratings (BBB-) and FitchRatings (BBB) with a Stable Outlook from both agencies.

In April 2018, NOS executed an inaugural bond transaction in international debt capital markets issuing a 300 million euro bond, with a 5 year maturity at an annual fixed coupon rate of 1.125%, corresponding to a 0.75% spread plus 5 year mid swap rate.

The proceeds of the issue were used for general corporate purposes and early redemption of existing credit facilities.

Obtaining credit rating and tapping Debt Capital Markets represents an important step in the **execution of NOS' financing strategy, strongly contributing to diversify financing sources and instruments, extend average debt maturity, and further reduce average cost of debt.**

Net Financial Debt (Millions of Euros) ⁽¹⁾	1H17	2017	1H18	1H18/ 1H17
Short Term	153.6	197.3	212.3	38.2%
Bank and Other Loans	138.7	183.6	199.2	43.6%
Financial Leases	15.0	13.7	13.2	(12.0%)
Medium and Long Term	962.6	891.2	941.2	(2.2%)
Bank and Other Loans	939.4	870.3	925.4	(1.5%)
Financial Leases	23.2	20.8	15.8	(31.9%)
Total Debt	1,116.3	1,088.5	1,153.5	3.3%
Cash and Short Term Investments	2.0	3.0	3.1	55.0%
Net Financial Debt	1,114.2	1,085.5	1,150.4	3.2%
Net Financial Gearing ⁽²⁾	51.4%	49.4%	52.8%	1.4pp
Net Financial Debt / EBITDA	2.0x	1.9x	2.0x	n.a.

⁽¹⁾ Net Financial Debt = Borrowings – Long Term Contracts + Cash and Short Term Investments

⁽²⁾ Net Financial Gearing = Net Financial Debt / (Net Financial Debt + Total Shareholders' Equity).

Risks and Uncertainties for Future Periods

The Company is exposed to economic, financial and legal risks incidental to its business activities. The approach adopted by NOS for Enterprise Risk Management (ERM), is to incorporate risk management into NOS strategic planning activities. During the preparation of action plans and annual resources, the business areas consider risks that may compromise their performance and objectives and define actions to manage those risks, within the levels of acceptance intended and established by the Executive Committee.

The main types of risks and the corresponding strategies that have been adopted for their management will now be described.

Economic Risks

- **Economic Environment** – The Company was still exposed to the effects of the economic environment experienced in Portugal during the last years and consequently to a general reduction in consumption. Despite the reversal signals verified during the last year, mainly through the increase of the product, there is a risk of the market share, in clients and/or revenue, being affected by the unemployment rate, by the still high use of measures for reduction of public consumption and also by the private consumption variability. NOS has carefully monitored this risk and adopted strategies aiming to increase of clients and to counter the drop in revenue visible in the Portuguese telecommunications market. NOS has also been paying attention to the identification of other opportunities, in conjunction with the competition and technological innovation risk response strategies that are described below.
- **Competition** – This risk is related to the potential reduction in the prices of products and services, reduction in market share, loss of customers, increasing difficulty in obtaining and retaining customers. The management of competition risk has involved a strategy of investing in constant improvement in quality, distinctiveness and innovation for the products and services provided, as well as in its protection from competition, diversification of supply, combination of offers related with different businesses of NOS and the strengthening of the portfolio of broadcasting rights and the respective provision of contents as well as the constant monitoring of customer preferences and/or needs. The operational integration processes that have taken place over the past years in NOS have contributed to the development of a competitive position vis-à-vis its

competitors. NOS intends to go even further in strengthening its competitive position, evolving from a logic of integration to a logic of transformation, and so has in progress a set of internal initiatives of operational transformation focused on customer satisfaction. NOS is also aware of the consolidation and acquisition moves of its competitors in the communications, content and entertainment industries.

- **Technological Innovation** – This risk is associated with the need for investment in increasingly competitive services (multimedia services, messaging services, multiplatform TV services, cloud services, infrastructure and information technology services, etc.), which are subject not only to accelerated changes in technology but also to the actions of the players which act outside of the traditional communications market, like the OTT (over-the-top players) Operators. NOS believes that having an optimised technical infrastructure is a critical success factor that helps to reduce potential failures in the leverage of technological developments. The Company has managed this risk in order to ensure that the technologies and businesses in which it is investing are accompanied by a similar development in demand and, consequently, an increase in the use of the new services by Customers. NOS has several mobile network infrastructure development projects in progress, improving in capacity and in coverage through the implementation of state-of-the-art radio equipment as well as fixed networks by upgrading the HFC network and expanding the FTTH network. In addition, NOS has continued to introduce to the market technological innovations associated with its multi-device TV service platforms.
- **Business Interruption and Catastrophic Losses (Business Continuity Management)** - Since the businesses of NOS are based above all on the use of technology, potential failures in technical-operational resources (network infrastructures, information systems applications, servers, etc.) may cause a significant risk of business interruption, if they are not well managed. This may imply other risks for the Company, such as adverse impacts on reputation, on the brand, on revenue integrity, on customer satisfaction and on service quality, which may lead to the loss of customers. In the electronic communications sector, business interruption and other associated risks may be aggravated because the services are in real time (voice, data/internet and TV), and customers typically have low tolerance for interruptions. Under the BCM - Business Continuity Management programme, NOS has implemented Business Continuity management processes that cover buildings, network infrastructures and the most critical activities that support communications services, for which it develops resilience strategies, continuity plans and actions, and incident/crisis management procedures. The continuity processes may be periodically subject to impact and risk analysis, as well as audits, tests and simulations. NOS has also been developing the coordination with external official entities for catastrophic scenarios,

critical infrastructure protection and communication in crisis, including the cooperation with the National Authority for Civil Protection.

- Confidentiality, Integrity and Availability (Information Security Management) - Bearing in mind that NOS is the biggest corporate group in the area of communications and entertainment in the country, its businesses make intensive use of information and of information and communication technologies that are typically subject to security risks, such as availability, integrity, and confidentiality. Under the Information Security Management program (ISM), NOS has an Information Security Committee (Governance Risk and Compliance Committee), which is mandated by the Executive Board, among other responsibilities, to monitor security risks, to suggest rules and to promote awareness raising actions. The several business units, under the supervision of the Committee, develop an internal actions plan, with the purpose of consolidating the processes and controls of information security management. In addition, the Company has certain segments and business processes certified under the ISO27001 Standard - Information Security Management Systems, namely those related to customer management of the communications business (manage customer, bill and charge) and services of NOS Sistemas *data centers* (housing service). NOS conducts security risk assessment exercises periodically, including in its scope the operational risks of security and continuity as well as other corporate risks that relate at the level of the business environment and at the operational level. Just like other operators, NOS is increasingly exposed to cybersecurity risks, related to external threats to the electronic communications networks and to the surrounding cyberspace.
- Privacy (Personal Data Protection) - The risk assessments referred to in the previous point have also been increasingly important for privacy risks, mainly associated with changes in the regulations on personal data protection, which is transversal to all sectors of activity and also applicable, in particular, to the protection of personal data, which is subject to specific regulations on security and privacy. NOS has an ongoing Privacy Program in order to monitor and continuously improve the compliance with the new General Regulation on Data Protection . For specific issues related to the confidentiality and privacy of personal data, the Company has a Data Protection Officer (DPO) who is responsible for monitoring compliance of data processing with the applicable regulations, for acting in the name of the Company in interaction with the national regulatory authority for data protection (CNPD - National Commission for Data Protection) and to be a point of contact with the personal data subjects to clarify questions regarding the treatment of their data by the NOS. Employees and subcontractors assume obligations of confidentiality, secrecy and protection of personal data and must not transmit to any third parties the data to which they have access in the course of and as a result of their duties. The obligations are reinforced through the signature of data processing agreements by subcontractors, the signature

of terms of responsibility by **NOS employees and by subcontractors' employees**, as well as through communication and awareness actions and holding of specialized training internal courses on security and privacy.

Service Fraud (Management of Telecommunications Fraud) - Customer or third party fraud is a common risk in the communications sector. Perpetrators of fraud may take advantage of the **potential vulnerabilities of the network's business process, the network or of the** communications services. In view of this situation, NOS has a team dedicated to Service Fraud and Security Management. In order to encourage secure use of communications services, it has developed various initiatives and implemented controls, including the provision of an internal platform with information on security risks and service fraud, as well as the continuous improvement of processes to monitor and mitigate these risks. Fraud controls are implemented to prevent anomalous situations of fraudulent use or situations of misuse with a direct impact on the customer **satisfaction, on the potential service disruption and on the Company's revenue**. NOS has also joined initiatives developed by the GSM Association (GSMA), namely the Fraud and Security Group (FASG).

- Revenue and Cost Assurance (Enterprise Business Assurance) - Electronic communications businesses are subject to inherent operational risks associated with the assurance and monitoring of customer revenue and costs, from a viewpoint of revenue flows and platform integrity. Billing processes perform revenue controls, with regard to invoicing quality. NOS also has a Revenue Assurance area that applies processes to control revenue integrity (under invoicing or over invoicing) and cost control with the aim of presenting a consistent chain of revenue and costs, from the moment the customer enters our provisioning systems, involving the provision of the communications service, up to the time of invoicing and charging.

Financial Risks

- Tax - The Company is exposed to changes in tax legislation and varied interpretations of the application of tax and tax related regulations in several ways. The Finance Department contributes to management of this risk, monitoring all tax regulations and seeking to guarantee maximum tax efficiency. This department may also be supported by external consultants whenever the questions being analysed are more critical and, for this reason, require interpretation by an independent entity.
- Credit and Collections - These risks are associated with a reduction in receipts from customers due to possible ineffective or deficient operation of collection procedures and/or changes in the

legislation that regulates the provision of essential services and have an impact on the recovery of customer debts. The current adverse economic climate also significantly contributes to the worsening of these risks. They are mitigated through the definition of a monthly plan of collection actions, their follow-up and validation and the review of results. Where necessary, the procedure and the timings of these actions are adjusted to ensure the receipt of customer debts. The aim is to ensure that the amounts owed are effectively collected within the periods negotiated without affecting the financial health of the Company. In addition, NOS has specific areas for Credit Control, Collections and Litigation Management and, regarding some business segments, also subscribes credit insurances.

Legal Risks

- Legal and Regulatory – The electronic communications market in Portugal is subject to a regulatory framework emerging from European and national law. In Portugal, ANACOM is responsible for defining a significant set of rules to which the market is subject, including the analysis of relevant markets, the identification of companies with significant market power (SMP) and the imposition of appropriate measures for the resolution of market failures (eg. introduction of network access obligations, definition of price controls for wholesale termination in fixed and mobile networks, etc.). Within the scope of its market overseeing competences, ANACOM is responsible for ensuring the application and enforcement of the laws, regulations and technical requirements applicable to operators (examples: draft Regulations associated with pre-contractual and contractual information, proposed for a safety and integrity of networks Regulation, revision of the portability Regulation and project of a Regulation on requirements to be observed by providers in their complaint handling procedures, among others). ANACOM is also responsible for ensuring the dissemination and monitoring the compliance with European directives applicable to the sector, as well as participating and ensuring representation of Portugal in national and international entities and forums relevant to its activity. Within the scope of these attributions, the participation of the regulator, as well as other sector stakeholders, stands out in the discussions on the measures planned under the Digital Single Market (DSM) strategy, with special emphasis to the European Code of Electronic Communications, which will reformulate the four main directives in force (Framework-Directive, Authorization Directive, Access Directive and Universal Service Directive), bringing them together in a single document. The DSM strategy also includes an action plan for the implementation of 5G services across the EU from 2018 and a proposal for a Regulation to promote Internet connectivity in local communities and public spaces (WIFI4EU). Also within the scope of the European regulatory

framework, NOS must comply with regulations that have a direct effect in Portugal, such as the TSM Regulation (which includes rules for roam-like-at-home and protection of network neutrality), the General Regulation on Data Protection and the e-Privacy Regulation. In addition to the specific rules relating to the communications sector, NOS is also subject to horizontal legislation, including competition law. The management of the existing regulatory risks is ensured by the Legal and Regulatory Department, which monitors the evolution of the applicable regulatory framework, considering the threats and opportunities that represent to the competitive position of the NOS in the business areas in which it operates.

Lisbon, 20 July 2018

The Board of Directors



Consolidated Financial Statements

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

(Amounts stated in thousands of euros)

	NOTES	30-06-2017 REPORTED	31-12-2017 REPORTED	30-06-2017 RESTATE	31-12-2017 RESTATE	30-06-2018
ASSETS						
NON - CURRENT ASSETS						
Tangible assets	7	1,137,717	1,137,209	1,046,556	1,043,939	1,045,637
Investment property		662	661	662	661	660
Intangible assets	8	1,149,008	1,141,104	1,262,425	1,253,398	1,229,047
Investments in jointly controlled companies and associated companies	9	16,612	37,130	16,612	37,130	23,072
Accounts receivable - other	10	6,761	6,185	6,761	6,185	5,458
Tax receivable	11	1,029	149	1,029	149	149
Available-for-sale financial assets		77	180	77	180	202
Deferred income tax assets	12	113,938	99,538	122,114	107,700	99,034
TOTAL NON - CURRENT ASSETS		2,425,804	2,422,156	2,456,235	2,449,343	2,403,259
CURRENT ASSETS:						
Inventories	13	35,937	32,044	35,937	32,044	34,695
Accounts receivable - trade	14	362,955	406,904	408,860	454,328	504,409
Accounts receivable - other	10	18,277	10,366	18,277	10,366	7,769
Tax receivable	11	1,326	14,945	1,326	14,945	1,247
Prepaid expenses	15	75,821	77,657	46,698	46,527	44,607
Derivative financial instruments	17	17	19	17	19	1
Cash and cash equivalents	18	2,010	2,977	2,010	2,977	3,116
TOTAL CURRENT ASSETS		496,343	544,911	513,125	561,206	595,843
TOTAL ASSETS		2,922,147	2,967,067	2,969,360	3,010,549	2,999,102
SHAREHOLDER'S EQUITY						
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	(12,728)	(12,681)	(12,728)	(12,681)	(12,213)
Legal reserve	19.4	1,030	1,030	1,030	1,030	1,030
Other reserves and accumulated earnings	19.4	96,911	105,489	125,265	133,843	91,952
Net Income		71,827	124,094	72,236	122,083	78,890
EQUITY BEFORE NON - CONTROLLING INTERESTS		1,016,411	1,077,301	1,045,173	1,103,644	1,019,030
Non-controlling interests	20	9,440	9,067	8,190	7,822	7,345
TOTAL EQUITY		1,025,851	1,086,368	1,053,363	1,111,467	1,026,375
LIABILITIES						
NON - CURRENT LIABILITIES						
Borrowings	21	1,031,437	954,658	1,031,437	954,658	999,571
Provisions	22	133,474	133,262	133,474	133,262	143,369
Accounts payable	26	19,842	17,615	19,842	17,615	14,064
Tax payable	11	1,298	-	1,298	-	-
Accrued expenses	23	9,069	8,767	9,069	8,767	6,330
Deferred income	24	3,922	3,773	3,922	3,773	5,505
Derivative financial instruments	17	2,709	2,462	2,709	2,462	2,081
Deferred income tax liabilities	12	8,737	7,140	28,269	25,523	5,671
TOTAL NON - CURRENT LIABILITIES		1,210,488	1,127,678	1,230,019	1,146,060	1,176,590
CURRENT LIABILITIES:						
Borrowings	21	167,087	210,136	167,443	210,136	225,207
Accounts payable - trade	25	209,682	224,864	209,682	224,864	243,511
Accounts payable - other	26	54,897	58,155	54,897	58,155	52,711
Tax payable	11	32,983	19,222	32,983	19,222	38,570
Accrued expenses	23	194,980	213,564	194,624	213,564	208,292
Deferred income	24	26,144	27,047	26,314	27,047	27,783
Derivative financial instruments	17	35	33	35	33	63
TOTAL CURRENT LIABILITIES		685,808	753,021	685,978	753,021	796,137
TOTAL LIABILITIES		1,896,296	1,880,699	1,915,997	1,899,082	1,972,727
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		2,922,147	2,967,067	2,969,360	3,010,549	2,999,102

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

The Notes to the Financial Statements form an integral part of the consolidated statement of financial position as at 30 June 2018.

The Chief Accountant

The Board of Directors

Consolidated statement of income by nature for the quarters and semesters ended on 30 June 2017 and 2018

(Amounts stated in thousands of euros)

	NOTES	2° QUARTER 17 REPORTED	6M 17 REPORTED	2° QUARTER 17 RESTATED	6M 17 RESTATED	2° QUARTER 18	6M 18
REVENUES:							
Services rendered		370.296	732.546	364.729	721.099	363.482	719.093
Sales		15.037	29.870	18.621	37.497	19.407	39.511
Other operating revenues		3.038	6.954	3.921	9.012	6.395	13.683
	27	388.371	769.370	387.271	767.607	389.285	772.287
COSTS, LOSSES AND GAINS:							
Wages and salaries	28	20.698	42.888	20.698	42.888	19.041	39.019
Direct costs	29	126.296	240.114	125.827	239.591	126.010	244.697
Costs of products sold	30	10.596	21.466	13.341	27.572	14.101	27.597
Marketing and advertising		8.105	14.544	8.105	14.544	7.928	14.203
Support services	31	22.928	46.455	22.805	46.216	19.271	41.727
Supplies and external services	31	44.221	89.034	42.250	84.410	38.790	81.494
Other operating losses / (gains)		184	354	184	354	270	426
Taxes		7.873	15.659	7.873	15.659	8.329	16.703
Provisions and adjustments	32	(9.270)	(1.485)	(9.270)	(1.485)	(3.226)	916
Depreciation, amortisation and impairment losses	7, 8 and 34	103.450	206.738	103.458	203.673	94.821	201.922
Restructuring costs		2.232	3.840	2.232	3.840	3.836	5.151
Losses / (gains) on sale of assets, net		111	70	111	70	(49)	(94)
Other losses / (gains) non recurrent net	35	2.171	3.954	2.171	3.954	715	(12.675)
		339.594	683.631	339.785	681.286	329.836	661.085
INCOME BEFORE FINANCIAL RESULTS AND TAXES							
		48.777	85.739	47.486	86.321	59.447	111.201
Net losses / (gains) of affiliated companies	9 and 33	(3.622)	(8.971)	(3.622)	(8.971)	(587)	5.727
Financial costs	36	6.058	10.969	6.058	10.969	3.895	8.560
Net foreign exchange losses / (gains)		104	107	104	107	(70)	117
Net other financial expenses / (income)	36	(941)	754	(941)	754	4.123	5.515
		1.599	2.859	1.599	2.859	7.361	19.919
INCOME BEFORE TAXES							
		47.178	82.880	45.887	83.462	52.085	91.281
Income taxes	12	6.355	10.658	5.989	10.815	7.180	12.861
NET CONSOLIDATED INCOME							
		40.823	72.222	39.898	72.647	44.905	78.420
ATTRIBUTABLE TO:							
NOS Group Shareholders		40.392	71.827	39.454	72.236	45.112	78.890
Non-controlling interests	20	431	395	445	412	(207)	(470)
EARNINGS PER SHARES							
Basic - euros	37	0,08	0,14	0,08	0,14	0,09	0,15
Diluted - euros	37	0,08	0,14	0,08	0,14	0,09	0,15

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

The Notes to the Financial Statements form an integral part of the consolidated statement of income by nature for the semester ended on 30 June 2018.

The Chief Accountant

The Board of Directors

Consolidated statement of comprehensive income for the quarters and semesters ended on 30 June 2017 and 2018

(Amounts stated in thousands of euros)

	NOTES	2° QUARTER 17 REPORTED	6M 17 REPORTED	2° QUARTER 17 RESTATED	6M 17 RESTATED	2° QUARTER 18	6M 18
NET CONSOLIDATED INCOME		40,824	72,223	39,898	72,647	44,905	78,420
OTHER INCOME							
ITEMS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO THE INCOME STATEMENT:							
Accounting for equity method	9	(5)	(49)	(5)	(49)	(739)	(7,962)
Fair value of interest rate swap	17	607	1,367	607	1,367	309	481
Deferred income tax - interest rate swap	17	(137)	(308)	(137)	(308)	(69)	(108)
Fair value of equity swaps	17	123	90	123	90	145	(216)
Deferred income tax - equity swap	17	(28)	(20)	(28)	(20)	(33)	48
Currency translation differences and others		(20)	(35)	(20)	(35)	(209)	(954)
INCOME RECOGNISED DIRECTLY IN EQUITY		540	1,045	540	1,045	(596)	(8,711)
TOTAL COMPREHENSIVE INCOME		41,364	73,268	40,439	73,693	44,309	69,709
ATTRIBUTABLE TO:							
NOS Group Shareholders		40,933	72,873	39,994	73,281	44,516	70,179
Non-controlling interests		431	395	445	412	(207)	(470)
		41,364	73,268	40,439	73,693	44,309	69,709

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

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

The Chief Accountant

The Board of Directors

Consolidated statement of changes in shareholders' equity

for the quarters and semesters ended on 30 June 2017 and 2018

(Amounts stated in thousands of euros)

	NOTES	ATTRIBUTABLE TO NOS GROUP SHAREHOLDERS						NON - CONTROLLING INTERESTS	TOTAL
		SHARE CAPITAL	CAPITAL ISSUED PREMIUM	OWN SHARES DISCOUNTS AND PREMIUMS	LEGAL RESERVE	OTHER RESERVES AND ACCUMULATED 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		-	-	5,743	-	(5,406)	-	-	338
Distribution of own shares - other remunerations		-	-	285	-	(79)	-	-	207
Share Plan - costs incurred in the period and others		-	-	-	-	1,388	-	3	1,391
Comprehensive Income		-	-	-	-	1,045	72,236	412	73,693
Others		-	-	-	-	87	-	-	87
BALANCE AS AT 30 JUNE 2017 (RESTATED)		5,152	854,219	(12,728)	1,030	125,265	72,236	8,190	1,053,364
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)
Acquisition of own shares	19.3	-	-	(3,096)	-	-	-	-	(3,096)
Distribution of own shares - share incentive scheme	19.3	-	-	3,461	-	(3,461)	-	-	-
Distribution of own shares - other remunerations	19.3	-	-	103	-	(20)	-	-	83
Share Plan - costs incurred in the period and others	41	-	-	-	-	2,141	-	(7)	2,134
Comprehensive Income		-	-	-	-	(8,711)	78,890	(470)	69,709
BALANCE AS AT 30 JUNE 2018		5,152	854,219	(12,213)	1,030	91,952	78,890	7,345	1,026,375

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

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

The Chief Accountant

The Board of Directors

Consolidated statement of cash flows for the semesters ended on 30 June 2017 and 2018

(Amounts stated in thousands of euros)

	NOTES	6M 17 REPORTED	6M 17 RESTATED	6M 18
OPERATING ACTIVITIES				
Collections from clients		895,570	895,570	882,840
Payments to suppliers		(512,984)	(514,010)	(472,315)
Payments to employees		(60,089)	(60,089)	(56,139)
Receipts / (Payments) relating to income taxes		(407)	(407)	2,459
Other cash receipts / (payments) related with operating activities		(38,242)	(38,242)	(37,873)
CASH FLOW FROM OPERATING ACTIVITIES (1)		283,848	282,822	318,972
INVESTING ACTIVITIES				
CASH RECEIPTS RESULTING FROM				
Tangible assets		1,904	1,904	274
Intangible assets		39	39	10
Available-for-sale financial assets	16	29,776	29,776	-
Interest and related income		2,769	2,769	2,191
		34,488	34,488	2,475
PAYMENTS RESULTING FROM				
Tangible assets		(107,245)	(85,275)	(120,463)
Intangible assets		(87,823)	(108,767)	(92,168)
		(195,068)	(194,042)	(212,631)
CASH FLOW FROM INVESTING ACTIVITIES (2)		(160,580)	(159,554)	(210,156)
FINANCING ACTIVITIES				
CASH RECEIPTS RESULTING FROM				
Borrowings		150,000	150,000	377,099
		150,000	150,000	377,099
PAYMENTS RESULTING FROM				
Borrowings		(145,027)	(145,027)	(293,333)
Lease rentals (principal)		(14,394)	(14,394)	(10,118)
Interest and related expenses		(15,552)	(15,552)	(14,534)
Dividends	19.4	(102,617)	(102,617)	(153,923)
Aquisition of own shares	19.3	-	-	(3,096)
		(277,590)	(277,590)	(475,004)
CASH FLOW FROM FINANCING ACTIVITIES (3)		(127,590)	(127,590)	(97,905)
Change in cash and cash equivalents (4)=(1)+(2)+(3)		(4,322)	(4,322)	10,911
Effect of exchange differences		56	56	27
Cash and cash equivalents at the beginning of the year		(13,877)	(13,877)	(38,775)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		(18,143)	(18,143)	(27,837)
Cash and cash equivalents	18	2,010	2,010	3,116
Bank overdrafts	21	(20,153)	(20,153)	(30,953)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		(18,143)	(18,143)	(27,837)

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

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

The Chief Accountant

The Board of Directors

Notes to the consolidated financial statements as at 30 June 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, n°9, 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 June 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 June 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 semester ended on 30 June 2018 are presented in euros and were approved by the Board of Directors and their issue authorised on 20 July 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
ASSETS				
NON - CURRENT ASSETS				
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
TOTAL NON - CURRENT ASSETS	2,453,002	(12,604)	41,491	2,481,889
CURRENT ASSETS:				
Accounts receivable - trade	348,926	47,136	-	396,062
Prepaid expenses	84,391	(28,957)	-	55,434
Other assets	96,322	-	-	96,322
TOTAL CURRENT ASSETS	529,639	18,179	-	547,818
TOTAL ASSETS	2,982,641	5,575	41,491	3,029,707
SHAREHOLDER'S EQUITY				
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
EQUITY BEFORE NON - CONTROLLING INTERESTS	1,044,057	4,016	24,418	1,072,491
Non-controlling interests	9,041	-	(1,266)	7,775
TOTAL EQUITY	1,053,098	4,016	23,152	1,080,266
LIABILITIES				
NON - CURRENT LIABILITIES				
Deferred income tax liabilities	10,206	1,559	18,339	30,104
Other liabilities	1,158,490	-	-	1,158,490
TOTAL NON - CURRENT LIABILITIES	1,168,696	1,559	18,339	1,188,594
TOTAL CURRENT LIABILITIES	760,847	-	-	760,847
TOTAL LIABILITIES	1,929,543	1,559	18,339	1,949,441
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	2,982,641	5,575	41,491	3,029,707

At 30 June 2017

	30-06-2017 REPORTED	Revenue (recognition according with performance obligations)	Costs of obtaining and to fulfil a contract with a customer	30-06-2017 RESTATED
ASSETS				
NON - CURRENT ASSETS				
Tangible assets	1,137,717	(11,322)	(79,839)	1,046,556
Intangible assets	1,149,008	-	113,417	1,262,425
Deferred income tax assets	113,938	48	8,128	122,114
Other assets	25,141	-	-	25,141
TOTAL NON - CURRENT ASSETS	2,425,804	(11,274)	41,705	2,456,235
CURRENT ASSETS:				
Accounts receivable - trade	362,955	45,905	-	408,860
Prepaid expenses	75,821	(29,123)	-	46,698
Other assets	57,567	-	-	57,567
TOTAL CURRENT ASSETS	496,343	16,782	-	513,125
TOTAL ASSETS	2,922,147	5,508	41,705	2,969,360
SHAREHOLDER'S EQUITY				
Share capital issued, premium and own shares	847,673	-	-	847,673
Other reserves and accumulated earnings	96,911	4,017	24,337	125,265
Net Income	71,827	(203)	612	72,236
EQUITY BEFORE NON - CONTROLLING INTERESTS	1,016,411	3,813	24,949	1,045,173
Non-controlling interests	9,440	-	(1,250)	8,190
TOTAL EQUITY	1,025,851	3,813	23,699	1,053,363
LIABILITIES				
NON - CURRENT LIABILITIES				
Deferred income tax liabilities	8,737	1,527	18,005	28,269
Other liabilities	1,201,751	-	-	1,201,751
TOTAL NON - CURRENT LIABILITIES	1,210,488	1,527	18,005	1,230,019
CURRENT LIABILITIES:				
Deferred income	26,144	170	-	26,314
Other liabilities	659,664	-	-	659,664
TOTAL CURRENT LIABILITIES	685,808	170	-	685,978
TOTAL LIABILITIES	1,896,296	1,696	18,005	1,915,997
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	2,922,147	5,508	41,705	2,969,360

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 RESTATE
ASSETS				
NON - CURRENT ASSETS				
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
TOTAL NON - CURRENT ASSETS	2,422,156	(10,322)	37,509	2,449,343
CURRENT ASSETS:				
Accounts receivable - trade	406,904	47,424	-	454,328
Prepaid expenses	77,657	(31,130)	-	46,527
Other assets	60,350	-	-	60,350
TOTAL CURRENT ASSETS	544,911	16,295	-	561,206
TOTAL ASSETS	2,967,067	5,973	37,509	3,010,549
SHAREHOLDER'S EQUITY				
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
EQUITY BEFORE NON - CONTROLLING INTERESTS	1,077,301	4,323	22,020	1,103,644
Non-controlling interests	9,067	-	(1,245)	7,822
TOTAL EQUITY	1,086,368	4,323	20,776	1,111,467
LIABILITIES				
NON - CURRENT LIABILITIES				
Deferred income tax liabilities	7,140	1,650	16,733	25,523
Other liabilities	1,120,538	-	-	1,120,538
TOTAL NON - CURRENT LIABILITIES	1,127,678	1,650	16,733	1,146,060
TOTAL CURRENT LIABILITIES	753,021	-	-	753,021
TOTAL LIABILITIES	1,880,699	1,650	16,733	1,899,082
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	2,967,067	5,973	37,509	3,010,549

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

Semester ended on 30 June 2017

	6M 17 REPORTED	Revenue (recognition according with performance obligations)	Costs of obtaining and to fulfil a contract with a customer	6M 17 RESTATED
REVENUES:				
Services rendered	732,546	(11,447)	-	721,099
Sales	29,870	7,825	(198)	37,497
Other operating revenues	6,954	2,058	-	9,012
	769,370	(1,565)	(198)	767,607
COSTS, LOSSES AND GAINS:				
Direct costs	240,114	-	(523)	239,591
Costs of products sold	21,466	5,470	636	27,572
Support services	46,455	-	(239)	46,216
Supplies and external services	89,034	-	(4,624)	84,410
Depreciation, amortisation and impairment losses	206,738	(6,753)	3,688	203,673
Other costs, losses and gains	79,824	-	-	79,824
	683,631	(1,283)	(1,062)	681,286
INCOME BEFORE FINANCIAL RESULTS AND TAXES				
Financial results	85,739	(282)	864	86,321
INCOME BEFORE TAXES				
Income taxes	10,658	(79)	236	10,815
NET CONSOLIDATED INCOME				
	72,222	(203)	628	72,647
ATTRIBUTABLE TO:				
NOS Group Shareholders	71,827	(203)	612	72,236
Non-controlling interests	395	-	17	412
EARNINGS PER SHARES				
Basic - euros	0.14	-	-	0.14
Diluted - euros	0.14	-	-	0.14

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.

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	220.5	309.9

At 31 December 2017 and 30 June 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	30-06-2018
US Dollar	1.1993	1.1658
Angolan Kwanza	185.4000	288.8715
British Pound	0.8872	0.8861
Mozambican Metical	70.5700	69.0900
Canadian Dollar	1.5039	1.5442
Swiss Franc	1.1702	1.1569
Real	3.9729	4.4876

In the semesters ended at 30 June 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:

	6M 17	6M 18
US Dollar	1.0830	1.2104
Angolan Kwanza	184.9362	270.3044
Mozambican Metical	71.3583	73.0983

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 valuation 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 semesters ended on 30 June 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 semester ended on 30 June 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.

The changes in the consolidation perimeter, during the semester ended on 30 June 2018, were:

- 1) on 1 June 2018, the company Canal 20 T.V., **SA was liquidated and dissolved. It didn't 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, NOS PUB, 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 June 2018 are shown below:

	31-12-2017 RESTATED			
	TELCO	AUDIOVISUALS	ELIMINATIONS	GROUP
ASSETS				
NON - CURRENT ASSETS:				
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
TOTAL NON - CURRENT ASSETS	2,450,567	161,305	(162,529)	2,449,343
CURRENT ASSETS:				
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
TOTAL CURRENT ASSETS	540,929	81,397	(61,120)	561,206
TOTAL ASSETS	2,991,496	242,702	(223,649)	3,010,549
SHAREHOLDER'S EQUITY				
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
EQUITY BEFORE NON - CONTROLLING INTERESTS	1,078,410	117,919	(92,685)	1,103,644
Non-controlling interests	7,822	-	-	7,822
TOTAL EQUITY	1,086,233	117,919	(92,685)	1,111,467
LIABILITIES				
NON - CURRENT LIABILITIES:				
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
TOTAL NON - CURRENT LIABILITIES	1,160,298	55,151	(69,389)	1,146,060
CURRENT LIABILITIES:				
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
TOTAL CURRENT LIABILITIES	744,965	69,632	(61,575)	753,021
TOTAL LIABILITIES	1,905,263	124,783	(130,964)	1,899,082
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	2,991,496	242,702	(223,649)	3,010,549

	30-06-2018			
	TELCO	AUDIOVISUALS	ELIMINATIONS	GROUP
ASSETS				
NON - CURRENT ASSETS:				
Tangible assets	1,034,312	11,325	-	1,045,637
Intangible assets	1,135,374	93,673	-	1,229,047
Investments in jointly controlled companies and associated companies	94,628	15,834	(87,390)	23,072
Accounts receivable - other	50,325	24,521	(69,388)	5,458
Deferred income tax assets	86,319	12,715	-	99,034
Other non-current assets	327	684	-	1,011
TOTAL NON - CURRENT ASSETS	2,401,285	158,752	(156,778)	2,403,259
CURRENT ASSETS:				
Inventories	33,958	738	(1)	34,695
Account receivables	500,136	60,286	(48,244)	512,178
Prepaid expenses	42,605	2,089	(87)	44,607
Other current assets	(13,530)	453	14,325	1,248
Cash and cash equivalents	1,586	1,530	-	3,116
TOTAL CURRENT ASSETS	564,754	65,096	(34,007)	595,843
TOTAL ASSETS	2,966,039	223,848	(190,785)	2,999,102
SHAREHOLDER'S EQUITY				
Share capital	5,152	32,749	(32,749)	5,152
Capital issued premium	854,219	-	-	854,219
Own shares	(12,213)	-	-	(12,213)
Legal reserve	1,030	1,887	(1,887)	1,030
Other reserves and accumulated earnings	63,489	60,276	(31,813)	91,952
Net income	92,048	7,328	(20,486)	78,890
EQUITY BEFORE NON - CONTROLLING INTERESTS	1,003,725	102,240	(86,935)	1,019,030
Non-controlling interests	7,345	-	-	7,345
TOTAL EQUITY	1,011,070	102,240	(86,935)	1,026,375
LIABILITIES				
NON - CURRENT LIABILITIES:				
Borrowings	1,020,842	48,118	(69,389)	999,571
Provisions	136,907	6,462	-	143,369
Accrued expenses	6,330	-	-	6,330
Other non-current liabilities	21,650	-	-	21,650
Deferred income tax liabilities	5,200	471	-	5,671
TOTAL NON - CURRENT LIABILITIES	1,190,928	55,051	(69,389)	1,176,590
CURRENT LIABILITIES:				
Borrowings	229,156	23,700	(27,649)	225,207
Accounts payable	294,515	18,918	(17,211)	296,222
Tax payable	21,913	2,332	14,325	38,570
Accrued expenses	191,520	20,611	(3,839)	208,292
Other current liabilities	26,936	997	(87)	27,846
TOTAL CURRENT LIABILITIES	764,040	66,558	(34,461)	796,137
TOTAL LIABILITIES	1,954,969	121,608	(103,850)	1,972,727
TOTAL LIABILITIES AND SHAREHOLDER 'S EQUITY	2,966,039	223,848	(190,785)	2,999,102

The results by segment and investments in tangible and intangible assets for the semesters ended on 30 June 2017 and 2018 are shown below:

	6M 17 RESTATED						GROUP	
	TELCO		AUDIOVISUALS		ELIMINATIONS			
	2° QUARTER 17	6M 17 RESTATED	2° QUARTER 17	6M 17 RESTATED	2° QUARTER 17	6M 17 RESTATED	2° QUARTER 17	6M 17 RESTATED
REVENUES:								
Services rendered	350,137	692,772	26,826	52,963	(12,234)	(24,636)	364,729	721,099
Sales	14,101	28,970	4,585	8,665	(65)	(138)	18,621	37,497
Other operating revenues	3,934	9,107	290	506	(302)	(601)	3,921	9,012
	368,172	730,849	31,701	62,134	(12,601)	(25,375)	387,271	767,607
COSTS, LOSSES AND GAINS:								
Wages and salaries	18,147	37,927	2,551	4,961	-	-	20,698	42,888
Direct costs	127,133	243,215	8,718	16,622	(10,024)	(20,246)	125,827	239,591
Costs of products sold	13,267	27,451	74	130	-	(9)	13,341	27,572
Marketing and advertising	7,902	14,372	2,083	3,914	(1,880)	(3,742)	8,105	14,544
Support services	22,655	45,931	544	1,069	(394)	(784)	22,805	46,216
Supplies and external services	37,274	74,636	5,280	10,369	(304)	(595)	42,250	84,410
Other operating losses / (gains)	171	330	13	24	-	-	184	354
Taxes	7,579	15,319	294	340	-	-	7,873	15,659
Provisions and adjustments	(8,747)	(951)	(523)	(534)	-	-	(9,270)	(1,485)
	225,381	458,230	19,034	36,895	(12,601)	(25,375)	231,813	469,749
EBITDA	142,791	272,619	12,667	25,239	-	-	155,458	297,858
Depreciation, amortisation and impairment losses	94,106	185,009	9,352	18,664	-	-	103,458	203,673
Other losses / (gains), net	4,438	7,653	76	212	-	-	4,514	7,864
INCOME BEFORE FINANCIAL RESULTS AND TAXES	44,247	79,957	3,239	6,363	-	-	47,486	86,321
Net losses / (gains) of affiliated companies	(3,369)	(8,458)	(252)	(513)	-	-	(3,622)	(8,971)
Financial costs	5,913	10,695	145	274	-	-	6,058	10,969
Net foreign exchange losses / (gains)	108	111	(4)	(4)	-	-	104	107
Net losses / (gains) on financial assets	(25,113)	(25,113)	(15,629)	(15,629)	40,742	40,742	-	-
Net other financial expenses / (income)	(949)	733	7	21	-	-	(941)	754
	(23,410)	(22,032)	(15,733)	(15,851)	40,742	40,742	1,599	2,859
INCOME BEFORE TAXES	67,656	101,989	18,972	22,214	(40,742)	(40,742)	45,887	83,462
Income taxes	5,562	9,629	427	1,186	-	-	5,989	10,815
NET INCOME	62,094	92,360	18,545	21,028	(40,742)	(40,742)	39,898	72,647
CAPEX	77,389	154,379	8,078	17,503	(308)	-	85,461	171,882
EBITDA - CAPEX	65,402	118,240	4,589	7,736	6	-	69,997	125,972

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

	6M 18						GROUP	
	TELCO		AUDIOVISUALS		ELIMINATIONS			
	2° QUARTER 18	6M 18	2° QUARTER 18	6M 18	2° QUARTER 18	6M 18	2° QUARTER 18	6M 18
REVENUES:								
Services rendered	352,345	695,036	22,493	45,964	(11,356)	(21,907)	363,482	719,093
Sales	15,764	31,759	3,673	7,827	(30)	(75)	19,407	39,511
Other operating revenues	6,495	13,867	379	633	(479)	(817)	6,395	13,683
	374,604	740,662	26,546	54,424	(11,865)	(22,799)	389,285	772,287
COSTS, LOSSES AND GAINS:								
Wages and salaries	16,501	33,971	2,540	5,048	-	-	19,041	39,019
Direct costs	129,584	250,137	5,576	12,032	(9,150)	(17,472)	126,010	244,697
Costs of products sold	14,021	27,470	95	148	(15)	(21)	14,101	27,597
Marketing and advertising	7,857	14,303	1,946	3,665	(1,875)	(3,765)	7,928	14,203
Support services	19,164	41,446	539	1,151	(432)	(870)	19,271	41,727
Supplies and external services	34,052	71,816	5,130	10,348	(392)	(670)	38,790	81,494
Other operating losses / (gains)	219	364	51	62	-	-	270	426
Taxes	8,299	16,640	30	63	-	-	8,329	16,703
Provisions and adjustments	(3,131)	1,078	(95)	(162)	-	-	(3,226)	916
	226,565	457,225	15,812	32,355	(11,865)	(22,799)	230,515	466,782
EBITDA	148,039	283,437	10,734	22,069	-	-	158,770	305,505
Depreciation, amortisation and impairment losses	86,531	185,227	8,290	16,695	-	-	94,821	201,922
Other losses / (gains), net	4,159	(7,972)	343	354	-	-	4,502	(7,618)
INCOME BEFORE FINANCIAL RESULTS AND TAXES	57,349	106,182	2,101	5,020	-	-	59,447	111,201
Net losses / (gains) of affiliated companies	(392)	5,922	(195)	(195)	-	-	(587)	5,727
Financial costs	3,648	8,015	248	546	-	-	3,895	8,560
Net foreign exchange losses / (gains)	(16)	54	(54)	63	-	-	(70)	117
Net losses / (gains) on financial assets	(17,135)	(17,135)	(3,351)	(3,351)	20,487	20,487	1	1
Net other financial expenses / (income)	4,112	5,525	11	(10)	-	-	4,123	5,515
	(9,783)	2,381	(3,341)	(2,947)	20,487	20,487	7,361	19,919
INCOME BEFORE TAXES	67,132	103,801	5,442	7,967	(20,487)	(20,487)	52,085	91,281
Income taxes	7,076	12,223	104	638	-	-	7,180	12,861
NET INCOME	60,056	91,578	5,338	7,329	(20,487)	(20,487)	44,905	78,420
CAPEX	85,370	166,182	6,319	13,161	-	-	91,689	179,343
EBITDA - CAPEX	62,669	117,255	4,415	8,908	-	-	67,081	126,162

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
ASSETS						
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
TOTAL FINANCIAL ASSETS	467,044	19	-	467,063	6,992	474,055
LIABILITIES						
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
TOTAL FINANCIAL LIABILITIES	-	2,495	1,687,580	1,690,075	179	1,690,254
30-06-2018						
	FINANCIAL ASSETS	DERIVATIVES	FINANCIAL LIABILITIES	TOTAL FINANCIAL ASSETS AND LIABILITIES	NON FINANCIAL ASSETS AND LIABILITIES	TOTAL
ASSETS						
Available-for-sale financial assets	202	-	-	202	-	202
Derivative financial instruments (Note 17)	-	1	-	1	-	1
Accounts receivable - trade (Note 14)	504,409	-	-	504,409	-	504,409
Accounts receivable - other (Note 10)	8,357	-	-	8,357	4,869	13,227
Cash and cash equivalents (Note 18)	3,116	-	-	3,116	-	3,116
TOTAL FINANCIAL ASSETS	516,084	1	-	516,085	4,869	520,955
LIABILITIES						
Borrowings (Note 21)	-	-	1,224,778	1,224,778	-	1,224,778
Derivative financial instruments (Note 17)	-	2,144	-	2,144	-	2,144
Accounts payable - trade (Note 25)	-	-	243,511	243,511	-	243,511
Accounts payable - other (Note 26)	-	-	66,496	66,496	279	66,775
Accrued expenses (Note 23)	-	-	214,622	214,622	-	214,622
TOTAL FINANCIAL LIABILITIES	-	2,144	1,749,407	1,751,551	279	1,751,830

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 semesters ended on 30 June 2017 and 2018, the movements in this item were as follows:

	31-12-2016 RESTATED	INCREASES	DISPOSALS AND WRITE-OFFS	TRANSFERS AND OTHERS	30-06-2017 RESTATED
ACQUISITION COST					
Lands	919	-	-	-	919
Buildings and other constructions	368,233	-	(237)	7,160	375,156
Basic equipment	2,278,654	25,068	(13,196)	47,648	2,338,174
Transportation equipment	8,673	699	292	(587)	9,077
Tools and dies	1,341	-	-	1	1,342
Administrative equipment	186,138	1,721	(1,252)	1,341	187,948
Other tangible assets	41,088	101	-	297	41,486
Tangible assets in-progress	29,527	54,988	(376)	(60,674)	23,465
	2,914,573	82,577	(14,769)	(4,814)	2,977,567
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES					
Lands	37	-	-	-	37
Buildings and other constructions	198,353	5,810	(97)	186	204,252
Basic equipment	1,431,287	88,653	(12,973)	(2,204)	1,504,763
Transportation equipment	3,061	871	(45)	1	3,888
Tools and dies	1,250	16	-	-	1,266
Administrative equipment	174,039	1,530	(1,069)	1,676	176,176
Other tangible assets	40,138	4	-	487	40,629
	1,848,165	96,884	(14,184)	146	1,931,011
	1,066,408	(14,307)	(585)	(4,960)	1,046,556

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	30-06-2018
ACQUISITION COST					
Land	955	-	-	-	955
Buildings and other constructions	378,899	656	(26)	(3,966)	375,563
Basic equipment	2,297,064	22,506	(1,184)	57,551	2,375,937
Transportation equipment	8,299	-	(33)	1	8,267
Tools and dies	1,347	-	-	10	1,357
Administrative equipment	186,850	1,349	(554)	985	188,630
Other tangible assets	41,928	108	(4)	234	42,266
Tangible assets in-progress	60,072	76,187	-	(58,838)	77,421
	2,975,415	100,806	(1,801)	(4,024)	3,070,396
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES					
Land	37	-	-	(37)	-
Buildings and other constructions	208,016	5,583	(27)	(3,766)	209,806
Basic equipment	1,502,361	88,710	(1,131)	(514)	1,589,426
Transportation equipment	3,914	897	(33)	1	4,779
Tools and dies	1,282	17	-	-	1,299
Administrative equipment	174,763	2,852	(521)	813	177,907
Other tangible assets	41,104	89	(2)	353	41,544
	1,931,477	98,148	(1,714)	(3,150)	2,024,761
	1,043,939	2,658	(87)	(873)	1,045,637

At 30 June 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 657.4 million euros (30 June 2017: 700.5 million euros);
- Terminal equipment installed on client premises, included under Basic equipment, amounts to 129.2 million euros (30 June 2017: 132.9 million euros).

The acquisition cost of the "Tangible assets" and "Intangible assets" held by the Group under finance lease contracts at 30 June 2017 and 2018, amounted to 207.4 million euros and 188.7 million euros, and their net book value as of those dates amounted to 102 million euros and 79.3 million euros, respectively.

Tangible and intangible assets include interests and other financial expenses incurred directly related to the construction of certain tangible or intangible assets in progress. At 30 June 2018, total net value of these costs amounted to 14.5 million euros (30 June 2017: 15.3 million euros). The amount of interest capitalised in the quarter ended on 30 June 2018 amounted to 0.7 million euros (30 June 2017: 0.5 million euros).

8. Intangible assets

During the semesters ended on 30 June 2017 and 2018, the movements in this item were as follows:

	31-12-2016 RESTATED	INCREASES	DISPOSALS AND WRITE-OFFS	TRANSFERS AND OTHERS	30-06-2017 RESTATED
ACQUISITION COST					
Industrial property and other rights	1,475,963	1,756	(40)	46,732	1,524,411
Costs of obtaining and to fulfil a contract with a customer	429,258	50,486	-	-	479,744
Goodwill	641,599	-	-	(199)	641,400
Intangible assets in-progress	34,355	37,146	-	(37,481)	34,020
	2,581,175	89,388	(40)	9,052	2,679,575
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES					
Industrial property and other rights	1,052,548	54,762	(8)	181	1,107,483
Costs of obtaining and to fulfil a contract with a customer	253,076	52,026	-	-	305,102
Other intangible assets	4,779	-	-	(213)	4,566
	1,310,403	106,788	(8)	(32)	1,417,151
	1,270,772	(17,400)	(32)	9,085	1,262,425

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	30-06-2018
ACQUISITION COST					
Industrial property and other rights	1,563,282	1,928	(10)	27,959	1,593,159
Costs of obtaining and to fulfil a contract with a customer	528,439	46,651	(34,424)	-	540,666
Goodwill	641,400	-	-	-	641,400
Intangible assets in-progress	43,533	29,958	-	(27,817)	45,674
	2,776,654	78,537	(34,434)	142	2,820,899
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES					
Industrial property and other rights	1,161,048	51,454	(2)	(56)	1,212,444
Costs of obtaining and to fulfil a contract with a customer	357,642	52,319	(34,424)	-	375,537
Intangible assets in-progress	4,566	-	-	(695)	3,871
	1,523,256	103,773	(34,426)	(751)	1,591,852
	1,253,398	(25,236)	(8)	893	1,229,047

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

- (1) A net amount of 122.8 million euros (30 June 2017: 131.1 million euros) mainly related to the investment, net of amortisation, made in the development of the UMTS network by NOS SA, including: (i) 38.9 million euros (30 June 2017: 41.5 million euros) related to the license, (ii) 13.0 million euros (30 June 2017: 13.9 million euros) related to the agreement signed in 2002 between Oni Way and the other three mobile telecommunication operators with activity in Portugal, (iii) 4.0 million euros (30 June 2017: 4.3 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) 56.9 million euros (30 June 2017: 60.7 million euros) related with the programme "Initiatives E"; and (v) the net amount of 6.7 million euros (30 June 2017: 7.2 million euros) corresponding to the valuation of the license in the fair value allocation process resulting from the merger;

- (2) A net amount of 88.4 million euros (30 June 2017: 92.1 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 3.1 million euros (30 June 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 44.2 million euros (30 June 2017: 52 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 16.9 million euros (30 June 2017: 20.7 million euros) corresponding to the future rights to use movies and series;
- (5) A net amount of 1.6 million euros (30 June 2017: 11.5 million euros) corresponding to the valuation of Optimus customer portfolio under the fair value allocation process resulting from the merger.

Increases in the semester ended on 30 June 2018 correspond mainly to customer acquisition costs, in the amount of 29.2 million euros, movies and series usage rights, for an amount of 13 million euros and software acquisition and development, for an amount of 15.1 million euros.

Impairment tests on goodwill

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

	31-12-2017 RESTATED	30-06-2018
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 June 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 June 2018, this item was composed as follows:

	31-12-2017 RESTATED	30-06-2018
INVESTMENTS - EQUITY METHOD		
Sport TV	4,693	5,673
Dreamia	3,658	3,841
Finstar	28,389	13,117
Mstar	(425)	(190)
Upstar	279	329
Canal 20 TV, S.A.	12	-
Big Picture 2 Films	100	112
	36,706	22,882
ASSETS	37,130	23,072
LIABILITIES (NOTE 22)	(425)	(190)

Movements in "Investments in jointly controlled companies and associated companies" in the semesters ended on 30 June 2017 and 2018 were as follows:

	6M 17 RESTATED	6M 18
AS AT JANUARY 1	7,063	36,706
Gains / (losses) of exercise (Note 33)	7,734	(5,861)
Gains with the entrance of new shareholders (Note 33) i)	1,237	-
Changes in equity ii)	(49)	(7,963)
AS AT JUNE 30	15,985	22,882

- 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 June 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.

30-06-2018							
ENTITY	ASSETS	LIABILITIES	EQUITY	REVENUE	NET INCOME	% HELD	GAIN/(LOSS) ATTRIBUTED TO THE GROUP
Sport TV*	88,409	65,717	22,692	94,140	3,921	25.00%	980
Dreamia	15,658	7,975	7,683	1,623	367	50.00%	184
Finstar	286,889	243,165	43,724	178,486	(24,562)	30.00%	(7,369)
Mstar	8,040	8,675	(635)	10,739	980	30.00%	294
Upstar	238,397	237,300	1,097	36,964	169	30.00%	51
Canal 20 TV, S.A. **	-	-	-	-	-	50.00%	(12)
Big Picture 2 Films	3,003	2,447	556	4,807	56	20.00%	11
	640,396	565,279	75,117	326,759	(19,069)		(5,861)

* 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 June 1, 2018.

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

10. Accounts receivable – other

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

	31-12-2017 RESTATED		30-06-2018	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Accounts receivables	7,284	7,013	6,441	6,286
Advances of suppliers	3,752	-	1,629	-
Unbilled revenues	2	-	-	-
	11,038	7,013	8,070	6,286
Impairment of other receivable	(672)	(828)	(301)	(828)
	10,366	6,185	7,769	5,458

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

	6M 17 RESTATED	6M 18
AS AT JANUARY 1	1,676	1,500
Increases (Note 32)	3	146
Utilizations / Others	(129)	(517)
AS AT JUNE 30	1,550	1,129

11. Taxes payable and receivable

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

	31-12-2017 RESTATED		30-06-2018	
	RECEIVABLE	PAYABLE	RECEIVABLE	PAYABLE
NON CURRENT				
Debt regularization	149	-	149	-
	149	-	149	-
CURRENT				
Value-added tax	943	13,739	827	18,092
Income taxes (i)	13,583	1,293	-	14,324
Personnel income tax withholdings	-	2,140	-	2,796
Social Security contributions	-	1,878	-	3,255
Others	419	172	420	103
	14,945	19,222	1,247	38,570
	15,094	19,222	1,396	38,570

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

	31-12-2017 RESTATED	30-06-2018
Estimated current tax on income	(12,504)	(15,985)
Payments on account	19,680	1,148
Withholding income taxes	4,383	513
Others	731	-
	12,290	(14,324)

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 2
- 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 June 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 30 June 2017 and 2018 were as follows:

	31-12-2016 RESTATED	DEFERRED TAXES OF THE PERIOD		30-06-2017 RESTATED
		INCOME (NOTE B)	EQUITY	
DEFERRED INCOME TAX ASSETS				
Doubtful accounts receivable	7,380	226	-	7,606
Inventories	2,482	84	-	2,566
Other provision and adjustments	84,371	(3,376)	-	80,995
Intragroup gains	23,034	(275)	-	22,759
Liabilities recorded as part of the allocation of fair value to the liabilities acquired in the merger	7,801	(227)	-	7,574
Derivatives	901	41	(328)	614
	125,969	(3,527)	(328)	122,114
DEFERRED INCOME TAX ASSETS				
Revaluations of assets as part of the allocation of fair value to the assets acquired in the merger	7,879	(1,486)	-	6,393
Derivatives	10	(10)	-	-
Assets recognised under application of IFRS 15 (Note 2)	19,898	(366)	-	19,532
Others	2,317	27	-	2,344
	30,104	(1,835)	-	28,269
NET DEFERRED TAX	95,865	(1,692)	(328)	93,845

	31-12-2017 RESTATED	DEFERRED TAXES OF THE PERIOD		30-06-2018
		INCOME (NOTE B)	EQUITY	
DEFERRED INCOME TAX ASSETS				
Doubtful accounts receivable	4,981	(2,336)	-	2,645
Inventories	2,340	(230)	-	2,110
Other provision and adjustments	71,500	(8,426)	-	63,074
Intragroup gains	20,926	3,074	-	24,000
Liabilities recorded as part of the allocation of fair value to the liabilities acquired in the merger	7,396	(674)	-	6,722
Derivatives	557	(14)	(60)	483
	107,700	(8,606)	(60)	99,034
DEFERRED INCOME TAX LIABILITIES				
Revaluations of assets as part of the allocation of fair value to the assets acquired in the merger	4,851	(1,445)	-	3,406
Assets recognised under application of IFRS 15 (Note 2)	18,383	(18,383)	-	-
Others	2,289	(24)	-	2,265
	25,523	(19,852)	-	5,671
NET DEFERRED TAX	82,177	11,246	(60)	93,363

At 30 June 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 47.9 million euros (31 December 2017: 50.3 million euros; and ii) Other provisions amounted to 15.1 million euros (31 December 2017: 13.0 million euros).

At 30 June 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 June 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 June 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 semesters ended on 30 June 2017 and 2018, the reconciliation between the nominal and effective rates of tax was as follows:

	2° QUARTER 17	6M 17 RESTATED	2° QUARTER 18	6M 18
Income before taxes	45.887	83.462	52.085	91.281
Statutory tax rate	22,5%	22,5%	22,5%	22,5%
ESTIMATED TAX	10.325	18.779	11.719	20.538
Permanent differences i)	(737)	(1.859)	(355)	747
Differences in tax rate of group companies	(1.692)	(2.759)	(275)	(787)
Record of deferred taxes	(795)	(828)	1.609	(3.799)
Tax benefits ii)	(2.018)	(5.098)	(8.997)	(11.398)
State surcharge	1.960	3.430	2.986	6.572
Autonomous taxation	199	404	195	402
Provisions (Note 22)	(1.233)	(1.174)	40	(49)
Others	(20)	(80)	258	635
INCOME TAXES	5.989	10.815	7.180	12.861
Effective Income tax rate	13,1%	13,0%	13,8%	14,1%
Income tax	3.051	9.123	12.961	24.107
Deferred tax	2.938	1.692	(5.781)	(11.246)
	5.989	10.815	7.180	12.861

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

	2° QUARTER 17	6M 17 RESTATED	2° QUARTER 18	6M 18
Equity method (Note 33)	(3,622)	(8,971)	(587)	5,727
Others	344	707	(988)	(2,405)
	(3,278)	(8,264)	(1,575)	3,322
	22.5%	22.5%	22.5%	22.5%
	(737)	(1,859)	(355)	747

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 semester ended on 30 June 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 semester ended on 30 June 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 June 2018, this item was composed as follows:

	31-12-2017 RESTATED	30-06-2018
INVENTORIES		
Telco	39,261	41,335
Audiovisuals	1,744	1,379
	41,005	42,714
IMPAIRMENT OF INVENTORIES		
Telco	(8,044)	(7,377)
Audiovisuals	(917)	(642)
	(8,961)	(8,019)
	32,044	34,695

The movements occurred in impairment adjustments were as follows:

	6M 17 RESTATED	6M 18
AS AT JANUARY 1	9,523	8,961
Increase and decrease - Cost of products sold (Note 30)	256	(237)
Utilizations / Others	(74)	(705)
AS AT JUNE 30	9,705	8,019

14. Accounts receivable – trade

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

	31-12-2017 RESTATED	30-06-2018
Trade receivables	351,400	368,636
Doubtful accounts for trade receivables	139,484	127,102
Unbilled revenues i)	102,928	108,302
Default interests - offsetting of credits ii)	-	27,164
	593,812	631,512
Impairment of trade receivable	(139,484)	(127,103)
	454,328	504,409

- 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) 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. In the first semester of 2018, after all appeals and claims in court, promoted by MEO, were dismissed, including by the Constitutional Court, in April 2018, whose

decision became final in April 2018, NOS recognised an income of interests on these loans amounting to EUR 27.3 million. This amount was received at 3 July 2018.

The movements occurred in impairment adjustments were as follows:

	6M 17 RESTATED	6M 18
AS AT JANUARY 1	157,753	139,484
Increases and decreases (Note 32)	1,950	1,958
Penalties - i)	4,310	7,020
Utilizations / Others	(6,032)	(21,359)
AS AT JUNE 30	157,981	127,103

- 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 June 2018, this item was composed as follows:

	31-12-2017 RESTATED	30-06-2018
Programming costs	13,884	12,931
Costs of litigation procedure activity	16,990	11,719
Rentals	3,141	3,756
Advertising	1,213	2,263
Others	11,299	13,938
	46,527	44,607

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 3.052 thousand euros (31 December 2017: 3,141 thousand euros), the fair value amounts to a loss of about 12 thousand euros (2017: loss of about 33 thousand euros).

Interest rate derivatives

At 30 June 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 2 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 June 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	-	-	33	-
	255,459	19	-	33	2,462

30-06-2018					
NOTIONAL	ASSETS		LIABILITIES		
	CURRENT	NON CURRENT	CURRENT	NON CURRENT	
Interest rate swaps	250,000	-	-	-	1,972
Equity swaps	2,641	-	-	50	109
Exchange rate forward	3,052	1	-	13	-
	255,693	1	-	63	2,081

Movements during the semesters ended on 30 June 2017 and 2018 were as follows:

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

	31-12-2017 RESTATED	RESULT	EQUITY	30-06-2018
Fair value interest rate swaps	(2,453)	-	481	(1,972)
Fair value exchange rate forward	(33)	21	-	(12)
Fair value equity swaps	10	47	(216)	(159)
DERIVATIVES	(2,476)	68	265	(2,143)
Deferred income tax liabilities	-	-	-	-
Deferred income tax assets	557	(14)	(60)	483
DEFERRED INCOME TAX	557	(14)	(60)	483
	(1,919)	54	205	(1,660)

18. Cash and cash equivalents

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

	31-12-2017 RESTATED	30-06-2018
Cash	2,002	1,078
Other deposits i)	579	583
Deposits	396	1,455
	2,977	3,116

- i) At 31 December 2017 and 30 June 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 June 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 June 2018 are:

	31-12-2017 RESTATED		30-06-2018	
	NUMBER OF SHARES	% SHARE CAPITAL	NUMBER OF SHARES	% SHARE CAPITAL
ZOPT, SGPS, SA (1)	268,644,537	52.15%	268,644,537	52.15%
Harris Associates, L.P.	-	-	11,643,300	2.26%
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%	-	-
TOTAL	316,423,088	61.42%	313,790,879	60.91%

- (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:
- 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,
 - 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 June 2018 there were 2,083,126 own shares, representing 0.404% of share capital (31 December 2017: 2,040,234 own shares, representing 0.390% of the share capital)

Movements in the semesters ended on 30 June 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	(923,953)	(5,743)
Distribution of own shares - other remunerations	(45,898)	(285)
BALANCE AS AT 30 JUNE 2017	2,047,752	12,728
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	(589,458)	(3,461)
Distribution of own shares - other remunerations	(17,650)	(103)
BALANCE AS AT 30 JUNE 2018	2,083,126	12,213

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 June 2018, NOS had reserves, which by their nature are considered distributable for an amount of approximately 1.3 million euros, not including the net income.

20. Non-controlling interests

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

	31-12-2016 RESTATED	ATTRIBUTABLE PROFITS	OTHERS	30-06-2017 RESTATED
NOS Madeira	5,544	523	2	6,069
NOS Açores	2,174	(111)	1	2,064
Lusomundo SII	23	-	-	23
Lusomundo Imobiliária 2	34	-	-	34
	7,775	412	3	8,190

	31-12-2017 RESTATED	ATTRIBUTABLE PROFITS	OTHERS	30-06-2018
NOS Madeira	5,898	(276)	(5)	5,617
NOS Açores	1,924	(194)	(2)	1,728
	7,822	(470)	(7)	7,345

21. Borrowings

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

	31-12-2017 RESTATED		30-06-2018	
	CURRENT	NON-CURRENT	CURRENT	NON-CURRENT
LOANS - NOMINAL VALUE	182,987	873,333	199,286	930,000
Debenture loan	-	585,000	50,000	610,000
Commercial paper	122,901	215,000	100,000	265,000
Foreign loans	18,333	73,333	18,333	55,000
Bank overdrafts	41,753	-	30,953	-
LOANS - ACCRUALS AND DEFERRALS	582	(2,992)	(135)	(4,645)
LOANS - AMORTISED COST	183,569	870,341	199,151	925,355
FINANCIAL LEASES	26,567	84,317	26,056	74,216
Long Term Contracts	12,858	63,475	12,860	58,412
Other	13,709	20,842	13,196	15,804
	210,136	954,658	225,207	999,571

During the semester ended on 30 June 2018, the average cost of debt of the used lines was approximately 1.9% (2017: 2.0%).

21.1. Debenture loans

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

- i) A bond loan in the amount 100 million euros organised by BPI bank in May 2014 and maturing in November 2019. The loan bears interest at variable rates, indexed to Euribor and paid 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 June 2019. The first issue, held in June 2015, was refunded in advance in June 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 June 2016 and organised by ING, whose maturity occurs in June 2023. The issue bears interest at a variable rate indexed to Euribor and paid 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 June 2018, an amount of 337 thousand euros, corresponding to interest and commissions, was deducted from this amount and recorded in the item "Loans - accruals and deferrals".

21.2. Commercial paper

At 30 June 2018, the Company has borrowings of 365 million euros in the form of commercial paper, of which 40 million euros was issued under non-underwritten programs. The total amount contracted, under underwriting securities, is of 570 million euros, corresponding to 11 programmes, with four banks, 495 million euros of which bear interest at market rates and 75 million euros are issued in fixed rate. Commercial paper programmes with maturities over 1 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 June 2018 an amount of 318 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 June 2014, the total amount of funds was used. This contract matures in a maximum period of 8 years from the use of the funds, with partial amortisations of 18,3 million euros per year as of June 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 June 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, 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 June 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	30-06-2018
Until 1 year	31,255	30,228
Between 1 and 5 years	66,436	59,485
Over 5 years	30,208	25,387
	127,899	115,100
Future financial costs (lease)	(17,015)	(14,828)
PRESENT VALUE OF FINANCE LEASE LIABILITIES	110,884	100,272

Financial leases - present value

	31-12-2017 RESTATED	30-06-2018
Until 1 year	26,567	26,056
Between 1 and 5 years	56,525	50,596
Over 5 years	27,793	23,620
	110,884	100,272

The maturities of the loans obtained are as follows:

	31-12-2017 RESTATED			30-06-2018		
	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	52,326	547,337	60,000
Commercial paper	122,637	177,500	37,500	99,682	215,000	50,000
Foreign loans	17,748	72,241	-	16,189	53,018	-
Bank overdrafts	41,753	-	-	30,953	-	-
Financial leases	26,567	56,525	27,793	26,056	50,596	23,620
	210,136	829,396	125,262	225,207	865,951	133,620

22. Provisions

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

	31-12-2017 RESTATED	30-06-2018
Litigation and other - i)	52,261	58,110
Financial investments - ii)	425	190
Dismantling and removal of assets - iii)	31,651	32,677
Contingent liabilities - iv)	32,490	32,490
Contingencies - other - v)	16,435	19,902
	133,262	143,369

- 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. The company has contested this decision and the final decision of the processes is still pending;
- ii) The amount under the item "Financial investments" corresponds to the liabilities assumed, in addition to the investment made, by the Group in jointly controlled companies and associated companies (Note 9);
- iii) The amount under the item "Dismantling and removal of assets" refers to the estimated future costs discounted to the present value, related with the termination of the use of the space where there are telecommunication towers and cinemas;
- iv) The amount in the item "Contingent liabilities" refers to several provisions recorded for present but not likely obligations, related to the merger by incorporation of Optimus SGPS, namely:
 - 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 June 2014, MEO, SA (former PTC) was the sole provider for the universal service of electronic communications, having been designated administratively by the government, i.e. without a tender procedure, which constitutes an illegality, by the way acknowledged by the European Court of Justice who, through its decision taken in June 2014, condemned the Portuguese State to pay a fine of 3 million euros for illegally designating MEO. In accordance with Article 18 of the abovementioned Law 35/2012, the net costs incurred by the operator responsible for providing the universal service, approved by ANACOM, must be shared between other companies who provide, in national territory public communication networks and publicly accessible electronic communications services. NOS is therefore within the scope of this extraordinary contribution given that MEO has been requesting the payment of CLSU to the compensation fund of the several periods during which it was responsible for providing the

services. In accordance with law, the compensation fund can be activated to compensate the net costs of the electronic communications universal service, relative to the period before the designation of the provider by tender, whenever, cumulatively (i) there are net costs, considered excessive, the amount of which is approved by ANACOM, following an audit to their preliminary calculation and support documents, which are provided by the universal service provider, and (ii) the universal service provider requester the Government compensation for the net costs approved under the terms previously mentioned.

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

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

During the semester ended on 30 June 2017, increases mainly refer to 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 semester ended 30 June 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 (Note 11). In addition, the movements recorded in "Other" in the amount of 4.8 million euros refer mainly to the use of provisions created for employee compensation amounting to 2.2 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 2.6 million euros.

During the semester ended on 30 June 2018, movements in provisions, were as follows:

	31-12-2017 RESTATED	INCREASES	DECREASES	OTHERS	30-06-2018
Litigation and other	52.261	8.448	(2.599)	-	58.110
Financial investments	425	-	(235)	-	190
Dismantling and removal of assets	31.651	293	-	733	32.677
Contingent liabilities	32.490	-	-	-	32.490
Contingencies - other	16.435	1.652	(156)	1.971	19.902
	133.262	10.393	(2.990)	2.704	143.369

During the semester ended on 30 June 2018, the increases refer mainly to provisions for legal claims plus interests and charges.

The movement recorded in "Others" in the amount of 2.0 million euros, under "Contingencies - other" refers mainly to the reclassification of cost estimates in respect of which it was not possible to estimate with great reliability the timing of the expenditure, in the meantime settled, in the amount of 3.1 million euros, less the use of provisions created for compensations to employees, in the amount of 1.1 million euros.

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

	6M 17 RESTATED	6M 18
Provisions and adjustments (Note 32)	(3,448)	(1,222)
Financial investments (Note 9)	(198)	(235)
Other losses / (gains) non-recurrent (Note 35)	1,409	8,372
Interests - dismantling	219	293
Other interests	(1,906)	244
Income tax (Note 12)	(1,174)	(49)
INCREASES AND DECREASES IN PROVISIONS	(5,098)	7,403

23. Accrued expenses

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

	31-12-2017 RESTATED	30-06-2018
NON-CURRENT		
Contractual obligations i)	8,139	5,974
Others	628	356
	8,767	6,330
CURRENT		
Invoices to be issued by operators ii)	64,136	57,881
Investments in tangible and intangible assets	37,532	32,593
Vacation pay and bonuses	26,505	18,860
ANACOM taxes and Cinema Law	111	15,064
Content and film rights	16,892	13,780
Programming services	7,946	13,481
Advertising	17,298	12,685
Professional services	14,628	12,630
Costs of litigation procedure activity	5,078	6,733
Comissions	5,122	6,197
Energy and water	3,474	3,817
Maintenance and repair	2,303	2,314
Rentals	1,570	2,122
Other accrued expenses	10,970	10,136
	213,564	208,292

- 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 June 2018, this item was composed as follows:

	31-12-2017 RESTATED		30-06-2018	
	CURRENT	NON-CURRENT	CURRENT	NON-CURRENT
Advanced billing i)	26,415	-	27,372	-
Investment subsidy ii)	632	3,773	411	5,505
	27,047	3,773	27,783	5,505

- 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 June 2018, this item was composed as follows:

	31-12-2017 RESTATED	30-06-2018
Suppliers current account	222,840	239,813
Invoices in reception and conference	2,024	3,698
	224,864	243,511

26. Accounts payable - other

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

	31-12-2017 RESTATED	30-06-2018
NON-CURRENT		
Assignment of receivables without recourse i)	17.615	14.064
	17.615	14.064
CURRENT		
Fixed assets suppliers	40.753	38.892
Assignment of receivables without recourse i)	15.493	12.053
Advances from customers	179	279
Others	1.730	1.487
	58.155	52.711
	75.770	66.775

- 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 quarter ended on 30 June 2018, the balance amounts to 26.1 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 semesters ended on 30 June 2017 and 2018, were as follows:

	2º QUARTER 17	6M 17 RESTATED	2º QUARTER 18	6M 18
SERVICES RENDERED:				
Telco i)	344,599	681,409	348,755	687,946
Audiovisuals and cinema exhibition ii)	20,130	39,690	14,727	31,147
	364,729	721,099	363,482	719,093
SALES:				
Telco iii)	14,099	28,960	15,749	31,738
Audiovisuals and cinema exhibition iv)	4,522	8,537	3,658	7,773
	18,621	37,497	19,407	39,511
OTHER OPERATING REVENUES:				
Telco	3,652	8,543	6,023	13,070
Audiovisuals and cinema exhibition	270	469	372	613
	3,921	9,012	6,395	13,683
	387,271	767,607	389,285	772,287

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 semesters ended on 30 June 2017 and 2018, this item was composed as follows:

	2º QUARTER 17	6M 17 RESTATED	2º QUARTER 18	6M 18
Remuneration	15,585	32,559	14,870	30,095
Social taxes	4,184	8,395	4,123	8,287
Social benefits	464	956	485	955
Other	465	978	(437)	(318)
	20,698	42,888	19,041	39,019

In the semesters ended on 30 June 2017 and 2018, the average number of employees of the companies included in the consolidation was 2,487 and 2,505, respectively. At 30 June 2018, the number of employees of the companies included in the consolidation was 2,494 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 semesters ended on 30 June 2017 and 2018, this item was composed as follows:

	2° QUARTER 17	6M 17 RESTATED	2° QUARTER 18	6M 18
Exhibition costs	52,726	103,906	49,956	101,357
Traffic costs	56,287	102,249	59,148	111,341
Capacity costs	11,480	23,524	11,890	22,959
Shared advertising revenues	4,124	7,571	3,985	7,164
Others	1,210	2,341	1,031	1,876
	125,827	239,591	126,010	244,697

30. Cost of products sold

In the semesters ended on 30 June 2017 and 2018, this item was composed as follows:

	2° QUARTER 17	6M 17 RESTATED	2° QUARTER 18	6M 18
Costs of products sold	13,102	27,316	13,638	27,834
Increases / (decreases) in inventories impairments (Note 13)	239	256	463	(237)
	13,341	27,572	14,101	27,597

31. Support services and supplies and external services

In the semesters ended on 30 June 2017 and 2018, this item was composed as follows:

	2° QUARTER 17	6M 17 RESTATED	2° QUARTER 18	6M 18
SUPPORT SERVICES:				
Call centers and customer support	7,547	16,091	7,426	15,620
Information systems	4,331	8,780	2,925	7,410
Administrative support and others	10,927	21,345	8,920	18,697
	22,805	46,216	19,271	41,727
SUPPLIES AND EXTERNAL SERVICES:				
Maintenance and repair	11,180	22,969	11,010	21,954
Rentals	10,492	21,655	7,572	18,201
Electricity	5,915	10,671	5,386	10,990
Installation and removal of terminal equipment	2,763	5,489	3,881	8,361
Professional services	3,151	6,227	2,867	5,919
Communications	1,895	3,647	1,910	3,687
Other supplies and external services	6,854	13,752	6,164	12,382
	42,250	84,410	38,790	81,494

32. Provisions and adjustments

In the semesters ended on 30 June 2017 and 2018, these items were composed as follows:

	2° QUARTER 17	6M 17 RESTATED	2° QUARTER 18	6M 18
Provisions (Note 22)	(7,811)	(3,448)	(1,427)	(1,222)
Impairment of account receivables - trade (Note 14)	(1,482)	1,950	(1,795)	1,958
Impairment of account receivables - others (Note 10)	17	3	(6)	146
Others	6	10	2	34
	(9,270)	(1,485)	(3,226)	916

33. Net losses / (gains) of affiliated companies

In the semesters ended on 30 June 2017 and 2018, this item was composed as follows:

	2° QUARTER 17	6M 17 RESTATED	2° QUARTER 18	6M 18
EQUITY METHOD (NOTE 9)				
Sport TV	(954)	(2,474)	(838)	(980)
Dreamia	(257)	(504)	(199)	(184)
Finstar	(2,241)	(5,719)	666	7,369
Mstar	(175)	(256)	(181)	(294)
Upstar	-	(9)	(28)	(51)
Others	5	(9)	15	1
	(3,622)	(8,971)	(565)	5,861
OTHERS	-	-	(22)	(134)
	(3,622)	(8,971)	(587)	5,727

During the first semester of 2018, the Kwanza recorded an exceptional devaluation against the Euro of approximately 36%, which generated the recognition of exchange losses in the ZAP Group, losses that impact this item in approximately, 10 million euros.

34. Depreciation, amortisation and impairment losses

In the semesters ended on 30 June 2017 and 2018, this item was composed as follows:

	2° QUARTER 17	6M 17 RESTATED	2° QUARTER 18	6M 18
TANGIBLE ASSETS				
Buildings and other constructions	2,914	5,810	2,916	5,583
Basic equipment	44,581	88,653	38,165	88,710
Transportation equipment	446	871	448	897
Tools and dies	8	16	8	17
Administrative equipment	1,364	1,530	1,432	2,852
Other tangible assets	85	4	44	89
	49,398	96,884	43,013	98,148
INTANGIBLE ASSETS				
Industrial property and other rights	28,002	54,762	25,715	51,454
Costs of obtaining and to fulfil a contract with a customer	26,058	52,026	26,093	52,319
	54,060	106,788	51,808	103,773
INVESTMENT PROPERTY				
Investment property	-	1	-	1
	-	1	-	1
	103,458	203,673	94,821	201,922

During the first semester of 2018, following the modernisation project of the NOS mobile network, impairment losses were recognised on the current assets for an approximate amount of 23 million euros.

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

In the semesters ended on 30 June 2017 and 2018, the other non-recurring costs / (gains) was composed as follows:

	2° QUARTER 17	6M 17 RESTATED	2° QUARTER 18	6M 18
GAINS:				
Default interests - offsetting of credits (Note 14)	-	-	(154)	(27.318)
	-	-	(154)	(27.318)
COSTS:				
Provisions and costs with lawsuits	-	-	-	12.529
Others	2.171	3.954	869	2.114
	2.171	3.954	869	14.643
TOTAL	2171	3.954	715	(12.675)

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

In the semesters ended on 30 June 2017 and 2018, financing costs and other financial expenses / (income) were composed as follows:

	2° QUARTER 17	6M 17 RESTATED	2° QUARTER 18	6M 18
FINANCING COSTS:				
INTEREST EXPENSE:				
Borrowings	4,078	8,136	2,975	6,737
Finance leases	1,312	2,885	1,133	2,250
Derivatives	737	1,362	405	807
Others	1,085	1,334	344	891
	7,213	13,717	4,858	10,685
INTEREST EARNED	(1,155)	(2,748)	(963)	(2,125)
	6,058	10,969	3,895	8,560
NET OTHER FINANCIAL EXPENSES /(INCOME):				
Comissions and guarantees	1,261	2,453	2,184	3,241
Others	(2,202)	(1,699)	1,939	2,274
	(941)	754	4,123	5,515

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 semesters ended on 30 June 2017 and 2018 were calculated as follow:

	2º QUARTER 17	6M 17 RESTATED	2º QUARTER 18	6M 18
Consolidated net income attributable to shareholders	39.454	72.236	45.112	78.890
Number of ordinary shares outstanding during the period (weighted average)	513.013.757	512.712.028	513.077.700	513.095.404
Basic earnings per share - euros	0,08	0,14	0,09	0,15
Diluted earnings per share - euros	0,08	0,14	0,09	0,15

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

38. Guarantees and financial undertakings

38.1. Guarantees

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

	31-12-2017 RESTATED	30-06-2018
Financial institutions i)	91,843	73,452
Tax authorities ii)	13,112	13,112
Others iii)	11,479	11,857
	116,434	98,421

- i) At 31 December 2017 and 30 June 2018, this amount relates to guarantees issued by NOS in connection with the loans from BEI. The variation in the semester is in line with the decrease of the loan (Note 21).
- ii) At 31 December 2017 and 30 June 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 June 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 June 2018, amounted to 10.2 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				30-06-2018			
	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	1,190	20,088	48,326	14,488
Telecommunication towers and rooftops	2,068	22,407	60,211	19,048	1,922	23,470	61,688	21,037
Equipments	-	8,922	18,229	-	-	9,031	20,276	-
Vehicles	-	2,253	2,577	-	-	2,025	2,313	-
	3,105	55,623	131,050	36,695	3,112	54,614	132,603	35,525

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 81% to ownership clauses.

In addition, approximately 26% of the total loans obtained require that the consolidated net financial debt does not exceed 3 times consolidated EBITDA, approximately 4% of the total loans obtained require that the consolidated net financial debt does not exceed 3.5 times consolidated EBITDA and approximately 5% of the total loans obtained require that the consolidated net financial debt does not exceed 4 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 June 2018 and transactions in the semesters ended on 30 June 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
SHAREHOLDERS					
BPI	1,519	41	47	-	-
ASSOCIATED COMPANIES					
Big Picture 2 Films	60	123	628	-	-
Sport TV	1,418	4,795	3,680	-	13,568
JOINTLY CONTROLLED COMPANIES					
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	-	-	-	-
OTHER RELATED PARTIES					
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 semester ended on 30 June 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
SHAREHOLDERS									
Banco BPI	2,561	-	293	-	-	3	-	(202)	-
ASSOCIATED COMPANIES									
Big Picture 2 Films	25	-	2,370	-	-	23	-	-	-
Sport TV	116	-	38,664	-	-	-	-	-	-
JOINTLY CONTROLLED COMPANIES AND ASSOCIATED COMPANIES									
Dreamia Holding BV	141	-	-	-	-	-	-	64	-
Dreamia SA	1,099	(2)	55	12	-	(1)	-	-	-
Finstar	415	-	-	-	-	-	-	-	-
Mstar	17	-	-	-	-	-	-	-	-
Upstar	8,345	-	(202)	12	-	-	-	-	-
ZAP CineMas	7	-	-	-	-	-	-	-	-
ZAP Media	161	-	-	-	-	-	-	-	-
OTHER RELATED PARTIES									
CascaShopping	7	-	-	4	-	314	-	-	-
Continente Hipermercados	140	-	-	-	-	26	-	-	9
Digitmarket	101	-	25	1	110	91	-	-	4,140
Itrust	11	-	-	-	37	(178)	-	-	129
Malashopping	-	-	-	1	-	158	-	-	-
Modelo continente hipermercados	2,555	-	6	37	-	(31)	-	-	-
MDS - Corretor de Seguros	266	-	-	-	-	86	-	-	-
Norteshopping	2	-	-	2	-	241	-	-	-
Saphety Level - Trusted Services	51	-	-	-	159	1	-	-	6
SC-Consultadoria	657	-	-	-	-	-	-	-	-
Sonae Indústria PCDM	217	-	-	-	-	-	-	-	-
Sistavac	76	-	-	-	-	22	-	-	107
Sierra Portugal	1,743	-	-	193	-	1,618	-	-	-
Solinca HF	126	-	-	-	-	-	-	-	-
Sonae Center II	772	-	-	-	-	-	-	-	-
Sonaeacom	16	-	-	-	-	17	69	-	-
Spirveste - Promoção Imobiliária	-	-	-	-	-	128	-	-	-
SDSR II	138	-	-	-	-	-	-	-	-
UNITEL	1,248	-	841	-	-	-	-	-	-
Vasco da Gama	7	-	-	2	-	449	-	-	-
We Do Consulting-Sist. de Informação	229	-	-	-	1,441	1	-	-	1,882
Worten - Equipamento para o Lar	2,638	-	-	(98)	-	260	-	-	-
Other related parties	1,225	-	-	29	9	252	-	-	13
	25,112	(2)	42,052	194	1,756	3,479	69	(138)	6,285

Balances at 30 June 2018

	ACCOUNTS RECEIVABLES	ACCOUNTS PAYABLE	ACCRUED EXPENSES	DEFERRED INCOME	PREPAID EXPENSES
SHAREHOLDERS					
BPI	1,477	(134)	26	-	-
ASSOCIATED COMPANIES					
Big Picture 2 Films	6	306	112	-	-
Sport TV	181	732	6,604	-	3,430
JOINTLY CONTROLLED COMPANIES					
Dreamia Holding BV	2,773	-	-	-	-
Dreamia SA	2,013	2,245	401	-	-
Finstar	9,718	-	-	-	-
Mstar	1	-	-	-	-
Upstar	35,322	58	-	729	-
ZAP Cinemas	373	-	-	-	-
ZAP Media	3,877	-	-	-	-
OTHER RELATED PARTIES					
Centro Colombo	8	12	-	-	133
Centro Vasco da Gama	21	14	-	-	77
Digitmarket	33	348	-	0	228
Efacec Engenharia	34	203	-	-	-
Itrust - Cyber Security and Intellig. , S.A.	6	112	-	-	16
Modelo Continente Hipermercados	950	4	-	-	2
MDS - Corretor de Seguros	102	-	-	-	238
Norteshopping	7	5	-	-	112
Saphety Level - Trusted Services	37	100	-	-	1
SC-Consultadoria,SA	388	-	-	-	-
Sonae Arauco Portugal, S.A.	130	-	-	-	-
Sierra Portugal	592	8	1	-	9
Solinca HF	111	-	-	-	-
Sonae Center II	492	43	-	-	-
Sonaecom	147	-	406	-	-
UNITEL	4,328	3,433	1,128	-	-
We Do Consulting-Sist. de Informação	113	1,880	-	-	103
Worten - Equipamento para o Lar	1,531	121	219	-	-
Other related parties	881	83	-	-	192
	65,647	9,572	8,896	729	4,540

Transactions in the semester ended on 30 June 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
SHAREHOLDERS									
Banco BPI	2,563	-	43	-	-	6	-	(104)	-
ASSOCIATED COMPANIES									
Big Picture 2 Films	10	-	2,382	(2)	-	24	-	-	-
Sport TV	796	-	38,503	-	-	-	-	-	-
JOINTLY CONTROLLED COMPANIES									
Dreamia Holding BV	13	-	-	-	-	-	-	67	-
Dreamia SA	1,806	4	19	39	-	(18)	-	0	-
Finstar	435	-	-	-	-	-	-	-	-
Mstar	16	-	-	-	-	-	-	-	-
Upstar	5,372	-	(153)	1	-	-	-	-	-
ZAP Media	132	-	-	-	-	-	-	-	-
OTHER RELATED PARTIES									
CascaShopping	7	-	-	4	-	452	-	-	-
Centro Colombo	13	-	-	5	-	854	-	-	-
Continente Hipermercados, S.A.	148	0	-	-	-	40	-	-	1
Digitmarket	166	-	-	-	189	136	0	-	661
EFACEC Engenharia e Sistemas	-	-	-	-	-	-	-	-	203
Galashopping	23	-	-	3	-	229	-	-	-
Itrust - Cyber Security and Intellig	15	-	-	-	154	58	-	-	359
Malashopping	10	-	-	2	-	198	-	-	-
Modelo continente hipermercados	1,951	-	(0)	2	-	(28)	-	-	-
MDS Corretor de Seguros, SA	268	-	-	-	-	-	-	-	-
Norteshopping	11	-	-	5	-	817	-	-	-
Saphety Level - Trusted Services	51	-	-	-	128	54	-	-	6
SC-Consultadoria,SA	628	-	-	-	-	-	-	-	-
SDSR - Sports Division SR, S.A.	129	-	-	-	-	-	-	-	-
SFS - Serviços de Gestão e Marketing	-	-	1	185	-	-	-	-	-
Sonae Arauco Portugal, S.A.	228	-	-	-	-	-	-	-	-
Sierra Portugal	1,696	-	-	29	(0)	75	-	-	-
Sollinca HF	187	-	-	-	-	-	-	-	-
Sonae Center II	1,661	45	-	-	-	1	-	-	-
Spirinveste - Promoção Imobiliária, SA	-	-	-	-	-	116	-	-	-
UNITEL S.a.r.l.	1,805	-	905	-	-	-	-	-	-
Vasco da Gama	9	-	-	3	-	502	-	-	-
We Do Consulting-Sist. de Informação	235	-	-	13	1,342	0	-	-	1,822
Worten - Equipamento para o Lar	1,768	-	-	349	-	390	-	0	-
Other related parties	1,441	-	(1)	32	6	353	41	-	-
	23,593	49	41,698	668	1,819	4,261	41	(37)	3,053

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. These 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 2017 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 June 2013 and May 2016) and three to NOS Madeira (March and June 2013 and May 2016), in order to stop the prescription of alleged damages resulting from claims of undue portability, absence of response time to requests submitted to them by MEO and alleged illegal refusal of electronic portability requests.

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

- 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. The deadline for contestation is in progress, ending in September 2018.
- 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, experts who will be tasked with the economic and financial expertise have been appointed which has already started and must be finished in the semester of 2018.

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 June 2018, accounts receivable and accounts payable include 37,139,253 euros and 29,913,608 euros, respectively, resulting from a dispute between the subsidiary NOS SA and, essentially, the operator MEO – Serviços de Comunicação e Multimédia, S.A. (previously named TMN – Telecomunicações Móveis Nacionais, S.A.), in relation to the 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 June 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 June 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 June 2018, the unvested plans are:

	NUMBER OF SHARES
NOS PLAN	
Plan 2015	878
Plan 2016	739,613
Plan 2017	849,062
Plan 2018	856,941

During the semester ended on 30 June 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)	(530,939)
Cancelled / elapsed / corrected ⁽¹⁾	(1,859)	(115,368)
BALANCE AS AT 30 JUNE 2018	-	2,446,494

- 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 June 2018, the outstanding responsibility related to these plans is 4,601 thousand euros and is recorded in Reserves, for an amount of 3,835 thousand euros, for plans liquidated in shares and in Accrued expenses, for an amount of 766 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	(503)	(3,550)	(4,053)
Costs incurred in the period and others	43	2,134	2,177
TOTAL COST OF THE PLANS	766	3,835	4,602

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 30-06-2018	EFFECTIVE 30-06-2018
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	Comercialization of cable tv contents	NOS SA	100%	100%	100%
NOS TECHNOLOGY - Conceção, Construção e Gestão de Redes de Comunicações, S.A. ('Artis')	Matosinhos	Design, construction, management and exploitation of electronic communications networks and their equipment and infrastructure, management of technologic assets and rendering of related services	NOS	100%	100%	100%
NOS TOWERING - Gestão de Torres de Telecomunicações, S.A. ('Be Towering')	Lisbon	Implementation, installation and exploitation of towers and other sites for the instalment of telecommunications equipment	NOS	100%	100%	100%
Per-Mar - Sociedade de Construções, S.A. ('Per-Mar')	Lisbon	Purchase, sale, renting and operation of property and commercial establishments	NOS	100%	100%	100%
Sontária - Empreendimentos Imobiliários, S.A. ('Sontária')	Lisbon	Realisation of urbanisation and building construction, planning, urban management, studies, construction and property management, buy and sale of properties and resale of purchased for that purpose	NOS	100%	100%	100%
Teliz Holding B.V.	Amsterdam	Management of group financing activities	NOS	100%	100%	100%

B) Associated companies

COMPANY	HEADQUARTERS	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP		
				EFFECTIVE 31-12-2017	DIRECT 30-06-2018	EFFECTIVE 30-06-2018
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 30-06-2018	EFFECTIVE 30-06-2018
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 30-06-2018	EFFECTIVE 30-06-2018
Turismo da Samba (Tusal), SARL (a)	Luanda	n.a.	NOS	30.00%	30.00%	30.00%
Filmes Mundáfrica, SARL (a)	Luanda	Movies exhibition	NOS	23.91%	23.91%	23.91%
Companhia de Pesca e Comércio de Angola (Cosal), SARL (a)	Luanda	n.a.	NOS	15.76%	15.76%	15.76%
Caixanet - Telecomunicações e Telemática, S.A.	Lisbon	Telecommunication services	NOS	5.00%	5.00%	5.00%
Apor - Agência para a Modernização do Porto	Oporto	Development of modernizing projects in Oporto	NOS	3.98%	3.98%	3.98%
Lusitânia Vida - Companhia de Seguros, S.A ("Lusitânia Vida")	Lisbon	Insurance services	NOS	0.03%	0.03%	0.03%
Lusitânia - Companhia de Seguros, S.A ("Lusitânia Seguros")	Lisbon	Insurance services	NOS	0.02%	0.02%	0.02%

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

Limited review report prepared by auditor registered in the 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 June 2018 (which shows a total of 2,999,102 thousand Euros and a shareholders' equity total of 1,026,375 thousand Euros, including a consolidated net profit attributable to equity holders of the parent of 78,890 thousand Euros), the Consolidated Condensed Statement of Income by Nature, the Consolidated Condensed Statement of the Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the six month period then ended, and the related notes to the consolidated condensed financial statements, including a summary of significant accounting policies.

Management responsibilities

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

Auditor's responsibilities

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

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

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

Conclusion

Based on our review procedures, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements of NOS S.G.P.S., S.A., as at 30 June 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, 20 July 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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Contribuinte N.º 585 988 283 - C.R. Comercial de Lisboa sob o mesmo número
A member firm of Ernst & Young Global Limited

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

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

- a) The first half 2018 accounts, were elaborated in compliance with the applicable accounting standards, accurately and truthfully portraying the assets and liabilities, situation and results, as well as those of the companies included in its consolidation perimeter;
- b) The management report faithfully portrays the important events occurred in first half 2018 and its impact on the accounts and, when applicable, contains a description of the main risks and uncertainties for the following six months.

Lisbon, 20 July 2018

Jorge Brito Pereira
(Chairman of the Board of Directors)

Miguel Nuno Santos Almeida
(Chairman of the Executive Committee)

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

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

Jorge Filipe Santos Graça
(Member of the Executive Committee)

Luis Moutinho do Nascimento
(Member of the Executive Committee)

Manuel Ramalho Eanes
(Member of the Executive Committee)

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

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

António Domingues
(Member of the Board of Directors)

Catarina Eufémia Amorim da Luz Távira Van-Dúnem
(Member of the Board of Directors)

João Torres Dolores
(Member of the Board of Directors)

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

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

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

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

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

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

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

- a) The first half 2018 accounts, were elaborated in compliance with the applicable accounting standards, accurately and truthfully portraying the assets and liabilities, situation and results of NOS, SGPS, S.A., as well as those of the companies included in its consolidation perimeter;
- b) The management report faithfully portrays the important events occurred in First Half 2018 and its impact on the accounts and contains a description of the main risks and uncertainties for the following six months.

Lisbon, 20 July 2018

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

Patrícia Teixeira Lopes
(Member of the Fiscal Board)

Eugénio Ferreira
(Member of the Fiscal Board)



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