Consolidated
Management Report
’17

During 2017 we further reinforced

our position as the leading entertainment and communications provider in Portugal, leveraging our unique combination of assets in telecoms, audiovisuals and cinema exhibition, and capturing incremental growth opportunities and value where available.

Miguel Almeida
CEO

Message from the Chief Executive Officer

"It is a great pleasure for me to be presenting another year of solid results that reflect consistent execution of the strategy we defined at the time of our merger.

Competing in a very dynamic, technologically sophisticated and heavily invested market, we have managed to exceed our original goals on practically all operational and financial counts and well ahead of schedule. In particular our market share of total revenues has grown to over 31%, an increase of more than 5% from when we first started out. It is important to remember that whilst we were driving our young company to unprecedented levels of growth, we were simultaneously facing the challenges of bringing together two very different organizations with different legacies of systems, processes and cultures. Given the slowdown in commercial activity last year, as was to be expected given the high levels of service penetration already integrated operation, with best in class customer service and efficiency levels.

Core to our strategy is continued investment in the critical business enablers to secure long term competitiveness. We initiated some very important technological projects last year in both our mobile and fixed networks. In mobile, we launched a complete overhaul of our radio network architecture to increase capacity and efficiency. In fixed, we are upgrading our HFC network to Docsis 3.1 to provide 1Gbps speeds to the entire footprint by 1Q18 and extending our FttH coverage to reach 70% of our footprint by 2022, to support ever increasing consumer demands for bandwidth and to preempt the need to relieve capacity from the mobile network in future.

We also took the first steps in implementing a companywide transformation programme, establishing as our core priorities excellence in customer experience and increased business efficiency. We have identified digitalization and automation as key enablers and elected a dedicated team from within the organization to coordinate numerous work streams that address wide ranging areas of the business such as customer service, distribution channels and technical support, to name but a few. This is a long term project that we believe will start delivering material impacts on customer service levels and cost efficiency by implementing structural changes in the way we do business and ultimately interact with our customers.

During 2017 we further reinforced our position as the leading entertainment and communications provider in Portugal, leveraging our unique combination of assets in telecoms, audiovisuals and cinema exhibition, and capturing incremental growth opportunities and value where available.

We continued to grow RGUs in core services driving increased market shares across all segments. Our Revenues increased by over 3% supported by our commercial performance. Continued cost efficiency and increased operating leverage enabled us to grow EBITDA by more than 4%, well above the growth in revenues and offsetting the continued burden of higher premium sports content costs on a like for like basis. This year we also delivered a very material increase in FCF to 133 million euros, up from just 54 million last year, evidence of our operating strength and financial discipline.

As we have guided in the past, our FCF momentum and conservative capital structure present a very solid base for continued and sustainable growth in shareholder remuneration. Reflection of our confidence in operating prospects and our ability to generate earnings in the long run is the significant increase in proposed dividend to 30 eurocents per share.

Also, in terms of our sustainability strategy, we have taken important steps over the past year. Given it is considered a strategic priority, the guidelines on which it is based, and which are part of our DNA, have been shared and applied throughout the whole organization. This year we report for the first time our sustainability performance, in line with the guidelines of Global Reporting Initiative – GRI Standards. We are fully aware of the importance of acting responsibly to ensure our long term competitiveness, including the role of our sector to contribute to a sustainable future for society. We remain committed to the ten Principles of Global Compact and to contributing to the achievement of the United Nations' Sustainable Development Goals.

The transformational projects we have underway are setting the foundations for an organization that is better equipped to address the challenges of our sector and the demands of an ever more sophisticated consumer. I am certain we have the best team and assets to succeed and will continue to deserve the trust placed in us by our customers, employees, shareholders and remaining business partners and stakeholders.

Miguel Almeida

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Management **Report**

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The leading entertainment & communication provider in Portugal

Business Portfolio

Telecoms

We are part of daily life

We offer next generation fixed and mobile solutions, internet, voice and data for all market segments - Residential, Personal, Business and Wholesale. We are the leading Pay TV and next generation broadband provider in Portugal.

We have the best products and services for our customers

We offer convergent multi-device solutions, combining the cutting edge UMA user interface, with high broadband speeds, the largest Wi-Fi network in the country and 4G mobile services.

We are partners for business transformation

We offer integrated B2B "as-a-service" solutions for each sector and for companies of all sizes, complemented with ICT and cloud services.

Audiovisuals and Cinemas

#1 in content distribution

We acquire and manage film and series rights from some of the largest studios worldwide and from independent producers and distribute audiovisual content and a number of own produced channels in Portugal and in Portuguese speaking African countries.

#1 in cinema exhibition

Through NOS Lusomundo Cinemas we are leaders in Portugal in cinema and alternative content exhibition. We were the first cinema chain in Europe, and one of the first in the world, to be fully digital.

Leaders in technology

40% of our cinemas have 3D REAL D digital projection. We opened the first IMAX cinema in Portugal in 2013 and, in 2016, we were the first to launch 4DX technology. In 2017, we inaugurated two fully laser equipped complexes.

Recognized and preferred by our customers and the sector

Most trusted brand

In the independent survey “Brands of Confidence”, “Telecomunications and Multimedia Operators” category.

Operator of Choice 3rd year in a row

Mobile Telecommunications, Quadruple Play (4P) and Cinemas as voted by Portuguese consumers

Leaders in technology

NOS TV voted best online app as Product of the Year by Portuguese Consumers

A track record of innovation

2011

Launch of Iris - The 1st interface in the world with automatic recording

2013

Opening of the 1st IMAX cinema theatre in Portugal

2015

Launch of N Play, an inhouse OTT like subscription based content library

Focus on 4K Content

Launch of the Quatro Digital offer

2016

Launch of the NOS TV App allowing TV to be watched on all devices

Premiere of 4DX technology in cinemas

Launch of UMA TV, a new generation of TV, with a whole new customer interface and cutting edge features

2017

Launch of YouTube on UMA TV

Launch of NOS Indie, a differentiated offer based on the internet

NOS and Lagoa Town Council sign a protocol as part of the Smart Cities scheme.

Launch of the 1st intelligent electricity meter using NB-IoT technology

Management Team

A seasoned management team with many years of executive experience in the Portuguese telecom market*.

Miguel Almeida
CEO

- Business Development
- Regulation and Legal
- Corporate Communication and Sustainability

20 years experience in the telecoms market

José Pedro Pereira da Costa
Vice-President
CFO

- Finance and Administration
- Corporate Finance
- Planning and Control
- Audit and Risk Management
- Investor Relations
- Purchasing

18 years experience in the telecoms market

Ana Paula Marques
Executive Board Member

- Business Transformation
- Human Resources
- Brand and Communication
- Customer Care
- Processes
- Logistics and Terminal Management
- Market & Customer Intelligence
- Asset Management and General Services

20 years experience in the telecoms market

* Principal operating responsibilities

Jorge Graça
Executive Board Member

- **Engineering, Network and Infrastructure Development**
- **Product Development**
- **Service Platforms**
- **Operations and Supervision**
- **Information Systems**
- **Data Centres**

14 years experience in the telecoms market

Luís Nascimento
Executive Board Member

- **Consumer Segment**
- **Content**
- **CRM**
- **Advertising, Audiovisuals and Cinemas**

15 years experience in the telecoms market

Manuel Ramalho Eanes
Executive Board Member

- **Corporate Segment and Wholesale**

15 years experience in the telecoms market

Key milestones in 2017

2017

NOS and the Lagoa Town Council sign a protocol within the scope of Smart Cities
Lagoa to be the first Smart City in the Algarve

NOS TV App voted "Product of the Year" 2017
The Portuguese chose NOS' online TV app which easily and intuitively enables multi-device access to TV content

NOS is the most voted brand by the Portuguese
Year after year NOS stands out in the main studies and awards based on consumer confidence and satisfaction, in the telecoms and entertainment areas

NOS provides Wi-Fi in the Carris trams
Carris teams up with NOS to implement a free Wi-Fi solution aboard its trams

There are already 1 million NOS Wi-Fi hotspots in Portugal
9 years after launch, the NOS Wi-Fi service has reached the historic milestone of 1 million hotspots, strengthening its position as the largest Wi-Fi network in Portugal

NOS launches official NOS Alive TV channel and app improving its multiplatform experience
A renewed app with new features, NOS Alive content in 4K for NOS subscribers and continuous broadcast on the official channel from 3 to 11 July are all part of the novelties of this year's edition of NOS Alive

NOS offers 7GB of mobile broadband forever
Customers who sign up for the NOS 4 or NOS 5 convergent bundles benefit from an increased data allowance up to 7 GB per SIM card

Portugal presents the first NB-IoT smart meter
NOS, EDP Distribuição, Huawei, JANZ CE and u-blox develop the first operational pilot with smart electric power meters with NB-IoT communication technology

APCC Portugal Best Awards 2017
NOS' customer service wins all Telecoms category awards

NOS launches YouTube on the TV screen
NOS launches the YouTube app for TV offering this platform's experience in full screen and HTML5

NOS and Vodafone reach an agreement to reach another 2.6 million families and businesses with latest generation fibre
This agreement enables both operators to provide their commercial offers over the shared network, from the beginning of 2018

NOS opens 11 new cinema screens
By the end of 2017, NOS manages 32 multiplexes and 226 screens

NOS selected to be the partner of European Aviation Network in Portugal
NOS will provide infrastructure for the terrestrial network of European Aviation Network (EAN) in Portugal

NOS launches Tourism Information Portal
A pioneering platform which gathers statistical information of tourism activity in Portugal

NOS Play strengthens exclusive content with FOX+ and Nick Jr. content
NOS Play's ambition is to keep on growing and gaining recognition as a reference platform in entertainment

2018

NOS in numbers 2017

1,617 thousand
Pay TV customers

1,333 thousand
Broadband customers

1,758 thousand
Fixed Voice customers

4,673 thousand
Mobile customers

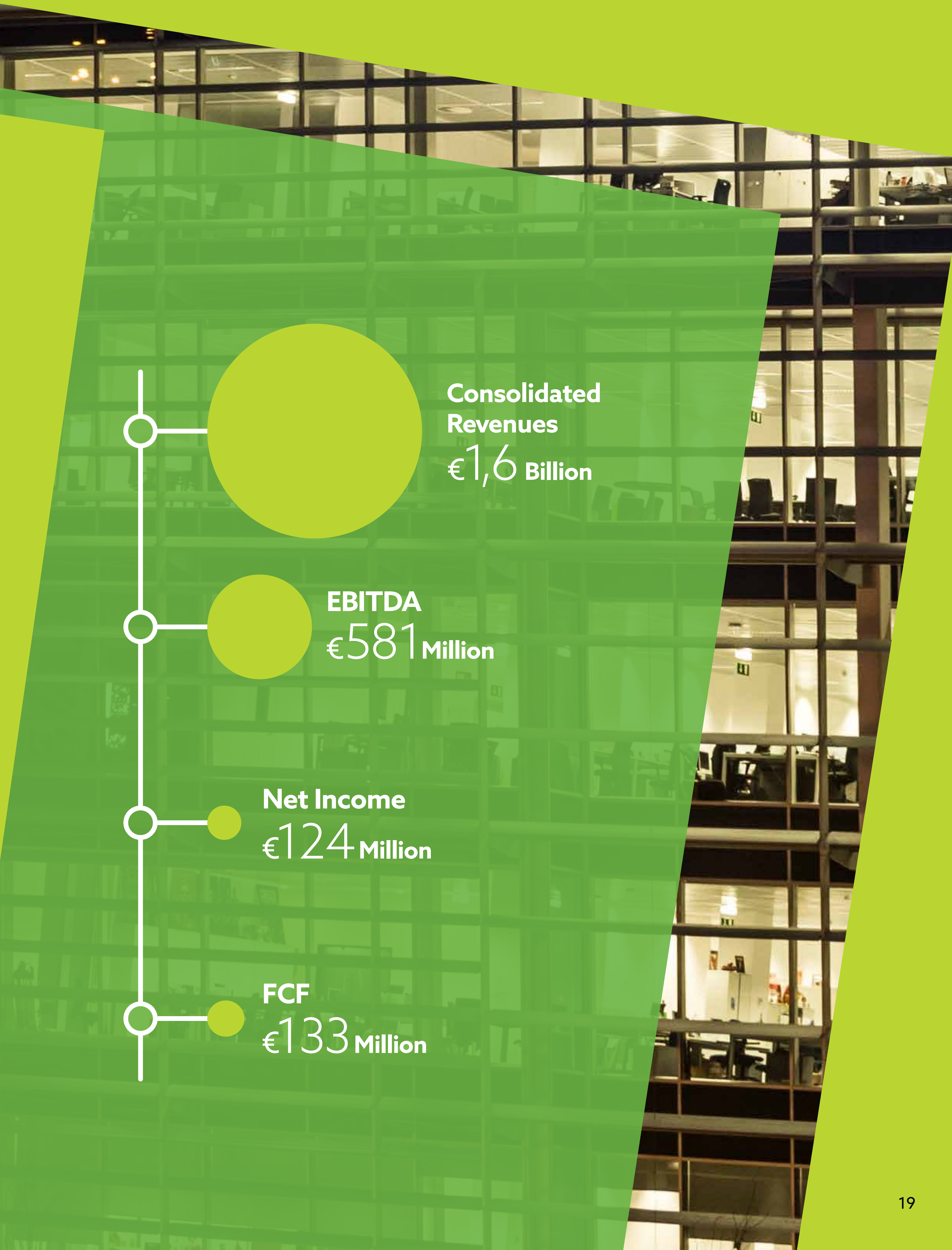
721 thousand
Convergent customers

9,412 thousand
RGUs

4,084 thousand
Homes passed

91 percent
4G network coverage National territory

9.5 million
Cinema tickets sold



Consolidated Revenues
€1,6 **Billion**

EBITDA
€581 **Million**

Net Income
€124 **Million**

FCF
€133 **Million**

2

Consolidating our Growth Strategy

After the merger between ZON and Optimus in 2013 we presented the outlines of our five year business plan with a central ambition to achieve a market share of telecom retail revenues of 30%.

The pillars of our strategy were to increase our presence in the residential and standalone personal market leveraging the convergent opportunity, to grow in the enterprise segment becoming a relevant alternative to the incumbent and to invest in the necessary business enablers to facilitate achievement of our business goals.

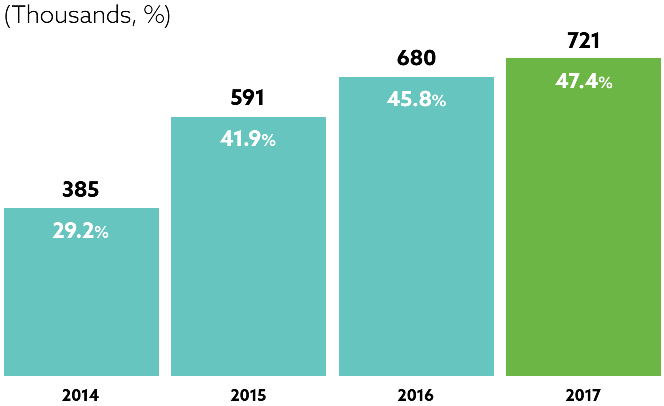
By the end of 2016, we had already reached, and in fact exceeded, our long term revenue target with growth driven by the strength of our convergence strategy, our upcoming as a credible and reliable alternative in the enterprise market anchored by our leadership in product and service innovation, network coverage and our focus on core business enablers.

Convergence driving growth

Pay TV provides the platform for upselling additional fixed and mobile services and in a highly competitive and invested market, we differentiate our value proposition as the ultimate entertainment provider in Portugal, leveraging our strength in telecoms, cinema exhibition and audiovisual distribution. The success of our convergent offers is still the key driver of growth, with almost half of our customers subscribing to fixed and mobile convergent bundles by the end of 2017.

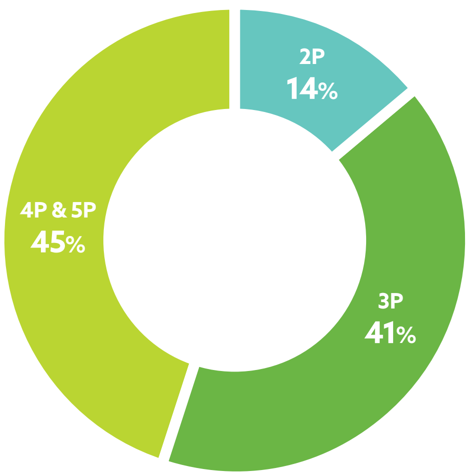
NOS Convergent Customers Fixed Access Penetration

(Thousands, %)



Subscription by types of bundle 9M17

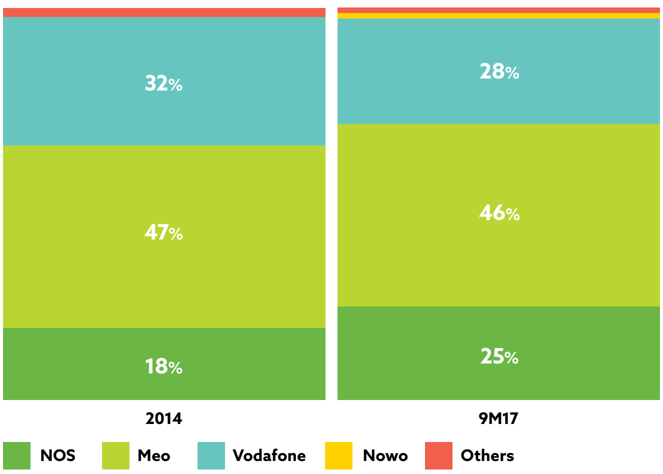
(Total market)



Source: NOS, ANACOM

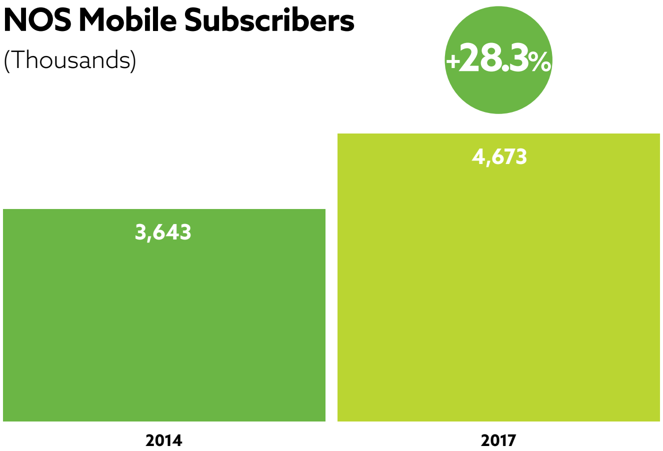
Also driven by the wave of convergent take-up, we have achieved very strong growth in convergent mobile RGUs with our total share of subscribers growing to 25%, significantly narrowing the gap to the second player in the market. Although less representative in numbers, on a stand-alone mobile basis the youth segment has been a strategic bet for us given the relevance of this category as trend setters in the fast developing and technologically sophisticated entertainment landscape of today and as the decision makers of tomorrow. We have achieved unprecedented growth in this arena through highly targeted and relevant offers tailored for the under 25's through our flagship tariff plans under the innovative and irreverent "WTF" brand.

Mobile Market Shares



NOS Mobile Subscribers

(Thousands)



Source: NOS, ANACOM

Luís Nascimento

Executive Board Member

In a highly competitive and sophisticated consumer market, we differentiate our value proposition as the ultimate entertainment provider in Portugal. We leverage our strengths in telecoms, cinema exhibition and audiovisual distribution to provide the best and most innovative content and viewing experience in the market, taking us closer to the day to day lives of customers.

Differentiating through exciting content and customer experience

Entertainment is at the heart of our value proposition and helps take us closer to the day to day lives of customers. Our combination of telco, audiovisuals and cinema assets makes us unique. With the overwhelming shift in viewing habits, having the best content is no longer just about broadcasting TV channels. We have to adapt the way we deliver content and entertainment to our customers, whenever and wherever they want to receive it, over a device agnostic interface.

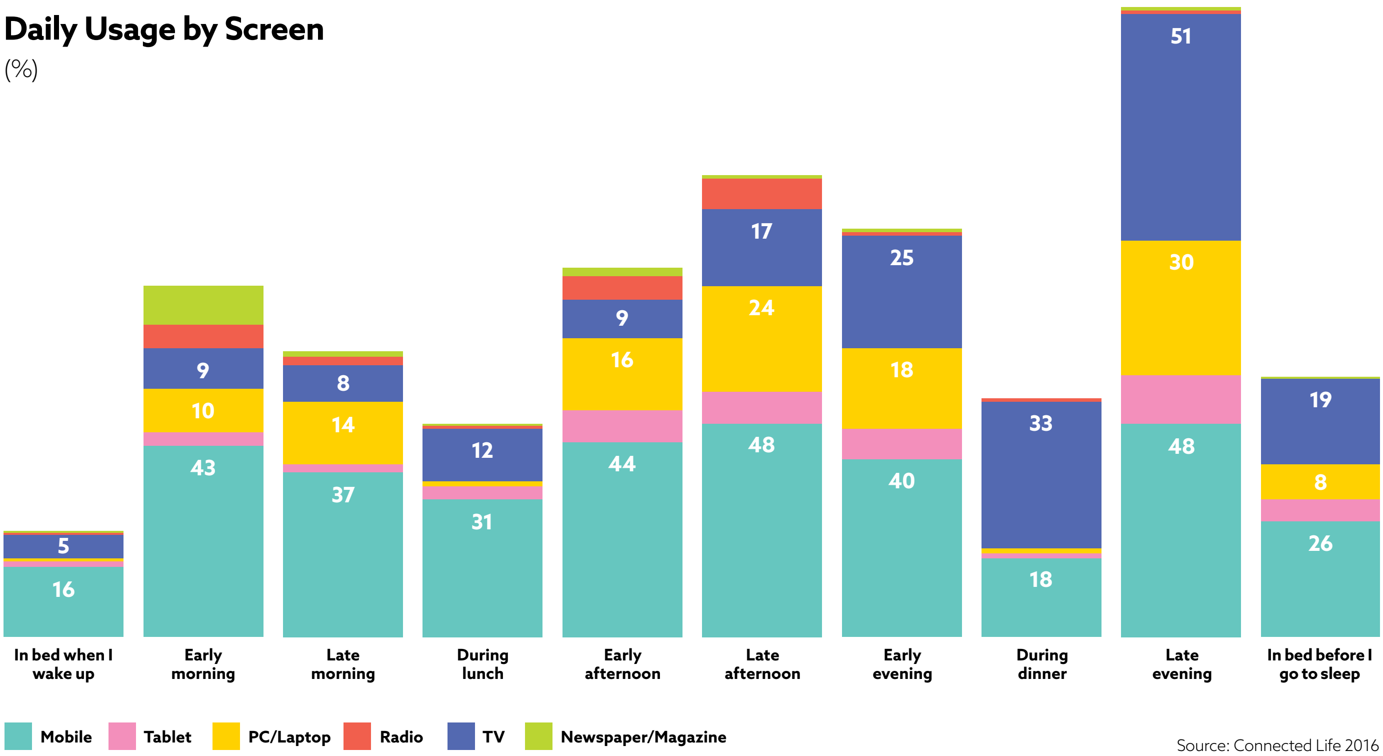
Perhaps surprisingly time spent watching traditional TV content has actually remained stable at close to 350 minutes a day, despite growth in multiple devices and formats. However, this time is now shared increasingly between linear and non-linear formats in the main content categories. Mobile connectivity and digital ease of use are quintessential to customer interactions and mobile screens are the most viewed devices at almost all times of the day. Consumers demand simple and user friendly apps that make their lives easier and more entertaining.

Conscious of these rapidly changing trends we were the first operator in Portugal to develop and launch interactive TV services with our IRIS user interface. Since then, we have repeatedly been the first to market with new features and value propositions, successfully anticipating and driving changes in viewing habits and culminating in the launch of UMA, voted best TV interface in Portugal in 2017 by consumers.

With the best content line up, and most innovative features and apps, UMA is by far the most advanced 4K TV experience in the market today. Exponential growth in 4K enabled TV sets and the continued shift in consumer viewing to non-linear formats,

Daily Usage by Screen

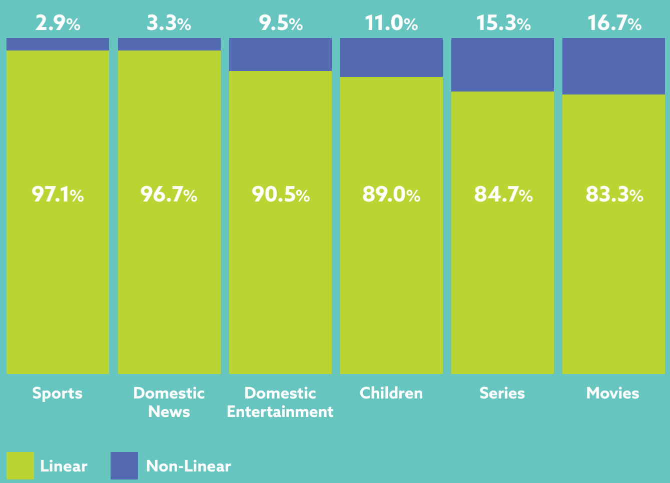
(%)



Source: Connected Life 2016

sets UMA apart as the best platform to provide a complete, on demand, on the move and personalized 4K entertainment experience. UMA integrates a common layer for content discovery with personalized recommendations and layouts that make navigating through an infinite sea of content and sources much easier and enjoyable.

Linear vs Non-Linear TV Viewership



Source: CRM Audiometria (Average Jan 2016 - Sept 2017)

Content choice driven by consumer trends

Our content decisions are driven by the consumer choices of today and what we believe will be differential in the future. Children's content, sports, news, domestic entertainment and movies and series make up for more than 40% share of global audience. With these territories in mind, in 2017 we added exciting new and exclusive channels and content formats such as Nick Jr. and a number of temporary pop-up channels dedicated to specific themes. An example of our innovative content formats targeting the movie territory was the launch of the Star Wars pop-up channel, before the premiere of "The Last Jedi", the most recent film in the saga, and was broadcast for a six week period. In addition to 24 hours broadcasting of earlier Star Wars movies, documentaries, interviews, edited scenes and backstage images, we also offered a number of exclusive benefits for NOS cinema card holders at our IMAX, 4DX and 3D theatres plus a 40% discount for Star Wars movies rented over the NOS videoclub, therefore leveraging our broader cinema and audiovisuals asset base. The initiative was a huge success further reinforcing our leadership position in entertainment.

Also on the content front, we significantly improved NOS Play, our premium SVOD service, led by a major brand repositioning and better design, content organization, clearer iconography and targeted, content based campaigns. We aggregated a number of additional streaming catalogues inside NOS Play, namely the FOX+ and BBC catalogues, facilitating navigation and providing a single access point for customers to find what they want to see, further differentiating the content experience we offer our customers.

NOS Play features a diversified, high quality offering with more than 2,000 movies, 80 series and 3,500 cartoons available on the home TV, tablet, smartphone or PC, over the NOS Play App (available for iOS and Android).

The number of times content was accessed over NOS Play in 2017 exceeded 3.2 million with more than 10 million viewing hours and the number of unique users growing by more than 140%.

At the forefront of Customer Experience

Exclusive to NOS, in October we announced the launch of YouTube inside UMA, again setting the pace of what is most innovative and ground breaking in TV experience. We were the first operator in Portugal to offer the YouTube native app in HTML 5 for TV. NOS customers are now able to watch their favourite YouTube videos on their TV screens, benefitting from all their favourite features and in Ultra HD 4K quality. Exclusive to NOS, the YouTube TV app can also sync smartphones with the TV, to be used as a remote control and to manage navigation in the app. Customers can log on their YouTube account on TV, accessing each user profile's favourite content and playlists.

On the OTT front, our NOS TV multi-device platform, recorded significant growth during 2017 with the number of unique users growing by more than 75 thousand and with 50% using the online service at least 6 days a month. In February, consumers voted us the best OTT platform in Portugal in an independent consumer ballot, consolidating our stance as a leading innovator in the market.

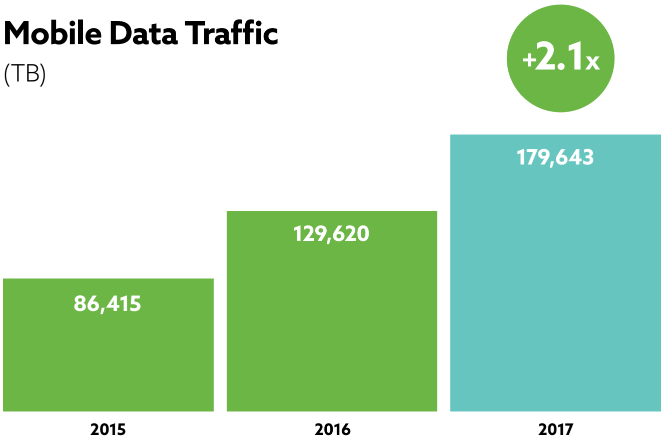
NOS TV replicates the most advanced and consumer relevant functions of the UMA ecossystem outside the set top box. With over 120 channels, 111 of which with the restart and automatic recording features, NOS TV can be synced to recognize each user profile, optimizing content recommendations and browsing experience through automatic and intelligent interactions. NOS TV embodies our role as a fully convergent operator, meeting the demands of our customers on the go, with the same quality of experience on every device.

Going Mobile

As can be seen from the exponential growth in mobile data traffic of the past few years, mobile devices are playing a key role in content viewing habits.

Mobile Data Traffic

(TB)



Source: DW (2015/2017)

Social networking, search engines and online videos are the top three activities. At NOS, we have made data mobility and content access a central element of our value proposition across both convergent and stand alone consumer offers. For our customers who sign up for 4P or 5P bundles we provide an extra data allowance to use at will and our convergent bundles now include 3GB per month per SIM card, which can be actively shared between family members, representing a significant increase in data allowance and usage flexibility and with no impact on monthly fee. For our high end convergent offers, mobile data allowances have grown to 10 GB and our online NOS TV platform is available to all customers wherever they be and whatever the device. In the stand alone mobile market we have also reinforced our share with highly innovative value propositions under our flagship brand for the youth market, "WTF", that offers three simple tariff structures for the under 25's. The tariffs include unlimited navigation over the most popular communication and content streaming apps with very high allowances for traditional voice and text messaging. During

2017, the higher value "T" and "F" plans incorporated an additional 5GB data allowance for YouTube and Spotify, successfully encouraging take-up of higher value tariff plans.

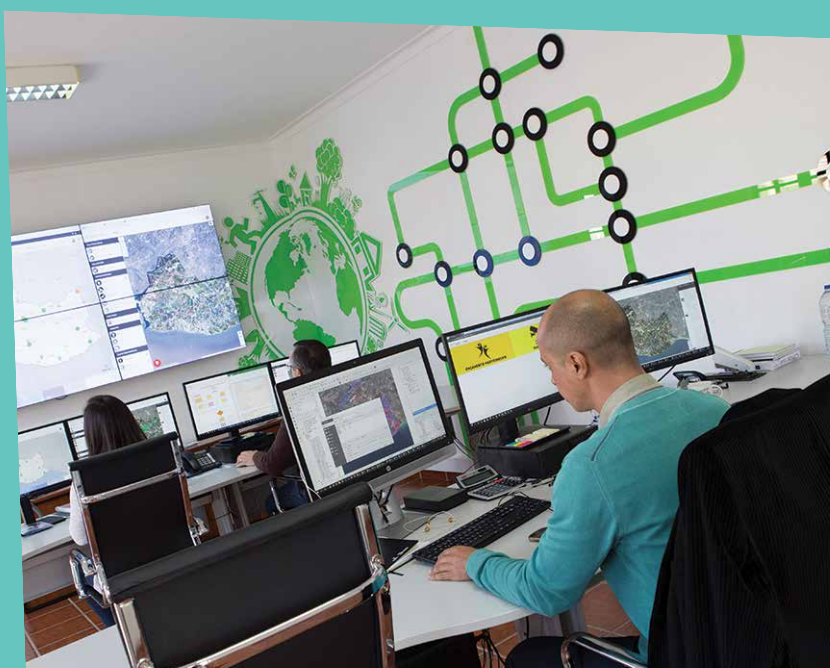
A real alternative for Portuguese businesses

We have become a relevant challenger in the Corporate market with some of the largest accounts in Portugal migrating all or part of their telecom, data and IT spend to us. In particular we have been extremely successful in increasing our presence in the demanding financial services sector with many of the leading banking groups using NOS as their main telecom provider.

During 2017 we increased both the number of major accounts in our portfolio and extended the term of existing contracts, reflecting the satisfaction and trust of our clients in the quality and reliability of the services we provide.

Our strategy for the Corporate market is built around three pillars: protection of existing revenues and accounts whilst expanding the base and penetration of IT and data services; investment in technological assets, to enable best in class delivery of telco and IT solution services; innovation to tap alternative sources of growth.

To capture the IT opportunity, we position ourselves as a partner for transformation for the companies we address, providing reliable and responsive telecom solutions and complementing them with value added services, which go beyond the realm of traditional telecommunications. We cater for the changing needs of our customers, helping them simplify their own processes, maintaining maximum trust and security in the services provided. Businesses are constantly seeking to optimize their efficiency and productivity, and have very high expectations as to the quality of the services they buy and to real-time troubleshooting and problem resolution. In a world where technology is in constant development, digitalization is mandatory to support the way businesses interact with their stakeholders, and is a facilitator of internal efficiency for all stakeholders.



The project between NOS and the Lagoa town council aims to turn this city and municipality into the first Smart City in the Algarve.

The cooperation between businesses and municipalities is increasingly important to develop new platforms and processes which promote the quality of life of their citizens and their relationship with town councils.

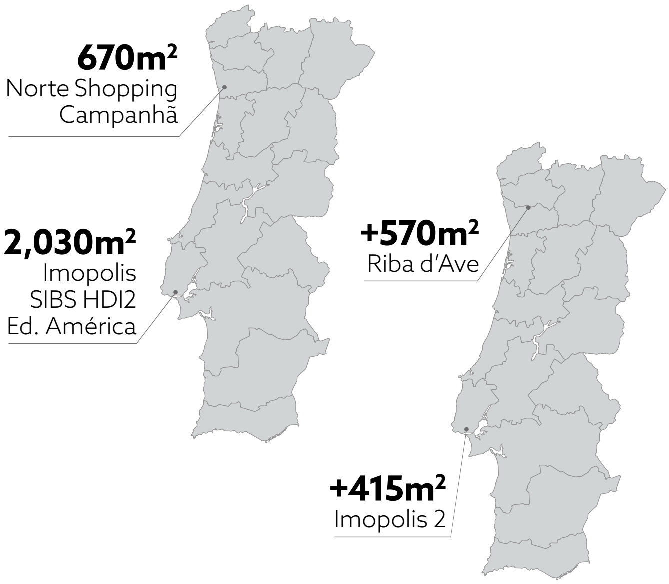
These are evident in the technological experiences which promote mobility, security and high energy efficiency of municipalities and their citizens.

Manuel Ramalho Eanes

Executive Board Member

We have become a relevant challenger in the business market with some of the largest accounts in Portugal migrating all or part of their telecom, data and IT spend to us. We position ourselves as a partner for transformation for the companies we address, providing reliable and responsive telecom solutions and complementing them with value added services, which go beyond the realm of traditional telecommunications.

Our results on this front have been very encouraging, with growth in IT services over the past year of more than 10% year on year, representing an additional 1.5pp of business customer revenues. We won relevant IT contracts in large corporate accounts, many of which operating in the financial sector.



(500 racks) to almost 4 thousand square metres in total and invested in next generation cloud management platforms to facilitate provisioning and self-service solutions.

Investment in own assets is essential to be able to provide companies with more and better IT based solutions with an "as a service" model in fields ranging from collaborative services, advanced communications, video services, security, and digitalization of core functions such as call centre and new cloud based services, to name just a few. Our new "Contact Centre as a service (aaS)", launched in July, extends our Corporate product portfolio with a professional omni channel solution for treating inbound contacts and outbound campaigns. It is offered in a cloud "as a service" model, over NOS infrastructure, easily adapted to the needs of each company and by resizing the number of operators and support line queues.

Conscious of the need to invest more in the technological assets required to support, in particular, the large corporate market, during 2017 we launched a number of investment projects to upgrade existing platforms and solutions, one of the most important being the deployment of 2 new data centres, one in the North of Portugal in Riba D'Ave and the other in central Lisbon. We increased available capacity by approximately 1 thousand square metres

In a market in continuous technological upheaval it is crucial to stay ahead of the game tapping into new trends and developing innovative approaches to the market. We launched a number of successful commercial pilots and trials in close partnership with our enterprise customers in areas ranging from smart cities to smart meter monitoring over narrowband IoT.

The upgrade underway in our mobile infrastructure will be a critical enabler to further exploit potential monetization of the IoT opportunity. In partnership with five companies, we launched the first operational pilot project in the world, developing smart meters for electric power metering using NB-IoT communication technology in Parque das Nações, Lisbon. The first Smart Meter NB-IoT is a project within the European Commission's Horizon 2020 Programme, UPGRID, and we installed the network infrastructure, over Huawei technology. We are the first operator in Portugal to live test 4.5G-IoT technology over its network infrastructure.

In 2017 we entered into a partnership with the European Aviation Network (EAN) to supply the infrastructure for their terrestrial network in Portugal, providing in flight wireless connectivity for passengers on a number of European airlines. Our infrastructure in Portugal and our vast experience in wireless network technology will provide passengers access to EAN's high speed internet network for airlines crossing Portuguese air space.

Segmented targeting with data analytics is also proving an interesting source of new revenues through sale of aggregate irreversibly anonymized carrier information for corporates, to help them map consumer trends and habits. On this front, we launched a Tourism Information Portal, a pioneering platform which collates statistical information around tourism activity in Portugal. With the support of Turismo de Portugal, the project enables access to relevant information about the presence of foreign tourists in Portugal and helps forecast demand for Portugal as a tourist destination.

To help keep up with the fast changing world of technology, in 2017 we launched the "Hardware Design and Development Lab" bringing together start-ups and innovators primarily to support hardware design and production for IoT applications. The creation this lab in Marinha Grande, with a view to build new connected device solutions, enables us to address demand from our customers for differentiating solutions for their businesses. The Academy, the national Startups ecosystem and entrepreneurs will be challenged to develop new equipment connected to the internet that is able to bring benefits in operations, services and in the relationship of the main national companies with their customers. These technological challenges will be wide reaching and sector based, but they will also be applied to specific use cases and needs.

In the SME segment we have focused our activity on stabilizing revenues and implementing a transformation of the business model to address the needs of each sub

segment more efficiently and with best in class service levels. Core to the transformation process is a simplification of the range of products and services we provide whilst following a more segmented commercial approach. We are building the basic tools for the future with a strong focus on market relevant innovation and development, to help businesses optimize their communication and IT functions and a review of our customer experience and internal processes has identified clear opportunities for virtualization, driving better service levels and efficiency.

Driven by this greater degree of segmentation and customer insight, we have been implementing a strategy of adding more services, namely in data and IT, to enhance our value proposition and defend competitiveness with minimal price adjustments. Clearer segmentation is also allowing us to simplify our commercial offers and optimize sales channels resorting to more sophisticated business intelligence and analytics.

We are achieving more stable revenue trends on a per customer basis than in previous years, albeit still in a very competitive market. Product and service standardization is higher in the very small companies segment, and sales are typically channeled through third party agents. The greater the scale and sophistication of the account needs, the greater the level of direct sales effort and personalization of the offer. In addition to core fixed and mobile communication services, our clients are buying more and more IT and data related services in this segment such as "Wi-Fi Pro", security solutions, firewall, back-up and data storage systems. As an example, the NOS Web Pro solution, contributes to business digitalization helping them to create their company websites, online stores within Facebook and domain registrations, providing the tools for a dynamic and integrated online presence.

3

Creating the Conditions for Sustainable Success

Best in class Network and Quality of Service

During 2017 we initiated major investments in both our mobile and fixed networks. We are executing a complete transformation of our existing mobile radio network architecture to increase capacity and efficiency. In fixed we are both upgrading our HFC network to Docsis 3.1 to provide 1Gbps speeds to the entire footprint by 1Q18 and extending our FttH coverage to 70% of our footprint to support ever increasing consumer demands for bandwidth and to preempt the need to relieve capacity from the mobile network in future.

Paving the way for 5G

Consumption of mobile data has grown exponentially over recent years led by the explosion in use of mobile apps, video and music streaming, a trend that is set to continue with the advent of more and more applications in the field of virtual reality, augmented reality, real time IoT and metering, to name just a few.

In such a rapidly evolving consumer environment, we must ensure that our technological choices of today guarantee the long-term sustainability of our networks and platforms. We must be capable of delivering network performance and service levels that support the multitude of data demanding applications being used by our customers and their continued accelerated growth.

The investment we are doing in our mobile network is designed primarily to increase capacity, network flexibility and efficiency, and to deliver the best possible quality of service. We are rearranging our network to a single RAN architecture replacing almost all existing radio equipment with the most modern technology to support a smooth 5G oriented evolution. The project entails the complete swap of our 2G, 3G and 4G radio equipment in the South of Portugal and an upgrade of our 3G and 4G equipment in the North of the country, whilst at the same time increasing capacity in both 2G and 4G. With the introduction of LTE2100 we will tap the superior capabilities of 4G devices when compared with 3G, and exploit the opportunity to refarm our 2100 Mhz spectrum. 256 QAM, 4T4R and carrier aggregation are key features of the transformation underway, increasing capacity and enabling a more efficient allocation of spectrum independent of bandwidth. The project also involves extension of coverage with investment in an additional 249 sites. By the end of 2018, we will have a fully 4.5G ready network in place, already able to deliver IoT and prepared for the evolution to mobile 1Gbps.

From Gigabit to Futureproof

Today we reach 4 million households with our fixed NGN network, 100% of which will be fully Gigabit enabled by the end of 1Q18.

Our strategy for fixed is based on a two pronged approach of upgrading our HFC network to Docsis 3.1, and extension of our FttH footprint through both greenfield rollout and a dark fibre network swap with Vodafone as agreed in September 2017. Further splitting of our HFC cells to take fibre deeper into the network will be supportive of increased traffic and capacity demands on the mobile network.

With these investments, by the end of 2018, we will have extended our NGN Gigabit coverage to 4.4 million households, an additional 400 thousand FttH households. Our agreement with Vodafone entails the exchange of approximately 2.6 million FttH households over the next 5 years, with NOS contributing approximately 1.2 million FttH households and Vodafone approximately 1.4 million.

And by 2022, we will have evolved from a fully Gigabit enabled network to a futureproof network with fibre direct to over 3.1 million homes, 70% of our total footprint.

In parallel, we are in the process of evolving our core network to all IP as a means of extending IP capillarity, which is particularly relevant for the enterprise market, to reduce latency and increase capacity by replacing a lot of microwaves with optic fiber, and to optimize network flexibility, management and costs. This transformation is becoming even more relevant with the progressive expansion of cloud based architectures, network virtualization and digitalization of key functions.

Jorge Graça

Executive Board Member

"In a rapidly evolving consumer environment, we must ensure that our technological choices of today guarantee the long-term sustainability of our networks and platforms. We launched major investment projects in our mobile and fixed networks during 2017 to ensure delivery of the network performance and service levels that support the multitude of data demanding applications being used by our customers and their continued accelerated growth.

Digital acceleration

We have identified digitalization and automation of business processes and customer experiences as a key driver of customer satisfaction and organizational efficiency. Having established a company-wide project during 2017 to identify opportunities for digitalization and defined the implementation roadmap, we have already achieved some significant quick wins in important touchpoints of the customer interface.

Relevant examples of key projects where the move to digital is already making its mark are the digitalization of the own store experience, live roll-out of our digital service app, and the deployment of tablet devices for our installation field team, almost eliminating the need for paper based processes.

We started to develop the new NOS concept store soon after the merger, looking at best practice in retail both in Portugal and abroad, tracking the latest trends in the telco and non-telco space and listening closely to what our customers wanted. Personalization of the customer experience was a key learning point, to be able to meet expectations of all customer groups from the more conservative older generations to the younger, more technologically demanding, millennials. We knew this would only be possible with customer centric process digitalization. Our aim is to deliver the best possible experience in our retail outlets encouraging customers to come back and visit us again and to recommend us to others. A new service model and sales tools have completely eliminated physical barriers between assistants and customers, providing side-by-side support and transparent explanations helping to develop a friendlier and more personalized relationship.

Walking into a NOS store today, digital is everywhere you look: large TV screens exhibiting the latest offers and campaigns at the entrance, appealing "convergent" corners that allow visitors to test our products and services and that can be updated remotely, through synchronized equipment (TVs, tablets, remote controls) for a personalized one-to-one or one-to-many demonstration by the assistant. The visit itself has improved with the implementation of a digital queue system that allows for personalized registration and customer management, and the shop assistant to conduct the customer through a tailor made demonstration of products and services. Since the introduction of the new layout, levels of customer satisfaction, traffic flow management and process efficiency have improved dramatically, as measured by detailed customer analytics that we are able to collect through the new digital platforms and processes in place.

Digital signatures and documents are now being used almost 70% of the time and 40% of overall store processes have been digitalized, eliminating 90% of the paperwork of the past. Another relevant example of the benefits of moving over to digital processes was the implementation of digital work orders. We have significantly simplified processes and eliminated administrative burden, by equipping field force technicians with tablets and using a dedicated app to simplify information on products and services and to reduce the number of signatures and validations required thereby improving customer experience. The app allows field force technicians to execute technical trials and convey relevant information back to the company in real time, forms can be filled in digitally and sent by email with no need for paper copies. All work processes are combined to create more streamlined and efficient installation and maintenance procedures, delivering a much better and more focused customer experience.

Customer Experience as a Service

Customer experience is a key driver of service levels and customer satisfaction and we are dedicating a lot of effort across the board to reviewing and improving all touchpoints with our customers. The need for more user friendly, personalized and efficient processes has already led to implementation of a number of projects that generically cover four main axes: increased customer autonomy; getting closer to our customers through innovative channels; increased monitoring of customer experience levels; focus on service to sales as a channel.

Helping customers to help themselves

We elected self-care channels as a priority and one of the main achievements in 2017 was the launch of a new customer App that has greatly reduced the complexity of the service relationship and led to a 40% increase in the proportion of self-care channel usage when compared with call-centre interactions. To stimulate take up and familiarity with these channels, we introduced a number of new features, amongst which the NOS Digital Cinema card and mobile data allowance subscriptions, which led to a material increase in the number of customers that have installed and used the digital self-care app.

Getting closer to our customers

During 2017 we launched a number of new channels to improve experience levels. Our NOS customer forum has been a major success with the number of sessions growing fivefold from January through to December. Customers are able to talk amongst themselves and share how to get the most out of the NOS value proposition. We developed new approaches over Facebook Messenger for the WTF and NOS brands, turning these channels into live digital testing grounds for new ways of interacting with our customers. Also in response to requests from a subsegment of higher profile customers, we started to accept emails as a valid channel for sending digital forms relating to a number of service issues. We have already seen very encouraging growth in the level of first time resolution and customer experience metrics and are now assessing opportunities to extend the channel's scope.

Listening to our customers

Our ability to obtain more and better feedback from our customers increased significantly with new digital channels and processes and by extending our survey base to all customer interactions. During 2017, we observed over 900 thousand customer service interactions through our feedback programme, and received over 10 thousand replies per month about usage experience on digital channels, providing us a wealth of input to improve customer experience levels.

Service to sales channels

Conscious that contact moments constitute an important opportunity to increase the level of trust and involvement of our customers, we have developed more personalized and targeted processes to leverage call centre interactions. A measure of the importance of these channels is that, during 2017, they increased their sales in the business and stand-alone mobile segments by 55%, building on the strong results already achieved in the residential segment the year before.

A Brand for the future

The NOS brand is four years old, the youngest telco brand in Portugal, in a highly competitive and invested market where telecom operators are typically amongst the biggest advertisers. After a very successful brand launch, we are moving from simply raising awareness to championing brand preference with our strategic positioning as the leading entertainment company in Portugal.

With tectonic shifts in consumer trends underway, telecom services are having to compete in an expanded market which includes both national and international new media and entertainment platforms such as subscription OTT players, aggregators, and content producers with their own streaming services. Within the context of the battle for consumer attention and loyalty we differentiate our value proposition at NOS as the clear leader in entertainment, leveraging the most advanced technological platforms and providing best in class customer experience supported by an attractive price proposition. To reinforce association with our core brand attributes we have made strategic bets on core arenas, namely music, football and movies.

Along these lines, our long-standing bet on music has generated unprecedented levels of awareness through brand activation at large festivals, the most relevant of which, NOS Alive, was voted Consumer Choice for the fifth year in a row. The eleventh edition of this festival in 2017 hit a record 165 thousand visitors, and, combined with the launch of the NOS Alive App and a dedicated NOS Alive Channel, placed NOS as leader in brand awareness in the music territory. Consumers considered NOS Alive to be the best music festival to go to in 2017, further validating the strategic and prestigious nature of our sponsorship.1

We are also name sponsor of the Portuguese football league, "Liga NOS", having renewed the agreement for another 3 seasons in 2017. Our partnership with the league has been very successful to date and sits well with our brand activation strategy. More than just raising awareness, our marketing initiatives have driven positive customer interactions, such as the outstanding results achieved on our Facebook channel celebrating the 2017 champion of the Portuguese football League, "Liga NOS".

358 thousand **likes**

45 thousand **shares**

3 million **page views**

11 thousand **comments**

[1]Source: GFK. Brands and Music. May/Aug 2017)

Ana Paula Marques

Executive Board Member

We are focused on providing a best-in-class customer experience and reinforcing NOS' enterprise agility and efficiency. This strategic imperative is being supported by the digitalization and automation of business processes and by the simplification and optimization of core operations. In 2017 we established a company-wide programme that outlines key transformation opportunities and a roadmap that supports it.

By the end of 2017, NOS' communication initiatives led the brand to a peak in advertising recall in the Portuguese total market, second only to the largest retailer, and the first in the telecom sector.[2] The "Secret of Christmas" campaign at the end of the year generated more than 590 thousand calls to Father Christmas' mobile number and prompted very enthusiastic and emotional commentary in our customer forums and social media platforms, strengthening our preference as a love brand, the best indicator for sustained customer choice in the long run.

Developing talent

Having completed the review of human resource basic policies and structures after the merger, today we are focused on consolidating our people management system. We implemented measures and new practices that have successfully improved metrics in terms of attracting talent and retaining our best performers, crucial to the long term development and competitiveness of our business. A reinforced performance based culture is driving increased recognition reflected in career progression and remuneration, employee training at all levels of the organization and tailored to meet our specific business requirements and employee evaluation processes.

We are committed to developing people and fostering talent. We invest in models that encourage performance, confidence, a balance between work and personal life and improve our operational and financial metrics.

42% 58%

68.6% Lisbon

24.8% Oporto 2.6% Madeira

1.7% Azores 2.3% Others

40 Average age (27% Millennials)

37,933 Hours of training

[2]Source: Marktest Publivaga 2017 (week 49, 5-11 December)
Q. What brands have you recently seen advertising?

NOS Campus

We believe that training and professional development of each of our employees are crucial factors to achieve our growth ambitions. NOS Campus, our corporate university, embodies these values as a means to share and promote knowledge and encourage development. We rely on the support of the most reputed Portuguese and international partners, universities, business schools and consulting companies, as well as on the support and experience of internal coaches. Training is centred on key areas of knowledge: management, leadership, technical, technology and fundamentals, with programmes, courses, seminars and conferences.

NOS Alfa

We have placed particular emphasis on our trainee programme, NOS Alfa, as a means of bringing innovative talent into the organization. Already into its third year, NOS Alfa has made its mark as a national reference for graduates joining the work market. We seek to recruit not only talent but diversity in the candidate selection process. Representative of our strong organizational culture, it is a dynamic, one year trainee course entirely focused on innovation and bringing together young professionals from wide ranging academic backgrounds in engineering, information technology, economics, and marketing, amongst others. To make the experience as immersive and challenging as possible, NOS managers from all divisions actively involve our trainees in day-to-day business life, providing continuous support and mentoring. These kinds of targeted programmes are helping to continuously refresh our talent pool and to retain and actively develop and promote the highest performing individuals in our organization.

Main characteristics of the NOS Alfa programme

- 12 months;
- Experience in two different departments (6 months each);
- Welcome and team building sessions, presentations of different business areas, visits to key areas of the company, business challenges and interactions with other employees;
- Mentoring;
- NOS Campus training

4

A rapidly changing sector and consumer habits

A mature sophisticated market, starting to show improving revenue trends

The Portuguese telecoms market has shown remarkable progress in the last years, with considerable growth in the number and quality of services provided. Since our merger at the end of 2013, total RGUs for the market grew by 1.7 million, whereas we grew our total RGUs by 2.1 million, reflecting an increase in market share of 6.2 pp to 31%. Overall service penetration in the market is already quite high. In contrast, and due to the high level of competitive intensity, revenue trends were negative for the market as a whole for a number of years and only started to inflect towards the latter half of 2017, according to data published by operators. However, at NOS, successful execution of our growth strategy enabled us to achieve positive revenue growth much earlier in 1Q15.

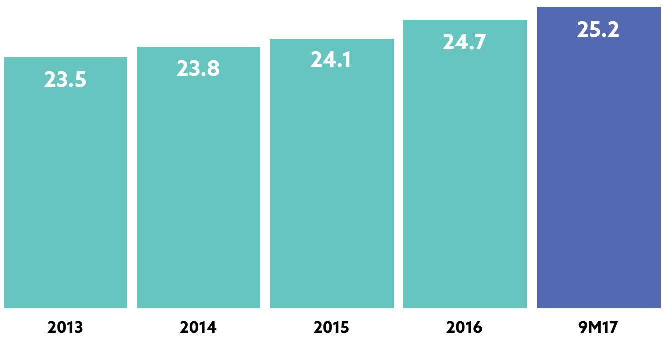
92% Pay TV Penetration

By the end of 3Q17, Pay TV penetration had reached 92% of Portuguese households, an increase of more than 13pp from 2013, to 3.8 million subscribers. The level of sophistication of services provided has increased dramatically and platforms have become more advanced, with NOS at the forefront of innovation in particular with our cutting edge UMA user interface.

Total Market RGUs

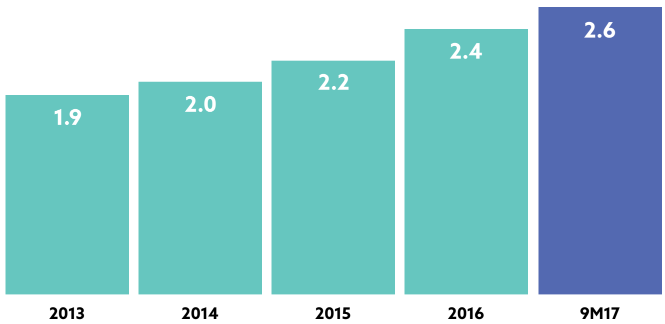
(Millions)

+1.7M RGUs since 2013



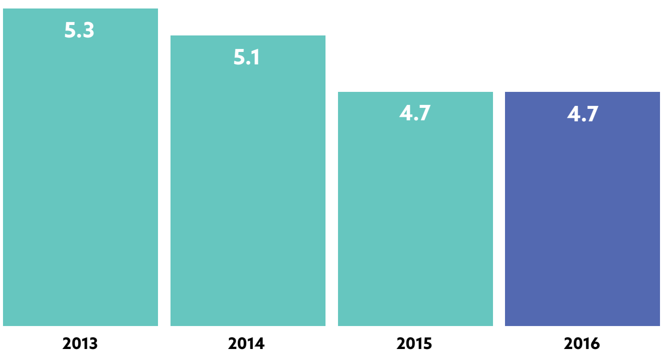
Total Market Pay TV NGN Customers

(Millions)



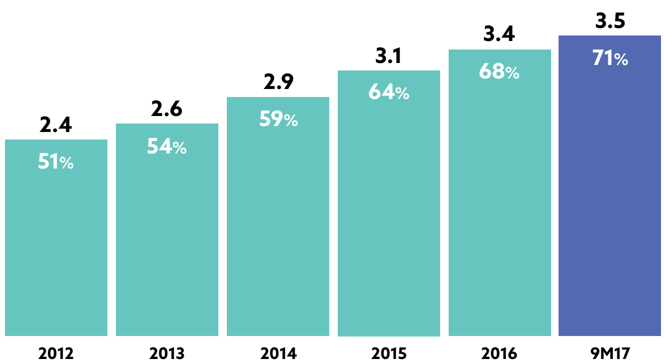
Portuguese Telecom Sector Revenues

(Billions of Euros)



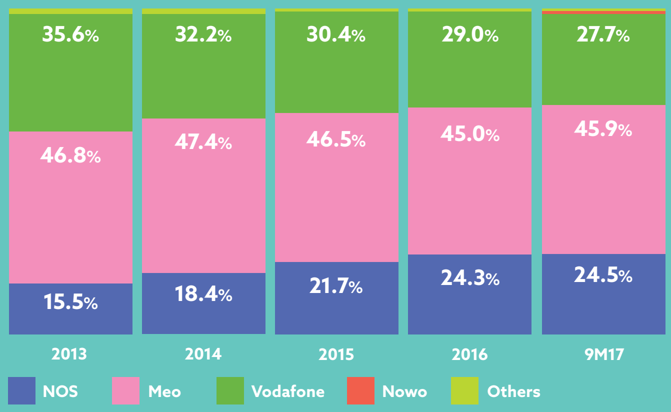
Fixed Broadband RGUs and Penetration

(Millions, %)

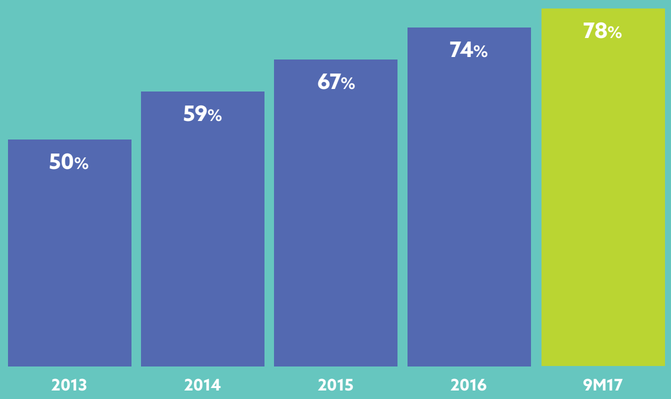


Source: Anacom

Mobile Subscriber Market Share Evolution



Penetration of 3+4+5P Bundles



Source: Anacom

Since 2013, Fixed Broadband services have grown by more than 950 thousand RGUs, reaching total penetration of 71%. The quality of services provided has greatly improved, with expansion of high speed Next Generation Network coverage. Data for the market as a whole shows that the number of customers served by high speed networks has doubled in the same period.

On the mobile front, the market is already highly penetrated with more than 17.5 million reported active sim cards by the end of 3Q17 (over 170% penetration). Trends in consumption have changed significantly in recent years with more and more customers taking their mobile subscriptions inside their residential convergent accounts, a change that has led to big shifts in market shares.

Convergent offers today represent almost 43% of fixed residential subscriptions and each household subscribes to an average of 2 sim cards. This has also led to a relevant shift from the market being predominantly pre-paid to post-paid in nature. It is fair to say that consumers have been the main beneficiaries of the changes in the Portuguese telecoms market. The multitude of offers at their disposal are much more sophisticated and it has never been easier to subscribe to integrated services that provide significantly greater consumption allowances and ultimately, value for money.

A Highly Invested Market

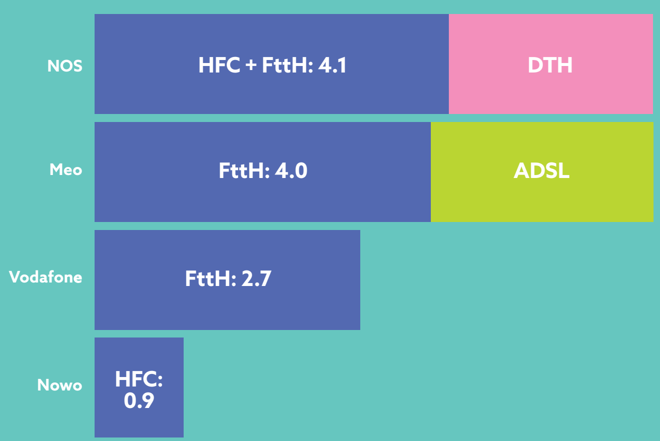
Portugal is one of the most invested and advanced telecoms markets in Europe.

The three largest operators have been rolling out Next Generation Networks, which in a significant proportion of their footprints run side by side, demonstrating commitment to the market and the need to meet increasing demands for bigger and faster data offers.

At NOS we have expanded our addressable fixed footprint by around 900 thousand homes approximately 4 million households.

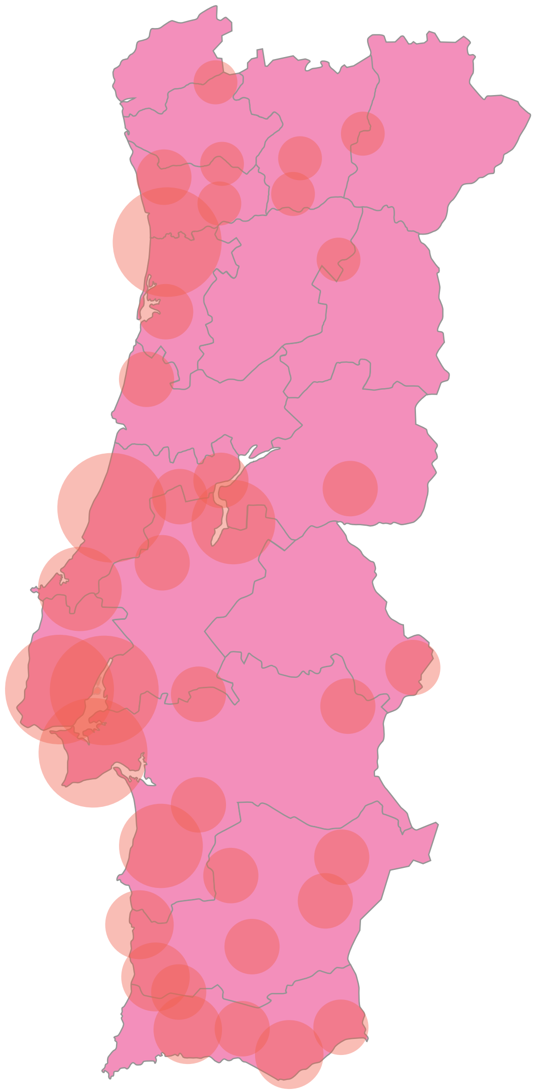
Of these, around 730 thousand are FttH and the remaining 3.4 million HFC households will be fully upgraded to DOCSIS 3.1 and capable of delivering 1Gbps speeds during 1Q18.

Coverage by Operator and Technology



Source: Operator Reports

+75% Kms installed
€6 Bln invested
(2012 - 2016)



Source: Operator Reports

Consumer trends changing with rapidly evolving technology and internet model/ Success of new content delivery and consumption formats

Consumers everywhere feel the need to be connected almost all the time. Social media, with 80% and video content with 68% of users, are some of the biggest drivers of time spent online in Portugal.[3] On average, ownership of devices reaches 3.3 per person in Portugal, which compares with 2.9 in other southern European countries.[4] The growing proliferation of smartphone usage is expanding time spent online, but has not yet superseded the PC as the main device to access the Internet. Globally, smartphones make up for around one fifth of total video content viewing, which amounts to 6 hours per week.[5]

WWW Portuguese spend **5h**/day online

Source: Anacom

Video content is therefore a key element of this need for mobility. As such, a seamless, unified experience across devices and networks is key – 15% of all Portuguese Pay TV subscribers watch TV on the move[6]. The biggest share of online content viewing goes to free and social media videos, and non-linear viewing trends are largely influenced by demographics, with the youngest age groups showing a much bigger preference for this type of viewing.

Online Shopping

62% (Ages 25-34)

56% (Ages 16-24)

Source: Anacom

E-commerce is also a growing habit for the Portuguese: in 2017, 34% of the population shopped online, up 3pp from 31% in 2016, which compares with 55% in the European Union, meaning there is still ample room for growth.

70% Watch video content on smartphones, twice as much as in 2012

Millennials watch **80%** more non-linear content than those over 35

Source: Ericsson Consumer Lab

The proportion of people who searched for information about goods and services was 83% in 2016, which compares with 80% in the EU. As is the case with video content, the proportion of people who have purchased online is much higher than average in lower age groups7.

Over-the-top (OTT) networks, such as Netflix, Hulu or Amazon Prime are both creating and taking advantage of the change in consumers' viewing habits, such as binge viewing of all the episodes of a season or series in sequence.

In Portugal, the penetration of these services is still relatively low at 11.5% in December 2017[8], which compares with penetrations of over 60% in the USA, for instance, whereas penetration in Western Europe was around 20% as of 2016[9]. This low figure is due to the very high penetration of sophisticated and wide-ranging Pay TV offers provided by telecom operators.

There are now almost limitless choices of content available at any time, which also presents a problem to consumers whose experience has become more fragmented in terms of platforms, channels and content availability. Finding something to watch can even become a problem, so much so that content aggregation and easy, smart search features become increasingly valuable as the complexity consumers are faced with increases.

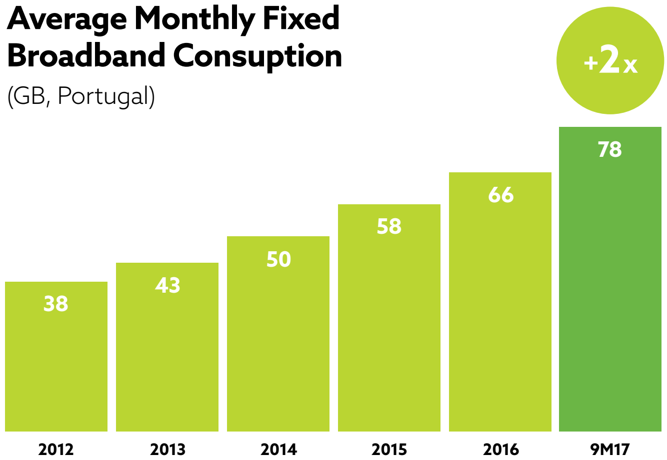
WWW **51** /minutes daily time spent searching for content, globally

Source: Ericsson Consumer Lab

Another trend which is set to change the future of content consumption is Virtual Reality, whose immersive features and potential for social interaction will make it one of the arenas where content consumption is most likely to grow.

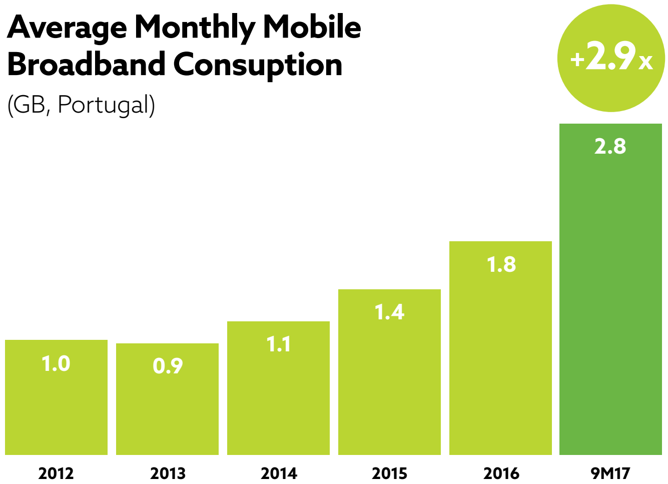
Average Monthly Fixed Broadband Consuption

(GB, Portugal)



Average Monthly Mobile Broadband Consuption

(GB, Portugal)



Source: Anacom

[3]Source: ANACOM
[4]Source: Connected Life 2016-2017
[5]Source: Cisco
[6]Source: Marktest
[7]Source: ANACOM
[8]Source: Marktest.
[9]Source: Broadband TV News
[10]Source: Cisco

All these changes and trends lead to increasing online presence of consumers and have clear strategic implications for telecoms operators, both in terms of the design and features of their offerings and also of their network capabilities and performance. As a case in point, over 50% of all Internet traffic globally is related to video content, a trend that is set to continue growing at a very fast pace10.

Key regulatory developments

A new European regulatory framework for the provision of electronic communications services is currently being prepared for approval in 2018 and is likely to be transposed and applied at the member state level during 2020. The Commission's proposal, presented in 2016, is designed to encourage investment in high capacity networks as a means to promote the development of the Gigabit Society. Several themes have been presented for discussion at the European Parliament, Council and Commission, namely the (de)regulation of operators with significant market power that are available to co-invest, regulatory symmetry regardless of operator scale, spectrum management, future universal service specifications and financing mechanisms.

As regards NOS, the main regulatory themes that affected our operations during 2017 and that are on the horizon for the medium and long term are presented below:

RLAH: The new European roaming directive, Roam Like At Home (RLAH), was implemented in June. European citizens traveling in EU countries now pay domestic tariffs for roaming calls, SMS and data. While contributing to develop the European single market and benefit consumers, the new regime represented a significant change to tariff structures and traffic patterns and for NOS had a net negative impact in terms of incoming and outgoing roaming traffic.

Although we are a net beneficiary of tourism driven mobile traffic, the increase in traffic terminated on our network was not sufficient to compensate for the loss of revenues from outgoing roaming revenues which are now charged at domestic rates. Wholesale termination agreements have yet to adjust in full to accommodate the more challenging economics.

Net Neutrality: The Portuguese regulator has recognized publicly that the situation is not problematic, given the absence of specific customer complaints although it is still analysing market wide commercial practices. Further guidance from the regulator is expected once this analysis is completed.

Network security: During 2017 the Portuguese regulator issued a draft regulation on the security and integrity of electronic communications networks and services. Among others, the draft aims to establish the technical implementation measures and additional requirements which operators must meet with regards to network security and integrity. ANACOM's proposal was subject to a public consultation process which is still under analysis by the regulator.

Universal Service: Universal Service (US) requirements for each service are currently under discussion in Portugal, with a view to adapting to changing consumer needs and market evolution. It is possible that the outcome of the process will be a reduction in requirements for fixed voice and public pay-phone sites accompanied by increased focus on fixed broadband and mobile services, both data and voice.

5G: Following adoption by the European Commission of "An Action Plan for 5G" (in September 2016), in December 2017 the European Council published a "5G Roadmap" which sets out the main milestones. While the full harmonization of technical standards is not yet complete, one of the main concerns is linked to the availability, award and use of spectrum, namely in what regards the timing, price, duration and renewal process for licenses. Commercial availability of 5G services is set for 2020 in at least one city per member state, with pilot projects set to take place before that date. The ultimate goal of this roadmap is the "Gigabit Society", to make 5G available in all major cities and along the major transport routes by 2025.

Mobile Termination Rates (MTR): at the beginning of 2018, ANACOM approved a draft decision to lower MTRs to 0.43 euro cents as from 1 July 2018, representing a decrease of 43% from the 0.75 euro cents currently in place. Additional MTR cuts were drafted for 1 July 2019 and 1 July 2020, to 0.41 euro cents and 0.36 euro cents, respectively, adjusted for projected inflation for each year. We are net payers of mobile termination and therefore welcome the move to introduce a more level playing field.

5

Performance in 2017

Once again, we delivered relevant RGU growth reinforcing market shares across the board;

Significant effort was put into the business enablers that will ensure long term competitiveness and differentiation;

Our operating revenue growth was well ahead of the market, supported by RGU growth and an improved pricing environment;

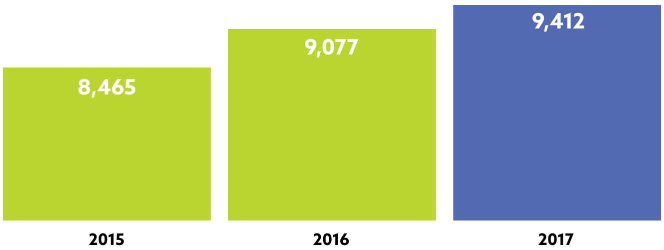
Profitability and earnings increased with expanding operating leverage, more cost efficiency and financial discipline;

Cash generation grew significantly providing a path for attractive and sustainable shareholder remuneration.

RGUs

(Thousands)

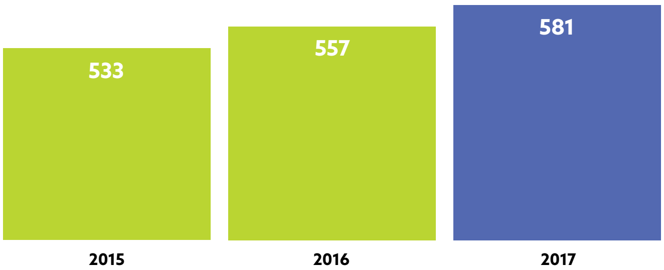
+3.7%



EBITDA

(Millions of Euros)

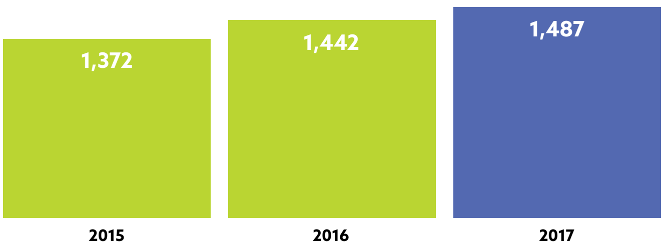
+4.3%



Telco Revenues

(Millions of Euros)

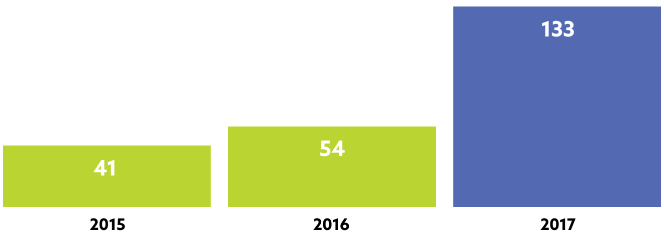
+3.1%



FCF Bef. Dividends and Financial Investments

(Millions of Euros)

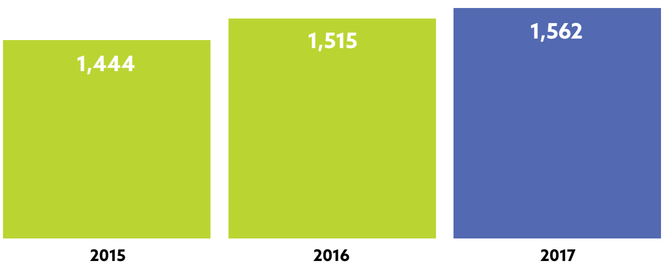
+147%



Total Revenues

(Millions of Euros)

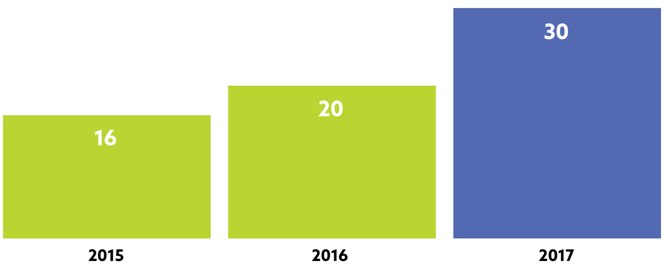
+3.1%



Dividends

(Eurocents)

+50%



Source: NOS

José Pedro Pereira da Costa

Vice-President, CFO

"The success of our commercial activity and increased FCF together with our solid capital structure and balanced debt maturities, provide a solid basis for continued and sustainable growth in dividends without compromising our long term financial strength.

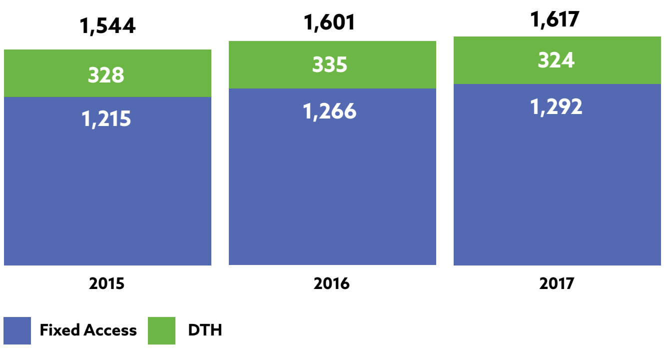
Another year of solid operating growth

We continued to grow in all services with total RGUs increasing by 3.7% to 9.412 million. By the end of the year, we had 1.617 million Pay TV subscribers of which 1.292 were connected over next generation networks (FttH or HFC). Satellite customers fell by 11 thousand to 324 thousand, a decline driven essentially by an increase in fixed network coverage by all operators. In the second half of the year, market-wide remedies imposed by ANACOM in June regarding price increase communication procedures led to a temporary increase in churn and subsequently lower net adds in the last months of the year.

We are the leading operator in the Pay TV market with a 43% share of subscribers. Convergence take up and additional fixed network deployment have been the principal drivers of growth in fixed customers in the past years. However in 2017, the pace of growth was slower than in previous years, as expected, due to the already high level of penetration of services and to the comparatively lower level of network expansion. By the end of the year, we had 721.4 thousand households taking their communication services in fixed and mobile convergent bundles, 47.4% of the fixed customer base, representing a total of 3.651 million convergent RGUs, 7.8% more than in 2016.

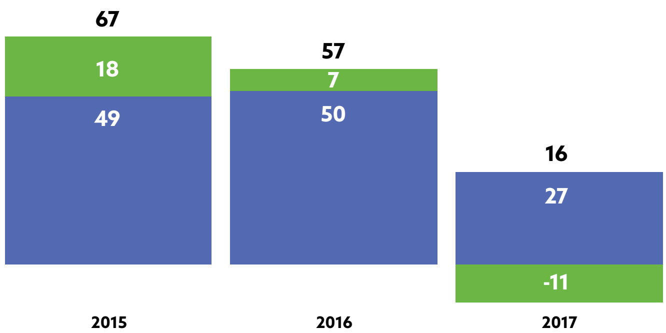
Pay TV Subscribers

(Thousands)

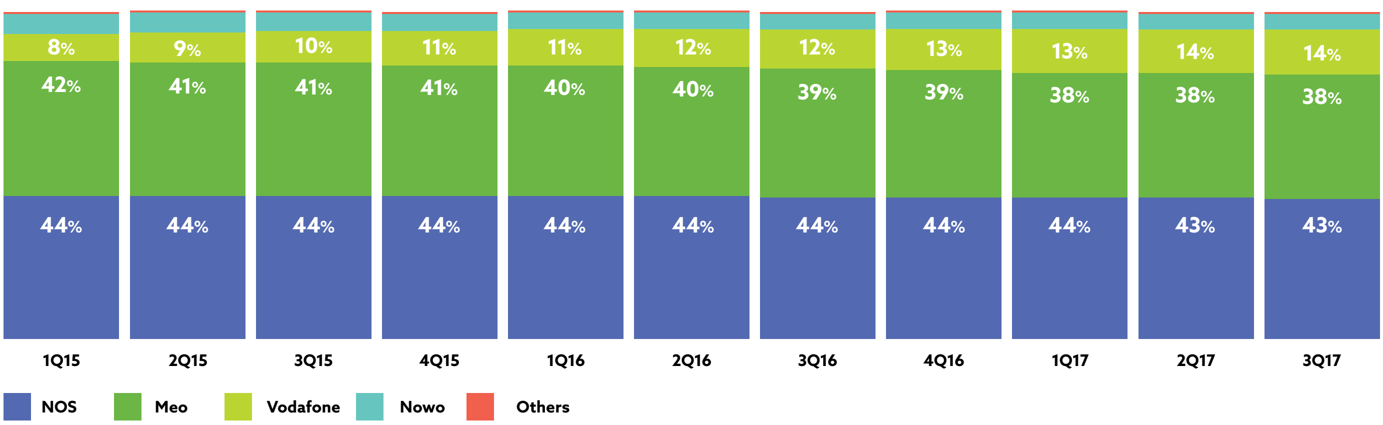


Pay TV Net Adds

(Thousands)



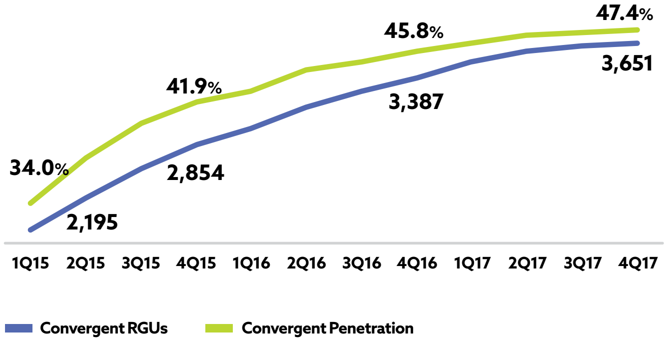
Pay TV Market Shares



Source: NOS, ANACOM

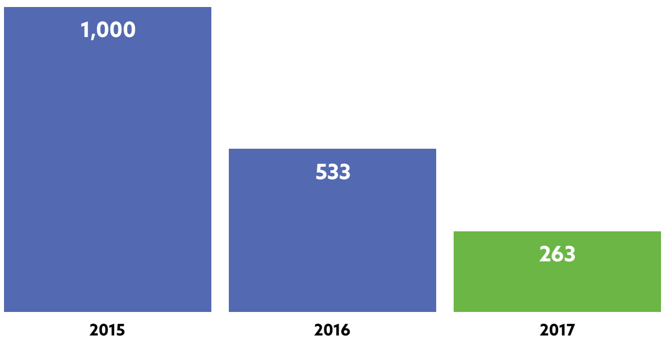
Convergence

(Thousands, %)



Convergent RGU Net Adds

(Thousands)

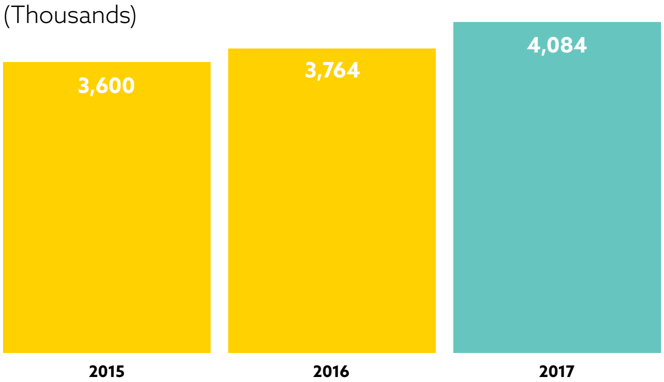


Source: NOS

Within our new FttH network expansion areas, we have already achieved an average level of net penetration of 21%, well above our target threshold to extend coverage, with the highest levels typically being reached in geographies where we expanded our footprint earlier or encountered a less populated competitive environment.

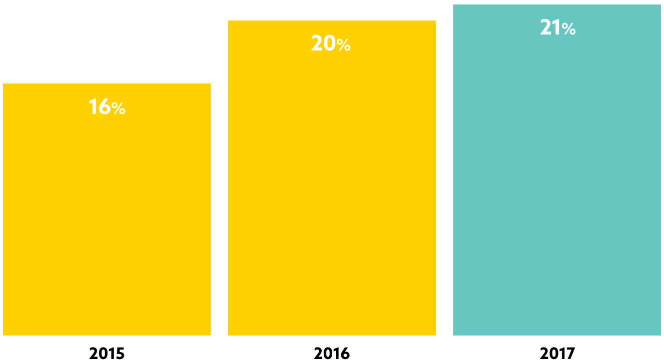
Homes Passed

(Thousands)



Source: NOS

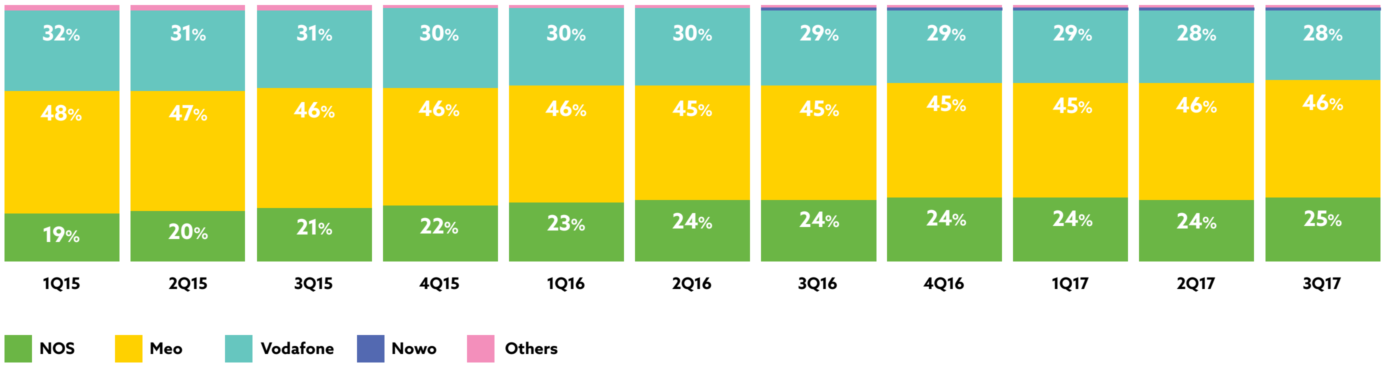
FttH Net Penetration



Source: NOS

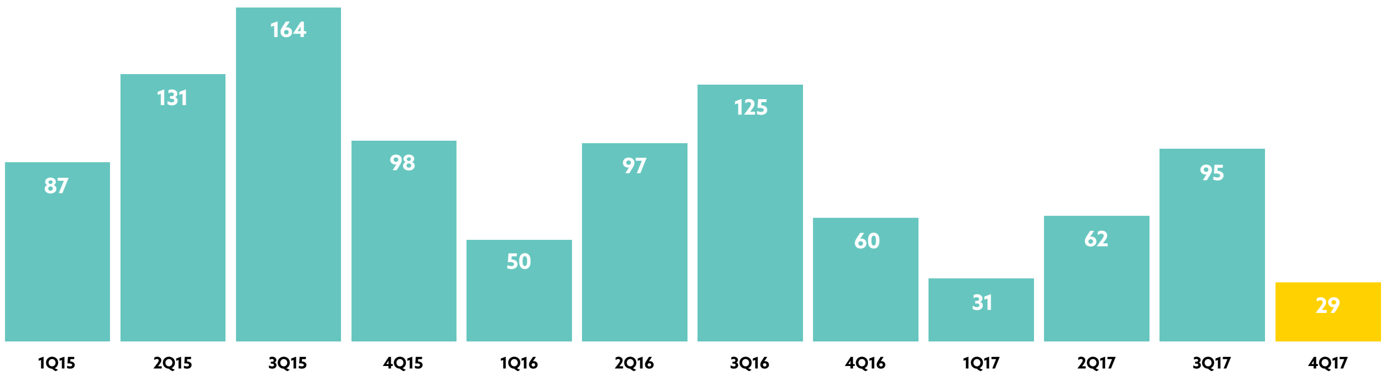
We grew our mobile customer base by 4.9% in 2017 to 4.673 million subscribers, an additional 217 thousand. Our market share has been expanding fast since the merger, on the back of our convergent offers, increased presence in the stand alone mobile space, namely in the youth market, and in B2B. The most recent data published by the regulator for 3Q17 shows that we now have 25% of the mobile market, closing the gap to the second player and well above our 15% share at the time of the merger in 2013.

Mobile Subscriber Market Shares



Mobile Net Adds

(Thousands)

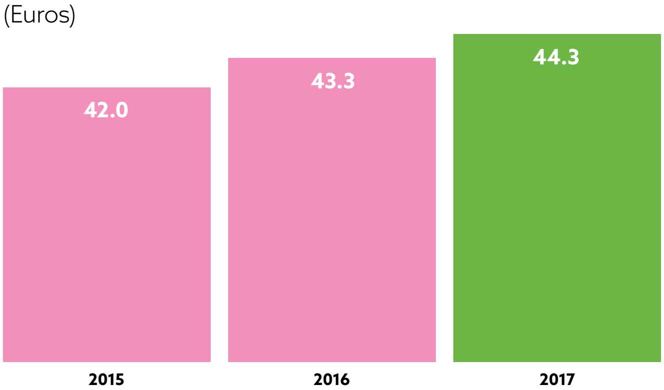


Source: Anacom; NOS

With customers taking more services within their household accounts together with the price increase implemented at the start of the year, the level of average revenues per fixed access household (ARPU) posted a yoy increase of 2.4% to 44.3.

ARPU per Unique Subscriber with Fixed Access

(Euros)



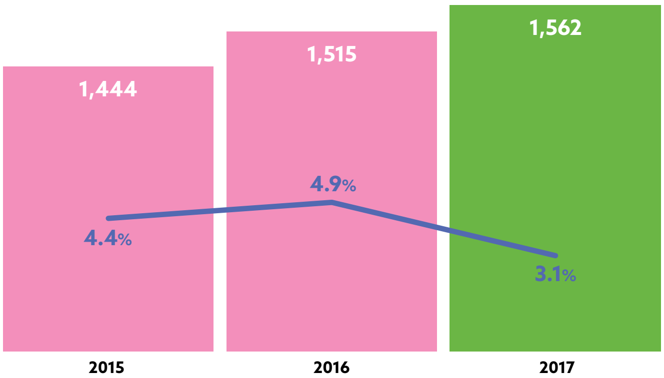
Source: NOS

Revenue growth led by solid operating trends

Growth in our telco operating indicators, a generally more disciplined price environment and another strong year for the audiovisuals and cinema sector, was supportive of solid consolidated revenue growth of 3.1% in 2017 to 1.562 million euros.

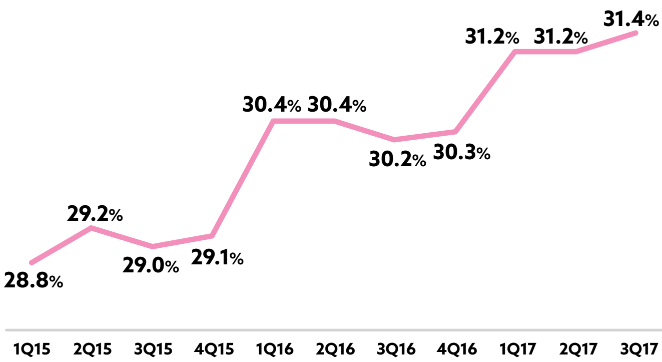
Consolidated Revenues and YoY Change

(Millions of Euros, %)



Source: NOS

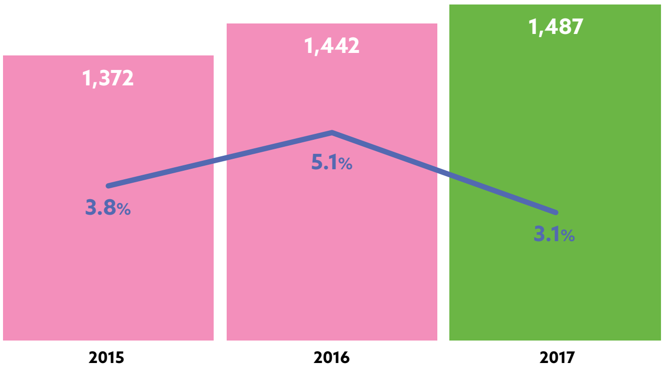
NOS Retail Revenues Market Share



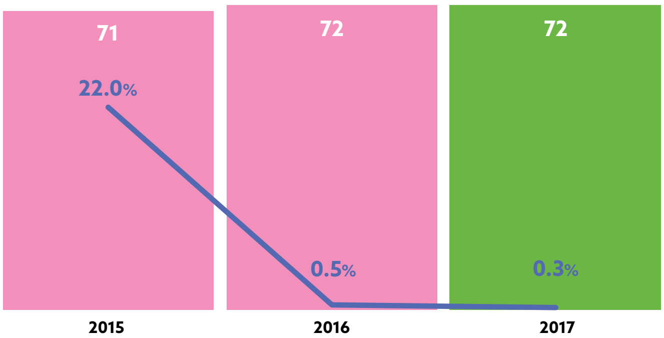
Source: Anacom

Our continued outperformance of the telecom market has enabled us to capture significant gains in market share of retail revenues to 31.4% as of 3Q17, well ahead of our original target of 30% for 2018.

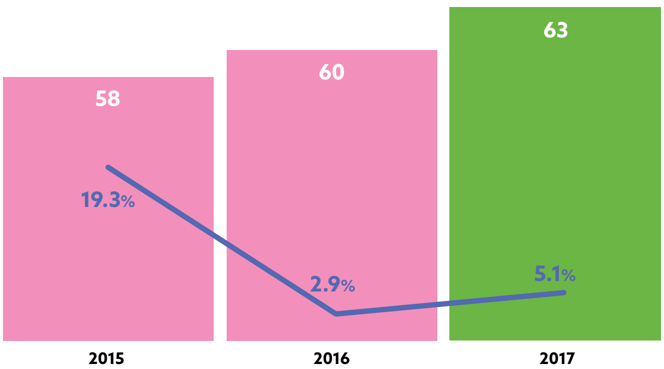
Telco Revenues and YoY Change
(Millions of Euros, %)



Audiovisuals Revenues and YoY Change
(Millions of Euros, %)



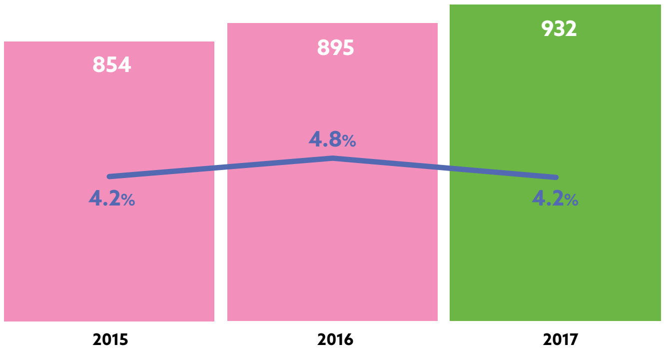
Cinema Exhibition Revenues and YoY Change
(Millions of Euros, %)



Source: NOS

The consumer telco segment posted growth of 4.2% to 932.7 million euros in 2017 with the residential and stand-alone mobile businesses both recording material gains of 4.1% and 5.2% respectively. Although representing just 15% of the consumer business, the very positive performance of the standalone mobile segment in recent years, is particularly noteworthy as it validates the recovering trend in this sub segment reaching break-even mid-2016.

Consumer Revenues and YoY Change
(Millions of Euros, %)



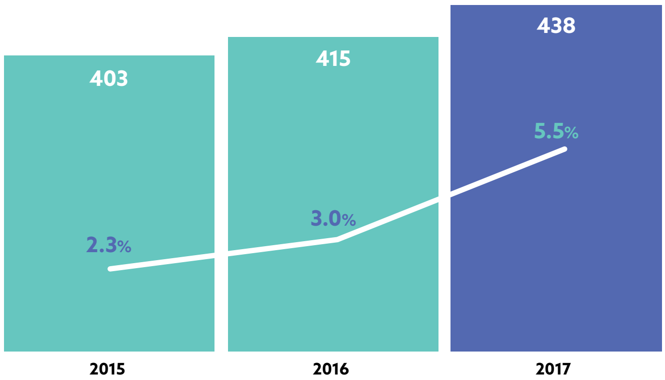
Source: NOS

Growth in Business and Wholesale revenues of 5.5% to 438 million euros resulted from a combination of varying paces of growth in our mass business, corporate and wholesale operations. Our particularly strong performance in wholesale revenues was the result of relevant gains in market share during 2017, which tends to be higher than our average share of the business market, however very volatile quarter on quarter.

Although roaming related revenues have a relatively small weight in total revenues, approximately 2%, the impact of market wide implementation of the European Roam Like at Home directive (RLAH) as from 15 June did cause some drag on growth. Roaming out revenues to Europe declined 54%, however were partially offset by a 36% increase in revenues from European tourists traveling to Portugal. Total roaming revenues fell by just 3%, given that the rest of the world makes up for almost 60% of the total.

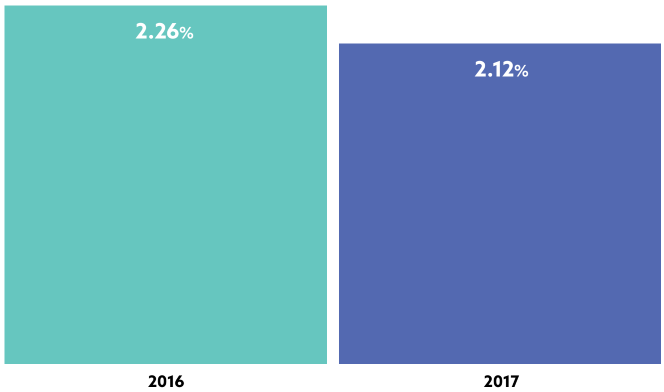
Business & Wholesale Revenues and YoY Change

(Millions of Euros, %)



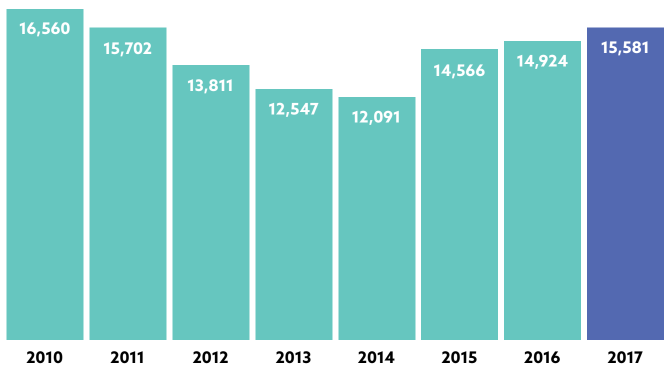
Our Cinemas posted strong revenue performance in 2017, up by 5.1%, and was the best year ever in terms of ticket sales and revenues generated. Our audiovisuals distribution business posted a solid performance, in line with 2016. The earlier part of the year was vibrant in terms of movie line-up driving very strong box office and distribution revenues, however there was a marked slowdown in the second half of the year with fewer hit movies in the theatres, consistent with worldwide trends.

Weight of Roaming in Telco Revenues

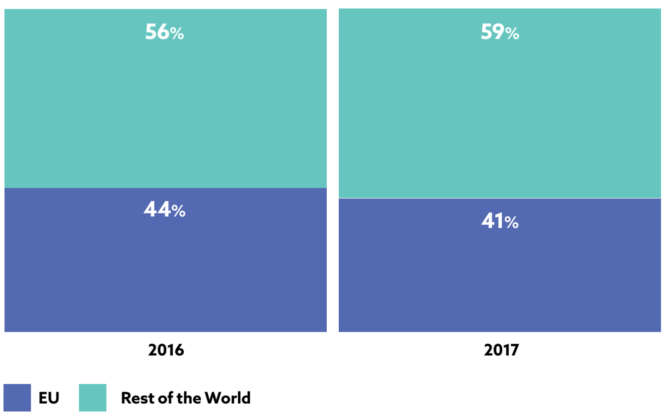


Total Market Cinema Tickets Sold 2017

(Thousands)



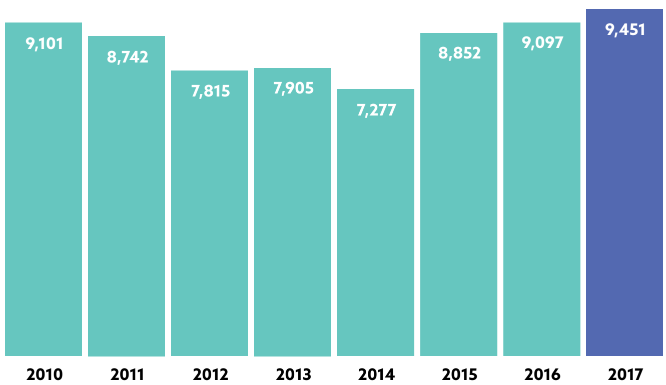
Geographical Breakdown of Roaming Revenues



Source: NOS

NOS Cinema Tickets Sold 2017

(Thousands)



Source: ICA; NOS

Being the largest operator in the market with 219 screens, we continued to capture a share of more than 60%. On the audiovisuals front, we distributed 7 of the top 10 movies in 2017, driving continued leadership in box office hits and overall share of distribution.

Top 10 Movies in 2017

1. The Fate of the Furious *
2. Despicable Me 3 *
3. Beauty and the Beast *
4. Fifty Shades Darker *
5. Pirates of the Caribbean: Dead Men Tell no Tales *
6. The Boss Baby
7. Star Wars: The Last Jedi *
8. The Emoji Movie
9. Baywatch *
10. La La Land

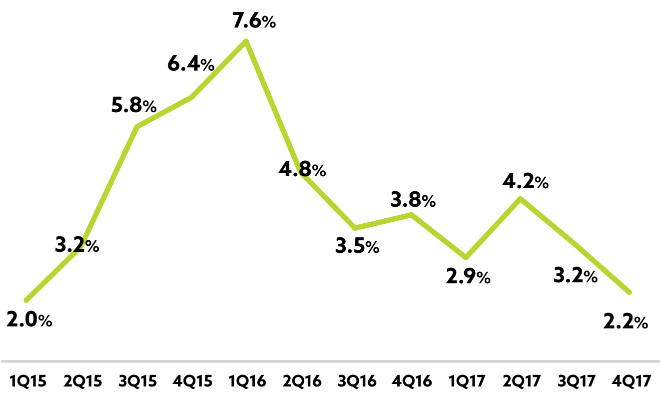
* Distributed by NOS Lusomundo Audiovisuais

Operating leverage and efficiencies driving better profitability

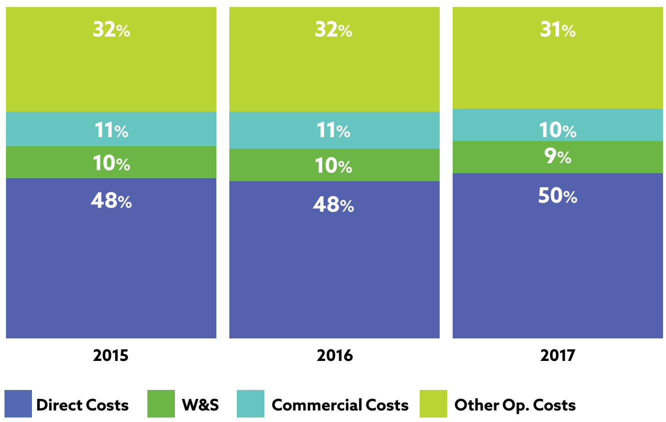
Total OPEX grew less than revenues in 2017, by 2.4%, driving EBITDA margin expansion to 37.2%. Expressed as a percentage of revenues, total OPEX represented 62.8%, down from 63.3%, a decline achieved in spite of a material increase in programming costs as discussed below.

Almost 60% of total OPEX can be considered variable in nature including primarily direct and commercial costs driven by operating activity. In 2017, growth in these cost aggregates was of 4.8%. Variable costs have been impacted by the material growth in operating activity driving traffic and capacity related costs, and by a material increase in premium sports programming costs. Of the almost 27 million euros increase in variable costs in 2017, approximately 22 million came from higher programming costs related with the renegotiation of premium sports content contracts in 2015 and the adoption of a new distribution model by all operators. Remaining programming costs actually posted a yoy decline of close to 4% in 2017.

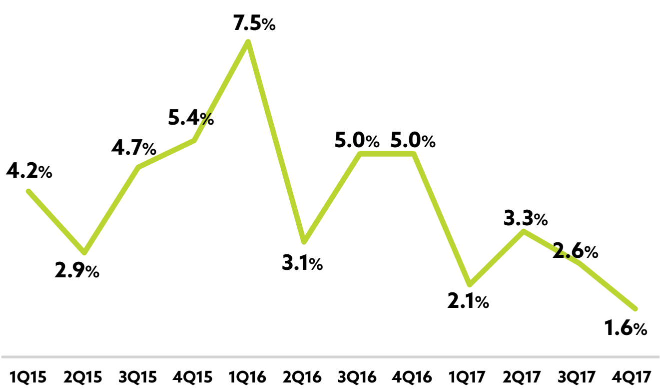
Revenue YoY Change



OPEX Breakdown



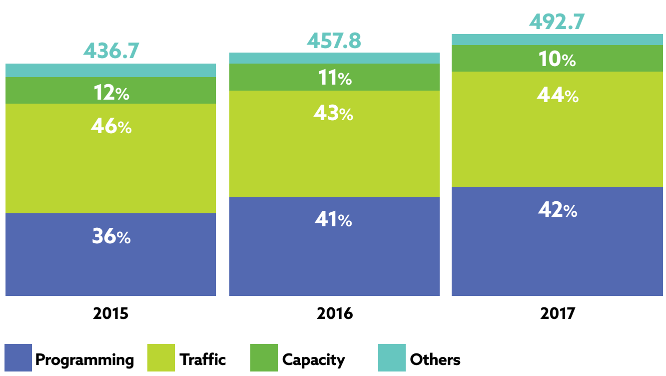
OPEX YoY Change



Source: NOS

Direct Costs Breakdown

(Millions of Euros, %)



Source: NOS

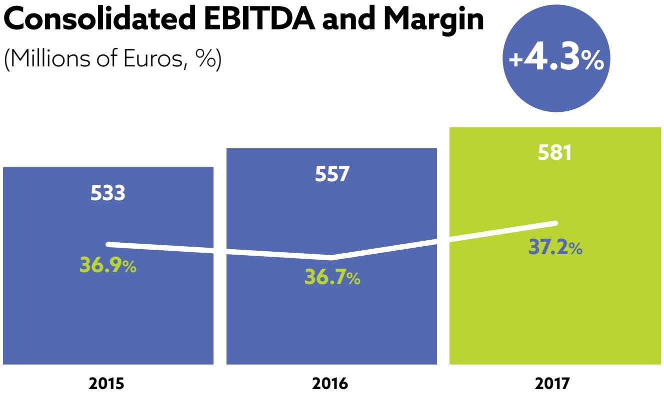
Within traffic and capacity related costs, growth in interconnection costs reflects the increase in voice and traffic on the network and the impact of RLAH which has driven a materially higher volume of traffic terminating on European operators networks, without a corresponding increase in revenues as discussed above. Savings have been achieved in general telecom costs, namely in terms of line rentals and backbone and capacity related costs, through continued replacement of third party network rentals with own build, as has been the case over the past few years.

Fixed costs posted a small decline of 1% in 2017 to 391.8 million euros, the main items being wages and salaries, support services, maintenance and repair, supplies and external services and operating taxes. The decline in wages and salaries in 2017 to 89.2 million euros was due to a temporarily lower level of headcount and fewer integration and own work related costs when compared with previous years. All other fixed OPEX was relatively stable during 2017 at 302.6 million euros, reflecting a number of savings, one of the most relevant being a reduction in supplies and external services of 3 million euros, offset by an increase in support and maintenance related services of approximately the same amount. It is also worth highlighting a relevant increase in regulated fees and other rates and taxes, which grew by 3 million euros in 2017 to 32.5 million euros and of which the lion's share, almost 80%, were paid to the sector regulator ANACOM.

As a result of the aforementioned performance of revenues and OPEX, consolidated EBITDA grew by 4.3% in 2017 to 580.6 million euros representing a 37.2% margin of consolidated Revenues. Yearly growth in telecom EBITDA of 4.9% to 531.6 million euros compensated a decline in EBITDA for the audiovisuals and cinema business division of 2.1% to 49 million euros.

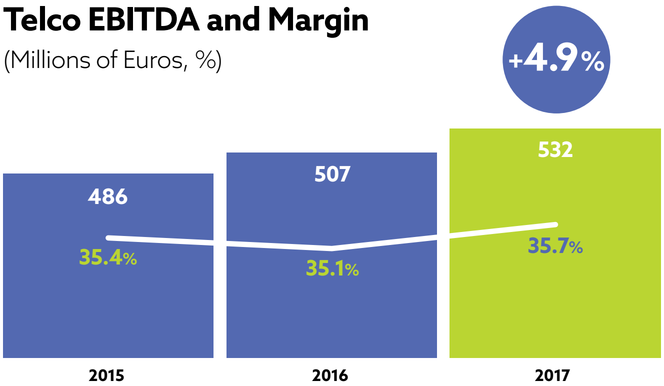
Consolidated EBITDA and Margin

(Millions of Euros, %)



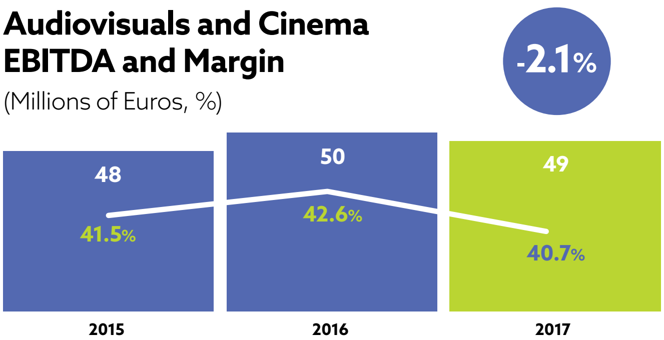
Telco EBITDA and Margin

(Millions of Euros, %)



Audiovisuals and Cinema EBITDA and Margin

(Millions of Euros, %)



Earnings expansion supported by EBITDA growth and improved contributions from associate companies

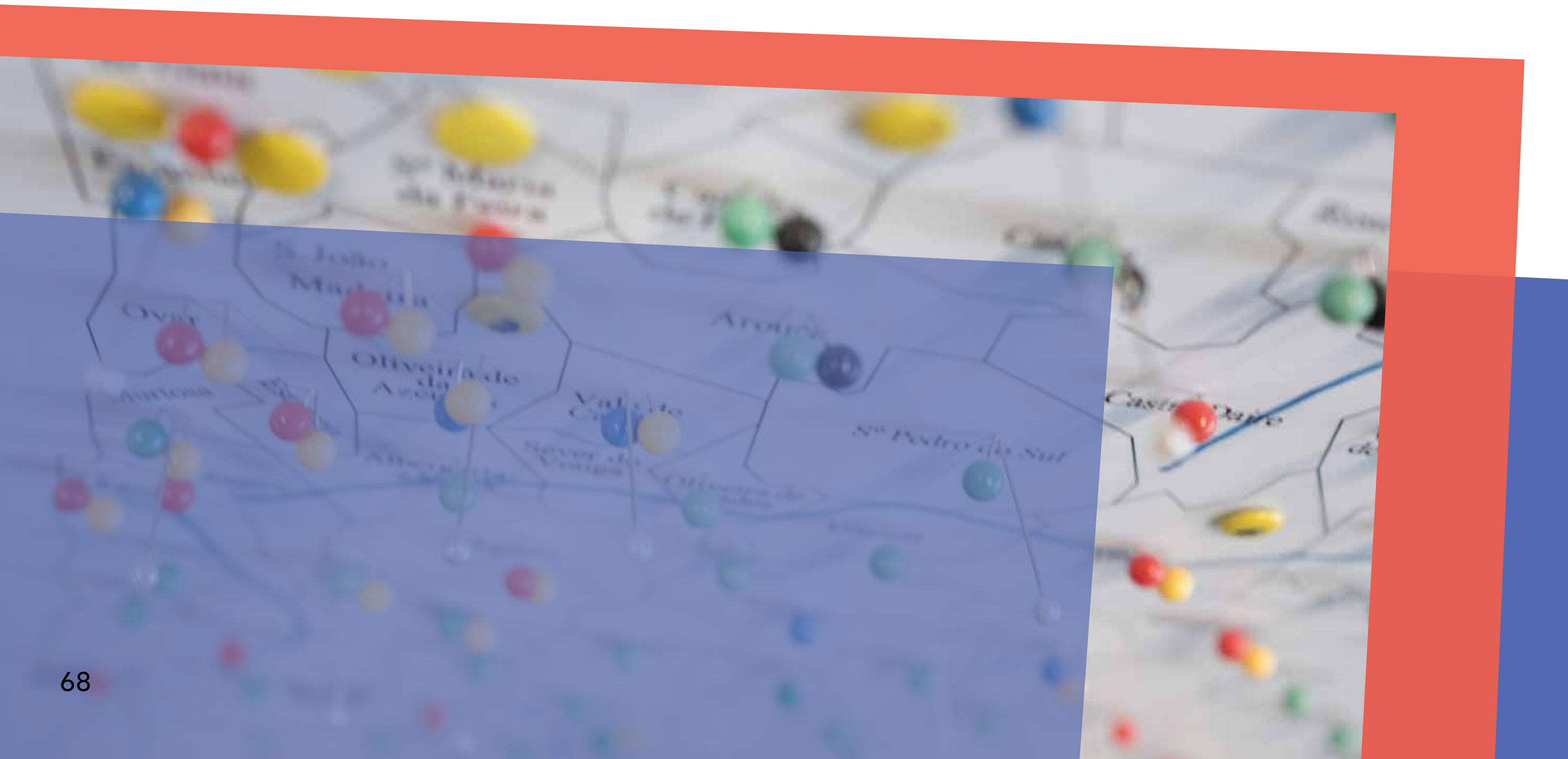
Net Results grew by 37.3% to 124.1 million euros driven by the aforementioned growth in EBITDA and contributions from associates and despite a significant increase in Depreciation and Amortization.

The major investment project initiated in 2017 to modernize the mobile network led to impairments of existing equipment of close to 40 million euros which were the main reason for a 7.8% increase in Depreciation and Amortization to 422.2 million euros. As a result, Operating Profit (EBIT) remained stable yoy at 142.8 million euros as the growth in EBITDA was offset by the increase in D&A. Other Expenses declined by 6.7 million euros to 15.7 million euros reflecting lower integration and non-recurrent costs.

Share of Results of Associates and Joint Ventures improved from a negative contribution of 5.9 million euros in 2016 to a positive contribution of 22.9 million euros in 2017, mainly due to the improved financial contribution of Sport TV (2.5 million euros) resulting from the revised distribution model implemented during 2H16 and also to the improved performance at ZAP (20.1 million euros) led by an improved exchange rate environment when compared with 2016.

Net Financial Expenses declined 2.5% yoy to 24 million euros in 2017, reflecting lower total financing costs of 5% with pure interest costs down 4%. The savings achieved on total financing costs were partially offset by a lower yoy level of interest received on outstanding client debt, compared to 2016.

Income Tax Provision in 2017 amounted to 17.5 million euros, a yoy decline of 4.7 million euros mainly explained by a lower municipal tax surcharge and a combination of positive and negative contributions from tax incentives. Effective tax as a proportion of Earnings before Tax was 12.3% in 2017, compared with 18.5% in 2016.

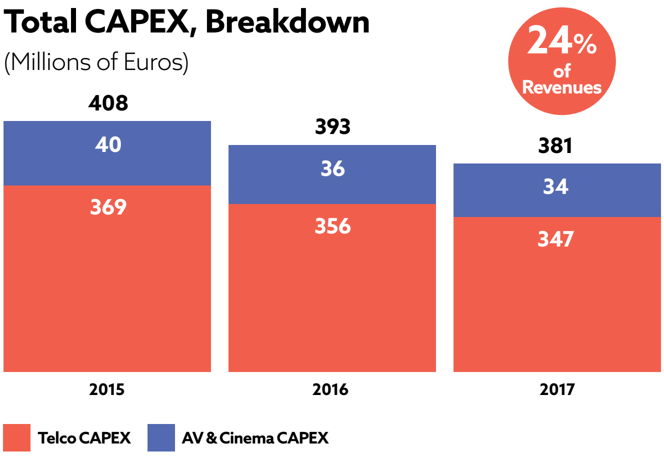


Investing in the core network enablers to secure long term competitiveness

Despite our strategic decision to implement major modernization projects and extend our network footprint and capabilities, as discussed before in this report, total CAPEX declined in 2017 to 381 million euros, representing 24% of revenues. Total telecom related CAPEX also fell by 2.6% to 347 million euros, due to a combination of lower Customer CAPEX and an increase in technical CAPEX driven by the aforementioned modernization and expansion projects underway.

Total CAPEX, Breakdown

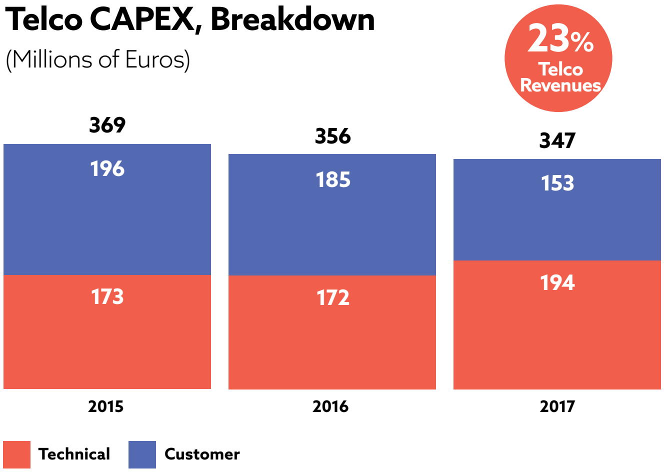
(Millions of Euros)



Source: NOS

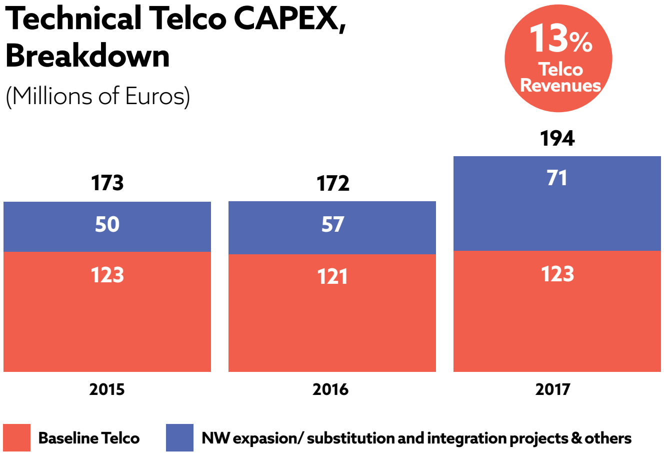
Telco CAPEX, Breakdown

(Millions of Euros)

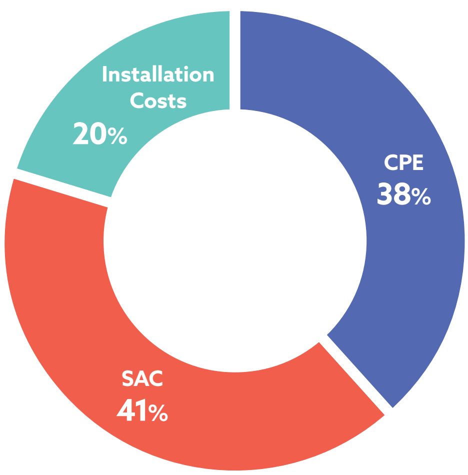


Technical Telco CAPEX, Breakdown

(Millions of Euros)



Customer CAPEX Breakdown, 2017



Source: NOS

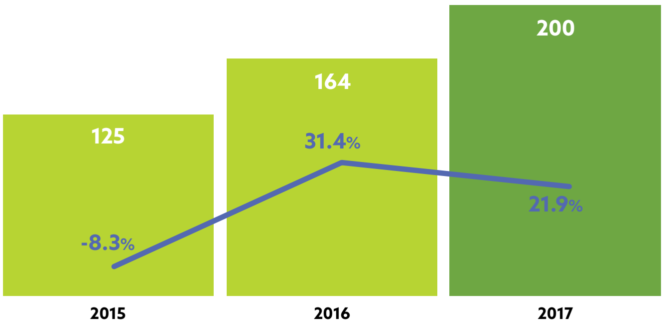
Customer related CAPEX in 2017 recorded a declining trend as was to be expected given the slower operating activity and subsequently gross adds as discussed in the operating review, helping to offset the growth in technical CAPEX.

Significant growth in cash generation

Operating Cash flow grew by 43.4% in 2017 to 174.9 million euros with an increase in EBITDA-CAPEX of 21.9% in the same period to 200.1 million euros. In addition to the EBITDA and CAPEX trajectory already described, we recorded a substantial improvement in working capital and other non-cash items included in EBITDA minus CAPEX of 17.0 million euros.

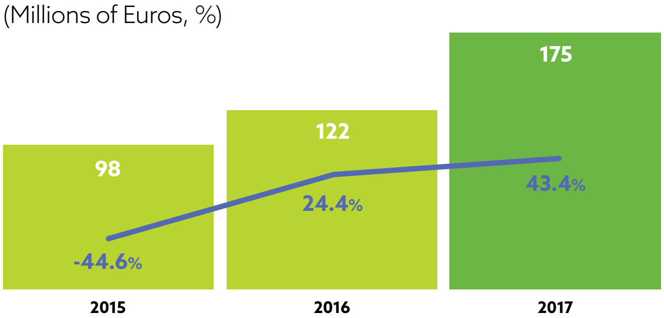
EBITDA - CAPEX and YoY Change

(Millions of Euros, %)



Operating Cash Flow and YoY Change

(Millions of Euros, %)



Source: NOS

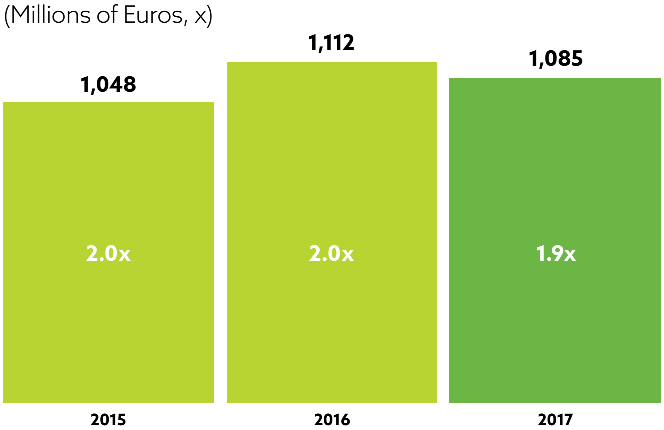
Total FCF before dividend payments increased by almost 80 million euros to 133.4 million euros as a result of the growth in operating cash flow and savings achieved in a number of items, namely long term contract payments (long term transponder and IT contracts) and due to a one off cash-in of 24.2 million euros from the sale of the Optimus fixed network to Vodafone in 1Q17, as imposed by the regulator at the time of the merger. Cash Restructuring Payments remained stable at 15.8 million euros, while Income Taxes Paid recorded a decline of 17.9% to 17.3 million euros. Net Interest payments increased by 11.0% in 2017 essentially due to the lower yoy level of client default interest payments, which more than offset a decline in financing related interest costs from lower average cost of debt. FCF margin as a proportion of consolidated revenues increased to 8.5%, up almost 5 p.p. from the 3.6% recorded in 2016.

A very solid capital structure and debt maturity profile

Our capital structure and debt maturity profile remain very solid with Net Debt at the end of 2017 amounting to 1,085.5 million euros. Total financial debt was 1,088.5 million euros, which was offset with a cash and short-term investment position on the balance sheet of 3.0 million euros. At the end of 2017, NOS also had 245 million euros of unissued commercial paper programmes.

Net Financial Debt, Net Financial Debt/ EBITDA

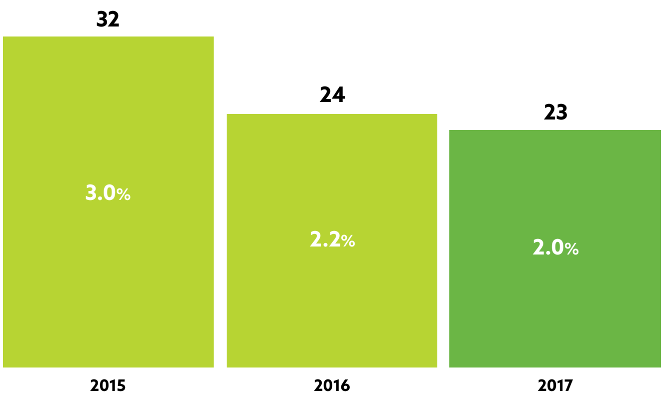
(Millions of Euros, x)



Source: NOS

Financing Costs and Average Cost of Debt

(Millions of Euros, %)



Source: NOS

For 2017, the all-in average cost of our Net Financial Debt amounted to 2.0%, which compares with 2.2% for 2016. Net Financial Gearing stood at 50.0% at the end of 2017 and Net Financial Debt / EBITDA (last 4 quarters) now stands at 1.9x. The average maturity of our Net Financial Debt at the end of 2017 was 3 years.

We continue to execute on our financial strategy of diversifying debt sources and extending maturities and are constantly tapping the market with a view to further optimizing our debt structure. During 2017 we executed four deals to refinance existing lines:

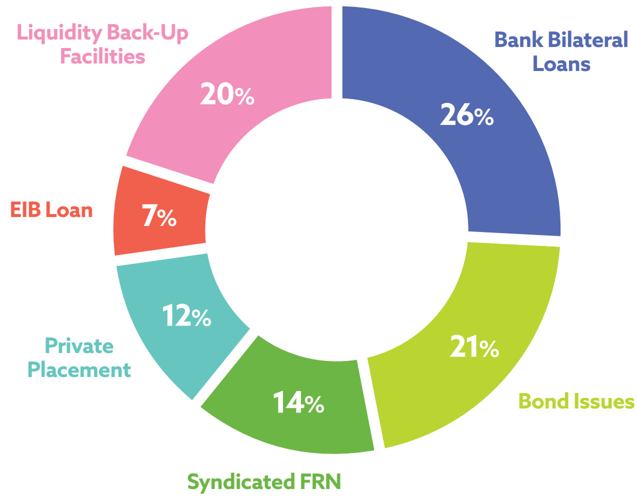
. In March, a new commercial paper program with a maximum amount of 75M Euros and maturing in 2021, with Banco Milllennium bcp;

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

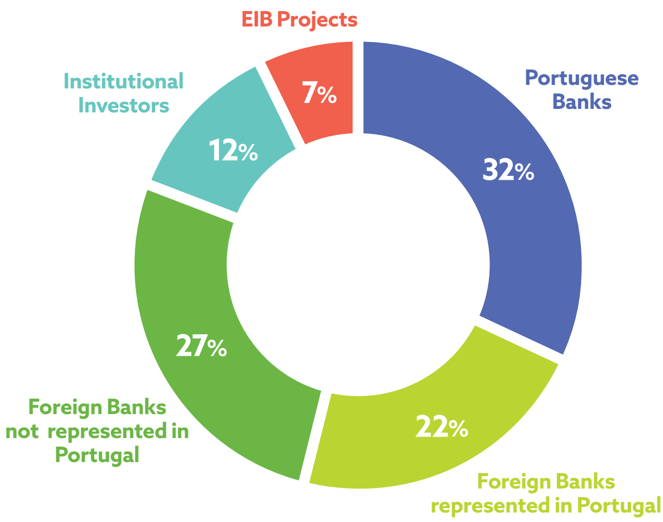
. In December, two new commercial paper programs of 25M Euros and 50M€ maturing in 2022 and 2024, respectively, with Banco Millennium bcp.

Taking into account the loans issued at a fixed rate, the interest rate hedging operations in place, and the negative interest rate environment, as at 31 December 2017, the proportion of our issued debt paying interest at a fixed rate is approximately 79%. At the end of the year, our debt maturity profile was well balanced with no relevant peaks in funding requirements.

Contracted Debt by Instrument Type



Contracted Debt by Source



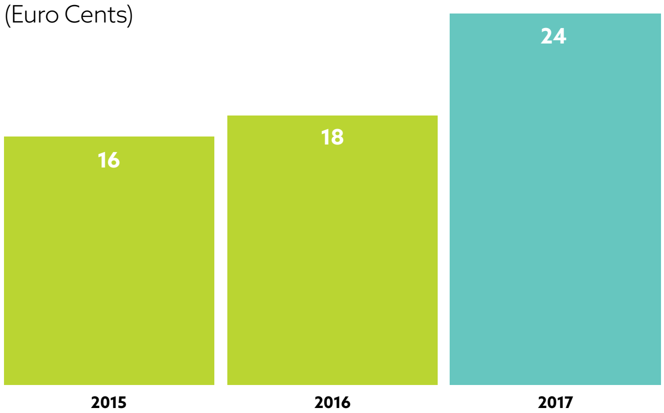
Source: NOS

Strong operating performance and positive medium long term expectations are supportive of progressive and sustainable shareholder remuneration

Increased cash generated by our operating activity together with our strong capital structure and balanced debt maturities provide a solid basis for continued and sustainable growth in dividends, above the level of earnings and FCF generated.

Earnings Per Share

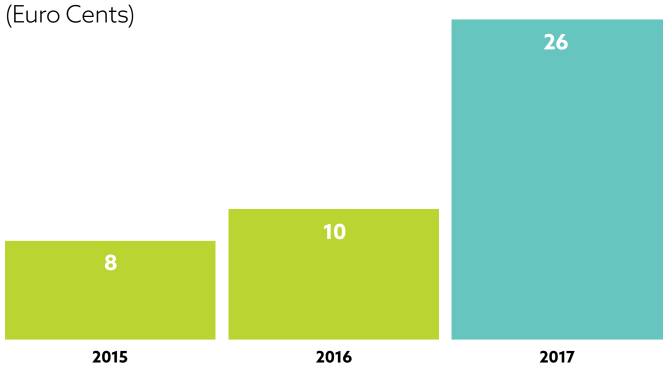
(Euro Cents)



Source: NOS

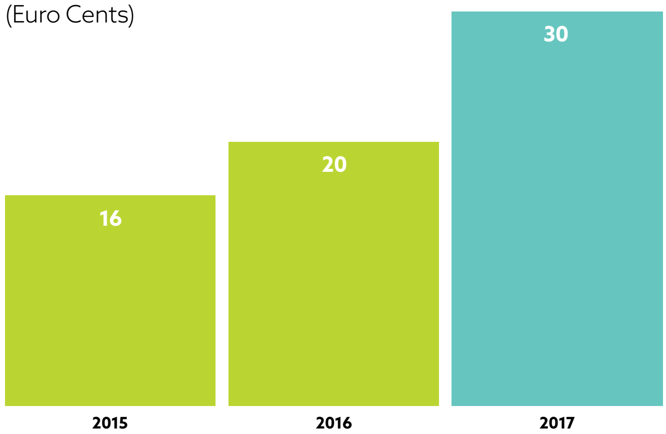
FCF Per Share

(Euro Cents)



Dividend Per Share

(Euro Cents)



Source: NOS

Reflection of our confidence in our operating prospects and our ability to generate cash and earnings in the long run, and without forfeiting our financial stability, the Board has proposed to the General Meeting
payment of a 30 eurocents dividend per share over 2017 results as set out in the following proposal:

Shareholder Remuneration proposal to the General Meeting

Considering that:

For the year ended December 31, 2017, a net profit for the year was determined in the separate accounts in the sum of EUR 96,556,031.78, and that this amount results from the fact that the company, in accordance with applicable accounting standards, recognised in its accounts for the year, the sum of EUR 1,130,546 by way of directors' profit sharing, in keeping with article 14(3) of the articles of association;

It is proposed that the following resolution be passed:

1. Given the current financial and asset position of NOS, that the net profit distributable under article 32 of the Companies Code, in the sum of EUR 96,556,031.78, be paid to shareholders, in addition to EUR 7,420,945.07 of Retained Earnings and EUR 50,571,437.15 of Free Reserves, making a total payment by way of ordinary dividends for the 2017 financial year of EUR 154,548,414.00 (or 0.30 euros per share, in respect of the total number of shares issued);

2. That, since it is not possible to accurately determine the number of treasury shares that will be held on the date of the payment mentioned above, the overall sum of EUR 154,548,414.00 mentioned in the preceding paragraph calculated on the basis of an amount per share issued (in this case, 0.30 euros per share) be distributed by way of dividends as follows:

   a) The unit amount of 0.30 euros that presided over the drafting of this proposal be paid to each share issued;

   b) The unit amount corresponding to those shares that on the first day of the payment period mentioned above belong to the Company shall not be paid and shall be transferred to Free Reserves.

3. Under article 14(3) of the Company's Articles of Association and as profit sharing in the Company, it is proposed to resolve on the allocation of the amount of EUR 1,130,546 to the Directors, under the criterion established by the Board of Directors

Reporting Changes

As from 1Q18, NOS' accounts will be reported applying the new IFRS 15 framework with regards mainly to the disclosure of revenues and costs related to contracts. Restated values for the corresponding comparative periods for FY17 will also be provided.

The main changes are as follows:

. Handset sales in Telecom bundles: revenues are no longer recognized according to the amount paid by the customer but according to the value received by the customer. As such, part of the contract revenue will be allocated to equipment sales implying higher revenues from equipment sales at the beginning, and lower monthly bill revenues over the period of the contract. The same principle applies to equipment leased to customers under commodate (free of charge), which will be considered part of the bundle, as an equipment sale and no longer as an operational lease, which implies an increase in OPEX, compensated by a decrease in D&A.

. Commissions and other contract acquisition costs: capitalization of acquisition costs is no longer limited to contracts with loyalty periods. As such, other costs and commissions previously expensed, will now also be capitalized.

The table below summarizes the main differences that result to 2017 accounts with the application of IFRS15:

	Before IFRS 15	Impact	Restated
Revenues	1,561.8	(3.1)	1,558.6
OPEX	981.1	2.1	983.2
EBITDA	580.6	(5.2)	575.4
Net Income	124.1	(2.0)	122.1
CAPEX	380.6	(3.4)	377.2

Appendix

Operating Indicators ('000)	2015	2016	2017	2017 /2016
Telco (1)				
Aggregate Indicators				
Homes Passed	3,600.1	3,763.9	4,084.2	8.5%
Total RGUs	8,464.8	9,076.8	9,411.7	3.7%
Mobile	4,123.1	4,455.7	4,672.9	4.9%
Pre-Paid	2,075.5	2,071.3	2,079.7	0.4%
Post-Paid	2,047.5	2,384.4	2,593.2	8.8%
Pay TV	1,543.8	1,600.6	1,616.6	1.0%
Fixed Access (2)	1,215.3	1,265.6	1,292.2	2.1%
DTH	328.5	335.0	324.4	(3.2%)
Fixed Voice	1,623.3	1,724.7	1,758.2	1.9%
Broadband	1,144.7	1,264.6	1,333.1	5.4%
Others and Data	29.9	31.2	30.9	(0.9%)
3,4&5P Subscribers (Fixed Access)	968.4	1,061.8	1,112.1	4.7%
% 3,4&5P (Fixed Access)	79.7%	83.9%	86.1%	2.6%
Convergent RGUs	2,853.7	3,387.2	3,650.6	7.8%
Convergent Customers	590.8	680.2	721.4	6.1%
Fixed Convergent Customers as % of Fixed Access Customers	41.9%	45.8%	47.4%	3.6%
% Convergent Customers	38.3%	42.5%	44.6%	5.0%
Net Adds				
Homes Passed	274.4	163.8	320.2	95.4%
Total RGUs	839.3	611.9	334.9	(45.3%)
Mobile	479.9	332.6	217.2	(34.7%)
Pre-Paid	14.3	(4.3)	8.4	n.a.
Post-Paid	465.5	336.9	208.8	(38.0%)
Pay TV	67.1	56.8	16.0	(71.9%)
Fixed Access	48.8	50.3	26.6	(47.1%)
DTH	18.3	6.5	(10.6)	n.a.
Fixed Voice	130.6	101.4	33.6	(66.9%)
Broadband	151.8	119.9	68.5	(42.9%)
Others and Data	9.9	1.3	(0.3)	n.a.
3,4 & 5P Subscribers (Fixed Access)	116.8	93.4	50.3	(46.2%)
Convergent RGUs	1,000.4	533.5	263.4	(50.6%)
Convergent Customers	206.2	89.3	41.3	(53.8%)

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

Operating Indicators ('000)	2015	2016	2017	2017 /2016
Telco (1)				
Indicators per Segment				
Consumer				
Total RGUs	7,180.5	7,658.9	7,953.1	3.8%
Pay TV	1,435.6	1,478.3	1,491.3	0.9%
Fixed Access	1,134.3	1,172.0	1,193.6	1.8%
DTH	301.2	306.3	297.7	(2.8%)
Broadband	1,039.2	1,143.5	1,206.3	5.5%
Fixed Voice	1,336.9	1,393.3	1,413.8	1.5%
Mobile	3,368.9	3,643.8	3,841.6	5.4%
ARPU / Unique Subscriber With Fixed Access (Euros)	42.0	43.3	44.3	2.4%
Net Adds				
Total RGUs	634.5	478.4	294.2	(38.5%)
Pay TV	44.2	42.7	13.0	(69.6%)
Fixed Access	31.8	37.6	21.7	(42.4%)
DTH	12.5	5.1	(8.7)	n.a.
Broadband	135.4	104.4	62.8	(39.8%)
Fixed Voice	60.3	56.4	20.5	(63.6%)
Mobile	394.6	274.9	197.9	(28.0%)
Business				
Total RGUs	1,284.3	1,417.9	1,458.6	2.9%
Pay TV	108.2	122.3	125.2	2.4%
Broadband	135.5	152.3	157.6	3.5%
Fixed Voice	286.4	331.4	344.5	3.9%
Mobile	754.1	811.9	831.3	2.4%
Net Adds				
Total RGUs	204.7	133.5	40.8	(69.5%)
Pay TV	22.8	14.1	3.0	(79.0%)
Broadband	26.3	16.8	5.4	(67.9%)
Fixed Voice	70.3	45.0	13.1	(71.0%)
Mobile	85.2	57.8	19.4	(66.5%)
Cinema (1)				
Revenue per Ticket (Euros)	4.7	4.7	4.8	0.8%
Tickets Sold	8,852.3	9,096.9	9,450.6	3.9%
Screens (units)	215	215	219	1.9%

(1) Portuguese Operations

Profit and Loss Statement (Millions of Euros)	**2015**	**2016**	**2017**	**2017 /2016**
Operating Revenues	1,444.3	1,515.0	1,561.8	3.1%
Telco	1,372.3	1,442.5	1,487.2	3.1%
Consumer Revenues	854.2	894.8	932.4	4.2%
Business and Wholesale Revenues	402.7	415.0	437.2	5.3%
Equipment Sales	48.0	53.7	51.0	(5.0%)
Others and Eliminations	67.3	79.0	66.6	(15.6%)
Audiovisuals	71.3	71.6	71.8	0.3%
Cinema (1)	58.4	60.2	63.3	5.1%
Others and Eliminations	(57.7)	(59.3)	(60.5)	2.1%
Operating Costs Excluding D&A	(911.2)	(958.2)	(981.1)	2.4%
W&S	(89.1)	(93.1)	(89.2)	(4.2%)
Direct Costs	(436.7)	(457.8)	(492.7)	7.6%
Commercial Costs (2)	(98.1)	(104.6)	(96.6)	(7.6%)
Other Operating Costs	(287.2)	(302.7)	(302.6)	(0.0%)
EBITDA	533.1	556.7	580.6	4.3%
EBITDA Margin	36.9%	36.7%	37.2%	0.4pp
Telco	485.5	506.7	531.6	4.9%
EBITDA Margin	35.4%	35.1%	35.7%	0.6pp
Cinema Exhibition and Audiovisuals	47.6	50.1	49.0	(2.1%)
EBITDA Margin	41.5%	42.6%	40.7%	(1.9pp)
Depreciation and Amortization	(366.4)	(391.6)	(422.2)	7.8%
(Other Expenses) / Income	(19.9)	(22.4)	(15.7)	(30.1%)
Operating Profit (EBIT) (3)	146.8	142.8	142.8	(0.0%)
Share of results of associates and joint ventures	3.6	(5.9)	22.9	n.a.
(Financial Expenses) / Income	(35.7)	(24.6)	(24.0)	(2.5%)
Income Before Income Taxes	114.6	112.2	141.7	26.3%
Income Taxes	(32.1)	(22.2)	(17.5)	(21.4%)
Net Income Before Associates & Non-Controlling Interests	78.9	95.9	101.3	5.6%
Income From Continued Operations	82.5	90.0	124.2	38.0%
o.w. Attributable to Non-Controlling Interests	0.2	0.4	(0.1)	n.a.
Net Income	82.7	90.4	124.1	37.3%

(1) Includes operations in Mozambique. (2) Commercial costs include commissions, marketing and publicity expenses and costs of equipment sold. (3) EBIT = Income Before Financials and Income Taxes.

CAPEX (Millions of Euros)	2015	2016	2017	2017 /2016
Telco	368.6	356.3	347.1	(2.6%)
o.w. Technical CAPEX	173.0	171.6	194.1	13.1%
% of Telco Revenues	12.6%	11.9%	13.1%	1.2pp
Baseline Telco	123.2	114.3	123.0	7.6%
Network Expansion / Substitution and Integration Projects and Others	49.8	57.3	71.1	24.1%
o.w. Customer Related CAPEX	195.6	184.7	153.0	(17.2%)
% of Telco Revenues	14.3%	12.8%	10.3%	(0.2pp)
Audiovisuals and Cinema Exhibition	39.6	36.4	33.5	(7.9%)
Total Group CAPEX	408.3	392.7	380.6	(3.1%)
% of Total Group Revenues	28.3%	25.9%	24.4%	(0.1pp)

Cash Flow (Millions of Euros)	2015	2016	2017	2017 /2016
EBITDA	533.1	556.7	580.6	4.3%
Total CAPEX	(408.3)	(392.7)	(380.6)	(3.1%)
EBITDA - Total CAPEX	124.8	164.1	200.1	21.9%
% of Revenues	8.6%	10.8%	12.8%	(0.0pp)
Non-Cash Items Included in EBITDA - CAPEX and Change in Working Capital	(26.8)	(42.1)	(25.1)	(40.3%)
Operating Cash Flow	98.0	122.0	174.9	43.4%
Long Term Contracts	(17.9)	(17.1)	(14.9)	(12.8%)
Cash Restructuring Payments	(20.7)	(15.8)	(15.8)	(0.4%)
Interest Paid	(24.2)	(18.9)	(21.0)	11.0%
Income Taxes Paid	(4.2)	(21.1)	(17.3)	(17.9%)
Disposals	3.9	5.0	27.0	n.a.
Other Cash Movements	6.5	0.0	0.5	n.a.
Total Free Cash-Flow Before Dividends, Financial Investments and Own Shares Acquisition	41.5	54.1	133.4	146.6%
Acquisition of Own Shares	(8.1)	(20.7)	0.0	(100.0%)
Dividends	(72.2)	(82.1)	(102.6)	25.0%
Free Cash Flow	(38.8)	(48.7)	30.8	n.a.
Debt Variation Through Financial Leasing, Accruals & Deferrals & Others	(24.0)	(15.2)	(4.0)	(73.9%)
Change in Net Financial Debt	62.9	63.9	(26.8)	(142.0%)

Balance Sheet (Millions of Euros)	2015	2016	2017	2017 /2016
Non-current Assets	2,510.1	2,453.0	2,422.2	(1.3%)
Current Assets	466.4	529.6	544.9	2.9%
Total Assets	2,976.5	2,982.6	2,967.1	(0.5%)
Total Shareholders' Equity	1,063.5	1,053.1	1,086.4	3.2%
Non-current Liabilities	1,150.7	1,168.7	1,127.7	(3.5%)
Current Liabilities	762.2	760.8	753.0	(1.0%)
Total Liabilities	1,913.0	1,929.5	1,880.7	(2.5%)
Total Liabilities and Shareholders' Equity	2,976.5	2,982.6	2,967.1	(0.5%)

Net Financial Debt (Millions of Euros)	2015	2016	2017	2017 /2016
Short Term	160.0	213.9	197.3	(7.8%)
Bank and Other Loans	141.7	196.4	183.6	(6.5%)
Financial Leases	18.3	17.5	13.7	(21.6%)
Medium and Long Term	898.3	900.7	891.2	(1.1%)
Bank and Other Loans	862.6	871.8	870.3	(0.2%)
Financial Leases	35.8	28.9	20.8	(28.0%)
Total Debt	1,058.3	1,114.6	1,088.5	(2.3%)
Cash and Short Term Investments	9.9	2.3	3.0	28.7%
Net Financial Debt	1,048.4	1,112.3	1,085.5	(2.4%)
Net Financial Gearing (1)	49.6%	51.4%	50.0%	(1.4pp)
Net Financial Debt/ EBITDA	2.0x	2.0x	1.9x	n.a.

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

Non Financial Statements

Sustainability Strategy and Performance

Non-Financial Statements Table Of Content

1. On this report

With this report, the NOS Group seeks to share with its stakeholders and with society at large, in a transparent and open manner, its economic, environmental and social strategy and performance.

The sustainability report relates to the activity of the NOS Group (hereinafter referred to as "NOS"), for the period from January 1 to December 31, 2017. Whenever deemed appropriate and relevant, information on previous years is included, so as to allow a comparative perspective of the evolution.

This report aims to disclose information regarding NOS performance on sustainability topics that may affect its ability to create long-term value and, simultaneously, respond to the annual Communication on Progress ("COP"), following adherence to the 10 Principles of the United Nations Global Compact.

It also seeks to comply with the requirements of Decree-Law no. 89/2017, published on July 28, 2017, regarding the disclosure, by large companies in Portugal, of non-financial information and information on diversity.

The report was developed in accordance with the most recent guidelines of the Global Reporting Initiative (GRI), in the GRI Standards 2016 version, for the option "According to – Core"; the corresponding conformity with these guidelines is depicted in the "GRI Table" in annex.

Its structure follows the results of the materiality analysis carried out in 2017, whose results allowed identifying the material topics for both NOS and its external stakeholders. The results of this exercise are presented in the chapter "NOS and Sustainability". Throughout the report, we highlight these topics, as well as the alignment of our initiatives with the United Nations Sustainable Development Goals.

Data measurement techniques and the bases of calculation were grounded on international accounting standards, the tax system, the applicable Portuguese and international law, and the GRI guidelines. For a correct understanding of the reported data, we have prepared methodological notes that are referred next to the indicators which they relate to, or in the annex "GRI Table".

The non-financial information included in this document has been subject to independent verification by an external entity, as per the EY verification statement, which is provided in annex. This verification analysed the compliance and reliability of the information made available, in accordance with the GRI Standards 2016, so as to ensure that it reflects the reality of NOS.

For further clarification on the information published in this Report, please contact:

Isabel Borgas

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2. Sustainability in review

2.1. 2017 Main indicators

Material topic

Economic value generated, distributed and accrued

(Amounts in thousands of euros)

GRI 201-1

Economic value generated	Revenue 1 567 441
Economic value distributed	Total amount distributed: 1 233 922 Shareholders and financial institutions: 133 481 State: 124 266 Suppliers: 881 578 Employees: 94 451 Community: 147
Economic value accrued	333 519

Employees

Total no. of training hours / employee
19.5

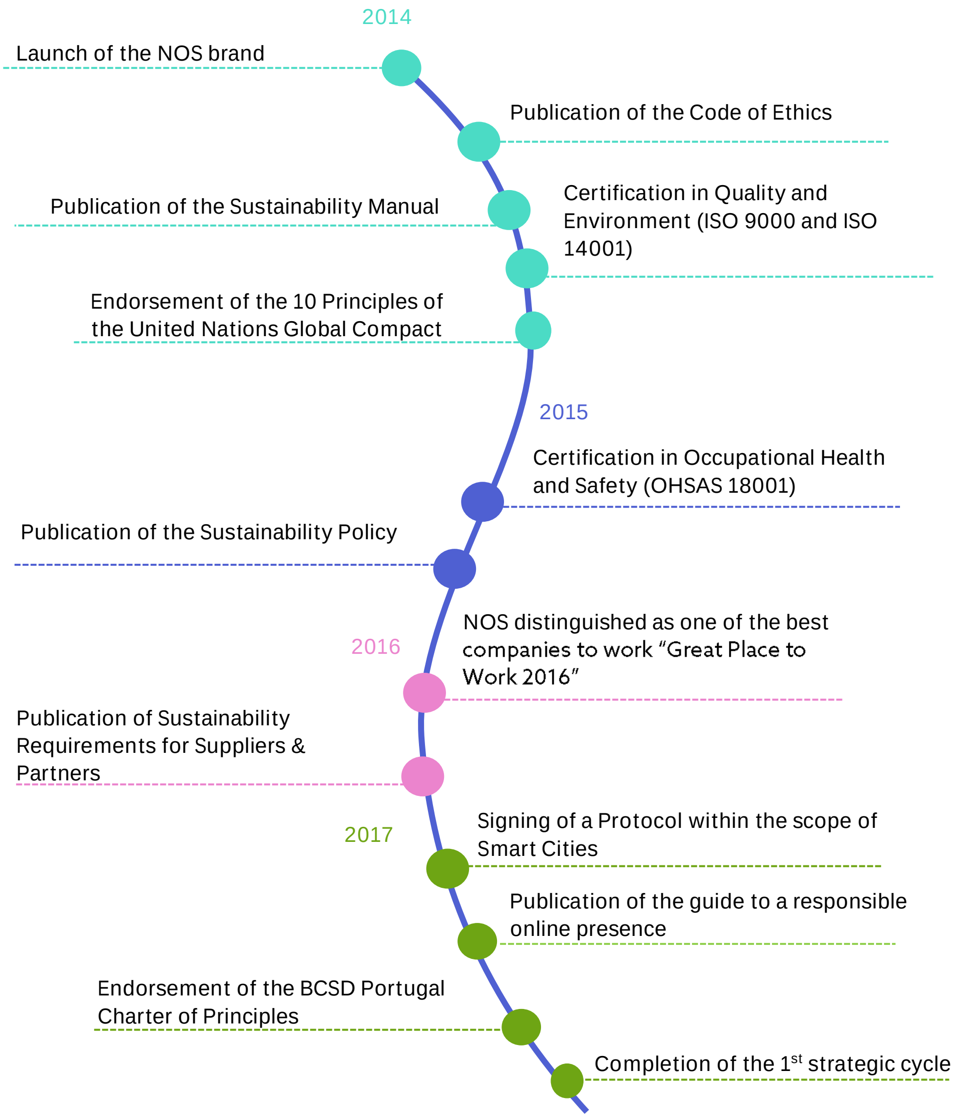
Suppliers

85% of the amount of purchases related to national suppliers

Environment

Energy consumed (GJ) 580 703	GHG emissions, scope 1 and 2 (tCO_2e) 62 701	Waste produced (Tons) 545
Energy consumption per volume of data traffic (GB/TB) 0,59	Equipment recovered and reused (Tons) 450	Waste recovery rate 99,99%

2.2. Main Sustainability milestones



3. NOS and Sustainability

3.1. Organisational profile

Mission and values

NOS is a solid, responsible and future-oriented company whose ambition is to remain the largest communications and entertainment group in the country.

At NOS we are committed to excellence and satisfaction of our customers, employees and partners, and we seek to constantly innovate through the placement in the market of differentiating products and services, which generate value for our shareholders, improve the productivity of companies and the quality of life of society at large.

Values such as Professionalism, Integrity, Transparency and Independence are a requirement of our daily life and are a key element for the success of the business.

Material topic

Corporate Governance

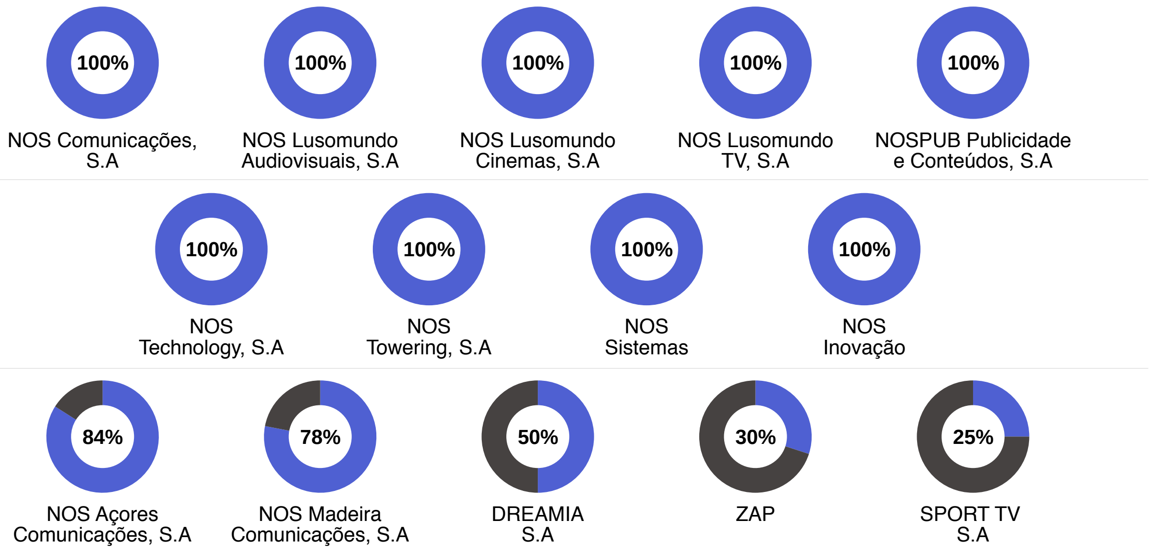
At NOS we understand that a detailed and transparent corporate governance is an important instrument in the relationship with shareholders and other stakeholders, aligning interests with the purpose of preserving and optimising the company's long-term sustainable development. If, on the one hand, a good corporate governance policy makes it possible to disclose a relevant reality of the company's corporate bodies and its employees, on the other hand it represents the company's faithful commitment to the principles that govern it, namely with regard to the responsibility towards the surrounding community, equity, leadership, assurance and management of all stakeholders.

At NOS, we actively participate and cooperate in the evolution of the Portuguese securities market, and follow the process of drafting the new Corporate Governance Code of the Portuguese Institute of Corporate Governance.

Our action in the market aims to deliver a value proposition based on the trust of our investors, employees, customers and public at large.

More detailed information on our corporate governance practices can be found in the 2017 Corporate Governance Report, which aims to comply with the obligation of annually disclosing a detailed report on corporate governance structure and practices, pursuant to article 245-A of the Securities Code, applicable to issuers of shares admitted to trading on a regulated market located or operating in Portugal.

The NOS Group



For further information on our Management Team, please see the Corporate Governance Report; for further information on the business portfolio, please see the Management Report.

3.2. Sustainability Management

Sustainability policy

The principles set out in the NOS Sustainability Policy aim to foster prosperity and create social, environmental and economic change, achieve process optimisation and improve people's and organizations' capabilities and competencies – in sum, they gear our sustainability ambitions. More detail on this Policy may be consulted in the institutional area of the website.

Sustainability Governance

At NOS, we constantly seek to integrate ethical, environmental and social issues in the day-to-day of the company. In this sense, we clarified the company's Sustainability mission and defined a governance structure that allows managing these topics and assigning internal responsibilities at different levels and organisational functions.

NOS Sustainability Mission

Pursue Sustainability goals and establish mechanisms to monitor, communicate with and challenge the various areas, to improve the interaction of the bases of sustainable development – economic progress, environmental performance and social responsibility -, ensuring compliance with the normative requirements endorsed and monitoring the interaction of processes, so as to enhance their continuous improvement.

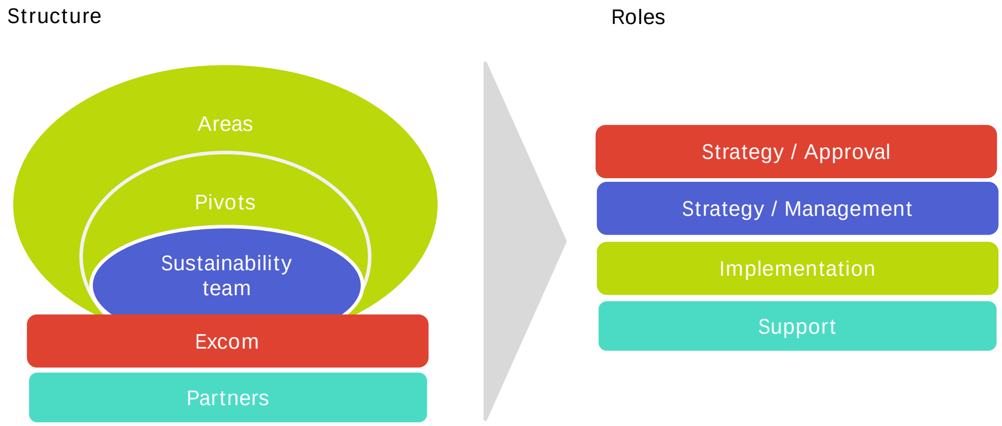
The NOS Executive Committee takes on its full commitment to sustainability management and has the highest responsibility for approving the Corporate Sustainability Strategy.

The Corporate Communication and Sustainability Department, by delegation of the Executive Committee (Excom), is responsible for managing and coordinating the implementation of the sustainability strategy, setting commitments, monitoring and assessing progress towards sustainable development, and, finally, monitoring and supporting the definition of mechanisms and tools for the reporting of sustainability indicators.

By the end of 2017, 60 sustainability pivots were also defined, distributed by different business areas, and with responsibilities in defining objectives and goals, in the process of collecting, consolidating and reporting sustainability indicators, and in the preparation and monitoring of internal and external audits.

At NOS we also have a set of partners who support the development and implementation of the sustainability strategy.

Sustainability Governance model



Sustainability risk management

At NOS we are exposed to distinct types of risks - economic, financial, legal, environmental and social, inherent in our activities.

So as to effectively manage the risks of our business, we have a system of internal control and risk management - Enterprise Risk Management (ERM) - aligned with the best international practices and standards, which ensures continuous monitoring of identified risks and the respective controls implemented, through key indicators and actions follow-up.

Through a Business Risk Model (BRM) we classify and cluster the different types of risks. BRM incorporates a Risk Dictionary that allows identifying, in a systematic way, the risks affecting the Company, defining and clustering them into categories, as well as facilitating the identification of their main causes (risk drivers).

Within the scope of ERM, we implement risk management cycles, with average biennial periodicity. In these cycles we review and prioritise the main risks, updating and submitting them to an assessment process by the Executive Committee, which aims to classify them according to their probability of occurrence and impact.

For the 2015-2017 three-year period, we have identified risks in the Group's ERM. These risks, albeit residual, address the relevant sustainability topics.

Type and description of potential sustainability risks identified in ERM

Type and description of potential sustainability risks identified in ERM	How we manage the risks
Fraud risk Risk associated to a possible involvement of the company's Management Team, employees or partners in schemes of corruption, bribery, extortion, influence payments or other illegal schemes for their own or the company's benefit.	See Chapter 4. Acting Ethically and Responsibly Corporate Governance Report
Ethics and culture risk Risk associated to the possibility that the company does not respect the commitments with the employees (e.g. work-life balance, etc.) or fails to attain employees' commitment (e.g. employees involved in culture, etc.). Risk associated to the possibility that conflicts of interest are not ethically managed (e.g. gifts/offers, parallel activities, family and friendship relationships, etc.).	See Chapter 4. Acting Ethically and Responsibly See Chapter 6. Valuing Human Capital Corporate Governance Report
Occupational safety and health (OSH) risk Risk associated to the possible existence of an unhealthy and unsafe working environment, as well as poor communication or disregard of OSH standards that may expose the company to damage due to occupational accidents, penalties, loss of reputation or other costs.	See Chapter 6. Valuing Human Capital
Environmental risk Risk associated to the company not incorporating in its activities and in the development of products and services the responsibility of reducing the environmental impacts associated to resources consumption (energy, water, paper, etc.), waste production (electronic equipment, batteries, etc.) and greenhouse gases emission.	See Chapter 7. Preserving the Environment

In order to manage this type of risks in our supply chain, the "General conditions of goods and services supply to the NOS Group" and the "Contracts" with suppliers and partners include acceptance of the Sustainability Requirements for suppliers and partners.

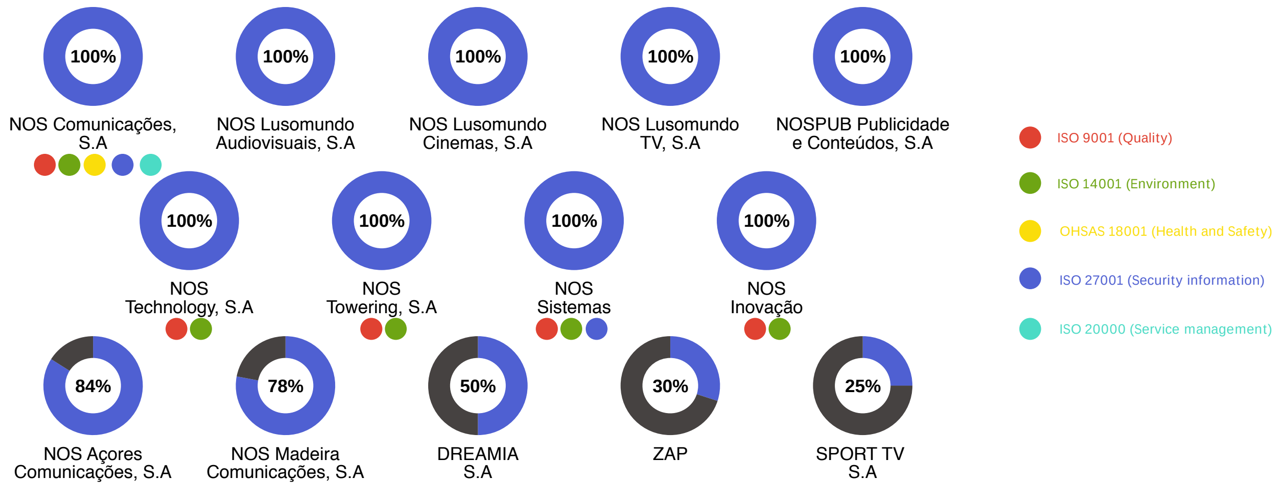
For further detail on the internal control and risk management system, including key stakeholders, accountabilities and objectives, see the 2017 Corporate Governance Report.

Integrated Management System

The management system (Quality, Environment, and Occupational Health and Safety) is integrated into the sustainability management cycles.

At NOS, we carry out information management through the Sustainability Portal, aiming at the dematerialisation of information, increasing the system's effectiveness and efficiency and minimising the environmental impacts resulting from the reduction/elimination of the use of paper and printing materials.

NOS SGPS SA is certified, within the scope of quality and environment, by the ISO 9001:2008 and ISO 14001:2012 standards, through NOS Comunicações S.A., NOS Inovação S.A., NOS Sistemas S.A., NOS Technology S.A. and NOS Towering S.A., and, within the scope of information security, by the ISO/IEC 27001:2013 standard, through NOS Comunicações S.A.[1] and NOS Sistemas S.A.[2] In addition, NOS Comunicações S.A. is certified by the OHSAS 18001:2007[3] and ISO/IEC 20000-1:2011[4] standards.



Stakeholders

At NOS we believe that a close cooperation and interaction relationship with stakeholders is critical to the success and management of our business.

In 2015, we identified the relevant stakeholders after an extensive sectoral benchmark exercise. Subsequently, in 2017, we sought to clarify the importance of the different groups for our business through a prioritisation process that involved the Management Team in the completion of a questionnaire based on dependency and influence criteria and aligned with the AA1000 Stakeholder Engagement Standard guidelines. Customers, employees, suppliers and partners, financial entities, shareholders and regulatory bodies (ANACOM) were identified as strategic groups.

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1 The scope of the certification are the processes "Manage Customers" and "Invoicing and Collecting" related to the customers of the fixed and mobile service of NOS Comunicações, in the market segments: Residential, Personal, Business (with main focus on Corporate clients) and Wholesale.

2 The scope of certification are the security processes related to housing services in the NOS Data Centres of Lisbon and Porto.

3 The scope of certification is the Development, Marketing and Management of the Customer Service of Corporate Products and Services.

4 The scope of certification are the Telecommunications and ICT services for its business customers, according to its services catalogue of from its operational centres of Lisbon and Porto.

Material topic

Ways of involvement with stakeholders

Our investors increasingly acknowledge the importance of non-financial reporting, along with financial reporting, and focus their responsible investment priorities on companies that integrate principles of sustainable development into the corporate strategy.

Acknowledging the importance of an effective and permanent dialogue with our stakeholders, we have several mechanisms of communication and close interaction. On the basis of this dialogue strategy, including specific moments of listening, we focus our actions on the stakeholders' real needs and interests, which allows the alignment with the sustainability strategy and, consequently, with the creation of value for our business and society at large.

Examples of dialogue channels by group of stakeholders

Clients	Employees	Financial Bodies	Suppliers and Business partners
• Social Networks • Market / satisfaction studies • Hotline • Stores • Digital: website, self-care and app • NOS forum	• Welcome sessions • HR Open Door • Institutional Website • Intranet • Social Networks • Employees' Portal • Internal publications (e.g. Media Report) • Social environment report	• Institutional Website • Institutional E-mail • Conferences in the field • Roadshows • Results Disclosure • Direct Contact	• Institutional Website • Satisfaction studies • Suppliers' portal • Suppliers' support E-mail

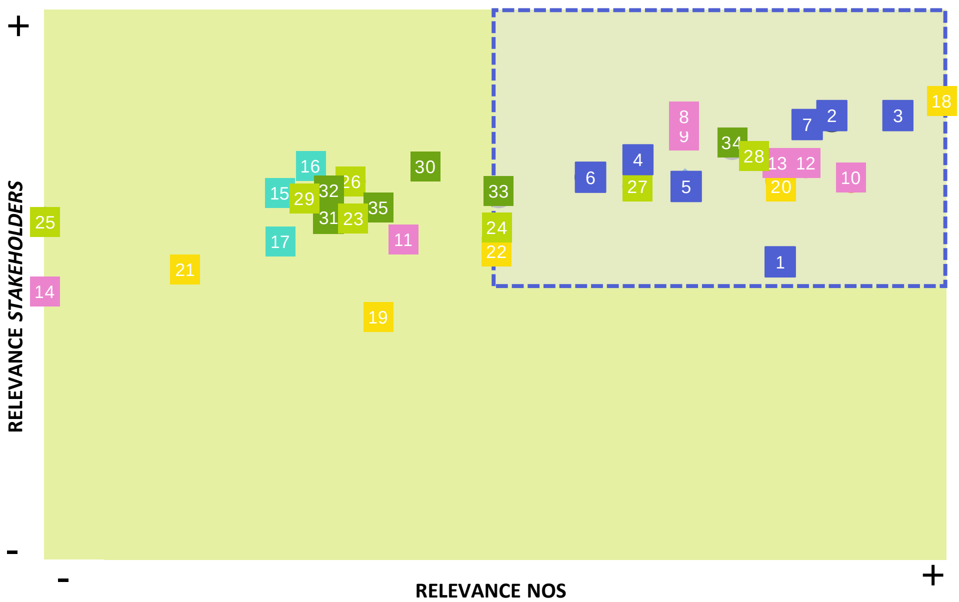
Government and Regulatory Bodies	Community	Media	Industry
• Direct contact • Access to extranet for the communication of privileged information • Participation in national and international associations	• Institutional Website • NOS Innovation Award • Involvement in initiatives that foster corporate social responsibility	• Participation in press conferences and events • Dissemination and sending of information on NOS activities to the different media	• Institutional Website • Institutional E-mail • Meetings in the field/ direct contact • Participation in national and international associations

Sustainability Strategy

The first strategic cycle, encompassing the 2015-2017 period, started with an extensive sectoral benchmark exercise, which allowed mapping the most relevant sustainability topics for the telecommunications sector. In 2016 we continued the process, crossing the topics identified with the result of an analysis of external context (international and national agenda of sustainable development, global risks, legal and regulatory framework) and an analysis of internal context (business strategy and risk matrix, environmental impacts matrix and stakeholder mapping).

Through this process, we have identified potentially material topics, grouped into three dimensions - internal, business environment and society. Subsequently, these topics were assessed, through a process of listening to internal and external stakeholders (employees, customers, suppliers and business partners). The results of the exercise were the basis for the definition of our Materiality Matrix.

Materiality matrix



#	TOPIC	#	TOPIC
1	Government of the company *	19	Outsourcing
2	Conduct *	20	Economic value generated and distributed *
3	Corruption *	21	Patronage
4	Conflict of interests *	22	Stakeholders' involvement *
5	Transparency and reliability of information *	23	Environmental impacts of the supply chain
6	Intellectual property *	24	Social impacts of the supply chain *
7	Privacy *	25	Raw materials (conflict minerals)
8	Working conditions *	26	Safe and responsible use
9	Health and safety at work *	27	Access to contents *
10	Remuneration and benefits *	28	Responsible marketing *
11	Diversity	29	Environmental impacts of the use of products and services
12	Assessment and development *	30	Accessibility
13	Talent management *	31	Education for ICT
14	Volunteering	32	Solutions with a positive impact
15	Energy and climate change	33	Innovation and Entrepreneurship *

16	Waste of electrical and electronic equipment	34	Response to emergency situations *
17	Electromagnetic fields	35	Indirect economic impact
18	Customer service *	*	Relevant topics

Caption:

	Governance		Employees		Environment		Company		Business environment
	Society								

The identification of material topics for our company considered, besides the results of the listening process, the challenges imposed by the market (in particular, the concerns and expectations of our investors and our customers, and the need for legal compliance) and commitments entered into. Based on this reflection, we concluded the sustainability strategy and identified the action guiding axes, the relevant topics and associated commitments.

The Strategy we defined, which we present in this report, is also the starting point for the second NOS strategic sustainability cycle, for the 2018-2020 period.

At NOS we also believe that through our action, our operations and our products and services, we can make a significant contribution to the achievement of the United Nations Sustainable Development Goals (SDG). In this sense, the Sustainability Strategy we put forward is in line with the SDG identified as strategic for our business and on which the impact of our action may be more relevant.

2018-2020 NOS Sustainability Strategy

So as to guarantee the suitability of the Sustainability Strategy and relevant topics identified, we assess, on a yearly basis, the results of the previous year and define new objectives and action plans, together with the departments and areas involved, to ensure continuous improvement towards meeting the defined commitments.

For each of the five strategic axes, we defined sustainability commitments that reflect our commitment to the implementation of a sustainable development model and long-term value creation.

Strategic axe	Commitment	2018 Objectives
Transversal	Share the Sustainability Strategy and ensure its effective implementation	Publish the sustainability report on a yearly basis
Acting Ethically and Responsibly	Promote an organisational culture based on ethics and integrity principles	Develop an Ethics communication plan on a yearly basis
		Extend the training plan for Suppliers & Partners' employees to new business areas
		Promote the dissemination of BCSD Portugal Charter of Principles in the value chain
Ensuring a Service of Excellence	Improve customer experience	Implement the "Paper Less" project in own stores and franchising
Valuing Human Capital	Identify new talent needs and implement new processes to ensure sourcing and development	Identify future profiles and competencies that are critical for business
		Define sourcing strategy for new competencies
	Boost talent retention and enhance NOS attractiveness in the labour market	Implement development and recognition initiatives for the various segments
	Promote operational excellence and innovation in human capital management	Ensure end-to-end review of the attraction and recruitment process
	Improve employees' health and well-being	Develop, on a yearly basis, initiatives that promote employees' well-being in the three well-being axes: social, mental and physical
Preserving the Environment	Effectively manage the environmental impacts associated to the P&S life cycles	Define a goal of reducing energy consumption and emissions
		Prepare the widening of the scope of accounting for the NOS Carbon Footprint to cover the supply chain and the use of products and services by customers
Promoting Sustainable Innovation	Continue to support technology-based innovation	Boost the innovation ecosystem with the academy and the business fabric Develop own or in partnership formats of innovation distinction in Portugal

4. Acting ethically and responsibly

Material topic

4.1. Ethics and conduct

At NOS we believe that ethics is a basic principle of all internal and external relationships and, consequently, a strategic dimension of the organisation. Conducting business, acting in the market and in society are governed by a set of ethical principles that should be reflected in the actions of our employees, suppliers, and any person or entity that provides us services, on a lasting or temporary basis. In 2017, we reinforced this position since the broad stakeholder listening identified several topics associated with ethics as relevant.

Code of Ethics

The Code of Ethics encompasses topics ranging from integrity, transparency, respect, social and environmental responsibility, safety and health, information use, to conflict of interest management, corruption, bribery attempts. At NOS we also have a channel for the communication of alleged irregularities or the clarification of doubts.

To note that we have also developed a summarised version of the Code of Ethics for suppliers and partners, based on an exercise of identification of the most relevant ethical risks associated to the activities carried out on our behalf.

Training and communication on the Code of Ethics

GRI 205-2

So as to ensure that all employees, suppliers and partners know and incorporate in the activities that they carry out the principles and rules described in the Code of Ethics, in 2017 we continued the communication and training program on the Code of Ethics.

The training plan we defined for employees is carried out through mandatory e-learning. All employees underwent this training, which is part of the new employees' welcoming process.

This training has the following main objectives:

- Introduce the principles and rules of the code of ethics;
- Share the ethical commitments of the group so that all employees know how to act accordingly;
- Translate the impact that the employee's behaviour has for NOS;
- Introduce the internal mechanisms available to report an alleged irregularity or to clarify doubts.

Suppliers and partners' employees from organisational units that we have identified as having activities that are more exposed to ethical risks also participated, during 2017, in training sessions, whose format was defined by the unit itself (face-to-face and/or e-learning). For 2018, we expect to extend training to partners' employees in new business areas.

In addition to disclosing the Code of Ethics to all employees, partners and suppliers, we publish this document in the institutional area of the website and on the intranet. For new employees, the Code of Ethics is distributed when the employment contract is formalised, when they also sign the declaration of individual commitment with its compliance and carry out the mandatory training.

Releasing of the guide to a responsible online presence

Considering the emerging challenges associated to the presence of the company and its employees in the various communication channels available on the Internet (social networks), in 2017 we developed and communicated the Guide for a Responsible Online Presence, which is an integral part of the NOS Code of Ethics and complements the principles and rules established therein.

The main purpose of this Guide is to support and guide employees in the conduct they are expected to have when working in a professional context or on our behalf, always seeking to ensure the Organisation's reputation without ever calling into question the freedom that, in the personal domain, they are entitled to, in the use of the various digital channels.

Besides establishing the fundamental principles for the online presence of NOS and its businesses, the Guide acknowledges the importance of all Employees being aware of the impact of the way they engage in these platforms, in particular, the conversations that mention our company and, in this sense, it defines guidelines applicable to all those who use social networks or other online channels in a professional context.

At NOS we also have a Policy of Irregularities Communication and a Regulation on Procedures to Adopt in Irregularities Communication ("Whistleblowing"). The Regulation is available for consultation in the institutional area of the website.

Within the scope of this Regulation, we consider as "irregularities" acts or omissions, either wrongful or negligent, practiced within the scope of our activity, which constitute violations of an ethical or legal nature, with a material impact in the areas of accounting; audit; internal control and fight against corruption; financial crimes of any kind.

For 2018, we plan to define and formalise an Anti-Corruption Policy that will allow the alignment of our corruption management program with the best market practices and recommendations from standard-setting organisations.

Ethics Committee

The Ethics Committee, whose composition and competencies are described in more detail in the Corporate Governance Report, is responsible for overseeing and maintaining the Code of Ethics, for monitoring its enforcement and for ensuring that all members of the corporate bodies and all employees comply with it.

The Ethics Committee may receive requests for clarification or the manifestation of concerns related to the Code of Ethics and its compliance, on the part of employees, partners, suppliers, customers or third parties, through the e-mail comitedeetica@nos.pt.

Material topic

4.2. Information security

At NOS we remain committed to creating the necessary conditions for the safe use of our services; we therefore reassert the commitment we have with stakeholders regarding the issues that we consider to be priorities in terms of information security and privacy.

Information security, within the scope of our activity, consists of protecting the information and its supporting assets in the following fundamental cornerstones: Availability, Integrity, Confidentiality and Privacy. Information protection should also be in line with both our internal information-related policies and external laws and regulations. We further consider the service requirements documented in the agreed service levels, contracts or operating agreements with customers.

The guidelines for the management of the information asset security are regulated in the Code of Ethics and in the Information Security Policy (ISP). ISP defines the principles of information security that should be followed by our employees, suppliers and partners, also defining the security levels and domains and their control objectives. It is voluntarily based on the adaptation of recommended international standards, such as the ISO 27001 standard and the Technical Guidelines for Security Measures of ENISA - European Network and Information Security Agency.

We also have a Privacy Policy that aims to enable customers and users understand the way we collect, treat and protect personal information conveyed by anyone using our services or websites.

Through the Information Security Management (ISM) program, we manage the risks associated to information availability, integrity, confidentiality and privacy. This program, coordinated by the GRC (Governance, Risk and Compliance) Security Committee, is mandated by the Executive Committee and its main objectives are to develop and supervise the ISP, verify whether the procedures comply with it, establish and monitor security KPIs and promote security awareness (through training and communication programs).

Our organisation's companies, areas and employees are responsible for ensuring the operationalisation and monitoring of information security controls whose implementation is assigned to them.

The business units, under the supervision of the Committee, develop a plan of internal actions, with the purpose of consolidating the processes and controls of information security management.

Employees take on obligations of confidentiality, secrecy and personal data protection, and cannot transmit to any unauthorised third parties the data they have access to in the course and as a result of their functions. These obligations and duties remain in force even after termination of the employment relationship. These obligations should also be part of the agreements with all our partners, whose employees may have access to customer personal data. Furthermore, these partners are responsible for communicating and enforcing these rules with all employees who provide services to us.

Further information on the service fraud management and participation in external initiatives on these topics can be found in the Corporate Governance Report 2017.

Training and communication for information security

The Information Security and Privacy Policies are published in the institutional area of the website. Internally, we have a portal (Portal ISP) for the publication and dissemination of the ISP documents, and the control activities are maintained in the Internal Control Portal.

In 2017, employees participated in training and awareness-raising activities within the scope of information security, having achieved an 80% completion rate in the campaign "Mission: Protect Information". This training was extended to the most relevant partners.

Information security and privacy actions

In 2017, the objectives of the ISM program were generally attained, and for the goals not met or partially met we defined a set of improvement actions and specific action plans for their implementation.

Aiming at continuous improvement, and given that this is a particularly relevant issue for the company, we have made some changes and improvements to the ISM program, such as the convergence of the information security program with the privacy program, the inclusion of ISP security objectives in ISO control objectives, and the updating of the internal e-learning training process on information security and physical security.

In the course of the year, we also continued the Privacy Program created with the purpose of preparing for compliance with the new General Data Protection Regulation (GDPR), which will come into force in May 2018.

In 2018, we will continue working on the improvement of the ISM system and on the convergence with the Privacy topic within the scope of the GDPR.

Material topic

Intellectual property

In the general conditions of supply of goods and services to the NOS Group, the contractors' commitment is not to disclose to third parties and not to use, for own benefit or that of third parties, and to treat as confidential the information defined therein that is transmitted by each party in the execution of the contracted supply, as well as the responsibility of the Parties for the confidentiality and use of information by the respective employees or subcontractors that they may use in any way.

Material topic

4.3. Sustainable management of the supply chain

NOS suppliers

At NOS we recognise that our activity produces both direct and indirect economic, social and environmental impacts on the communities where we operate. We believe that we can and should run our business with maximum benefit to the various stakeholders with whom we interact, enhancing the positive impacts and minimising the negative ones.

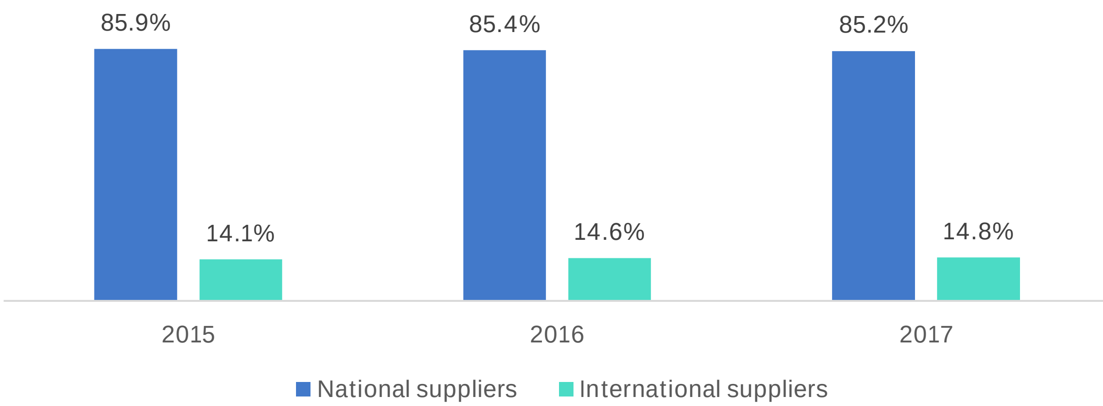
Our Suppliers and Partners are vital not only for the quality of the products and services we develop, but also for the sustainability performance of the business value chain.

This importance was recognised in the materiality exercise carried out in 2017, which identified as a relevant topic the issues related to the impacts on society resulting from activities developed by suppliers upstream of the company's value chain.

In 2017, we had more than 8 thousand suppliers, that is, approximately 4 hundred more than the previous year. The volume purchases in that same year was slightly over 2 billion euros, of which 85% were related to national suppliers. The telecommunications business is the business segment with the highest weight in payments to suppliers (89%).

Volume purchases with national and international suppliers (2015-2017)

(in %)



Excluding intra-group suppliers, the most relevant supply areas relate to interconnections, IT equipment and services, which together account for more than 50% of our purchases.

Sustainability requirements

The quality of the products and services we purchase is critical. We pay special attention to the selection and sustainable management that we establish with our suppliers and partners, both to ensure careful risk management and to develop and maintain a healthy and lasting relationship, respecting thorough aspects of economic, environmental and social sustainability.

In this sense, our document "Sustainability Requirements for Suppliers and Partners" establishes guidelines that translate the essence of our organisation's positioning, commitment and performance in terms of sustainability. The Requirements are communicated to all Suppliers and are publicly available in the institutional area of the website. They are also an integral part of the technical specifications to be considered in the market test processes and of the general conditions sent to suppliers.

Within the scope of the supply of products and services to NOS, the supplier undertakes to fully comply with the requirements, to the extent that they are applicable within the scope of that supply.

The Sustainability Requirements are based on national and community law, as well as on principles and standards endorsed by us. Thus, we consider it imperative that our suppliers, among other obligations, collaborate in the requests related to the implementation of good sustainability practices, namely in the areas of human resources, occupational safety and health, human rights, ethics, information security, business continuity and environment.

In 2017, we highlight our endorsement of the BCSD Portugal Charter of Principles, which establishes 6 fundamental sustainability principles - legal compliance and ethical conduct, human rights, labour rights, prevention, health and safety, environment and management. We are, therefore, committed to adopting them internally, on a voluntary basis, and extend them to our value chain, in the sphere of our influence.

Selection and assessment of suppliers

At NOS, we have defined processes for managing the activity of purchasing goods and services with an impact on the quality of the final product, as well as procedures for selection, assessment and classification of the associated suppliers. In strict compliance with these procedures, established in the Procurement Manual, the selection of suppliers is carried out according to objective criteria, considering a number of aspects, such as the technical, the economic and that of the compliance with the required obligations and certifications.

To this end, this process is supported on an electronic platform, with acknowledged credibility in the market, and at the end of each formalisation a survey is carried out with the suppliers, to measure their satisfaction with the way the negotiation process is driven, the quality of information provided and the user-friendliness the electronic platform.

As a consequence of this policy, there is a very low level of non-compliance or non-conformity in the provision of services by suppliers, with high levels of satisfaction with the process itself.

Purchasing process

1. Purchasing planning → 2. Preparation of the consultation → 3. Consultation and negotiation → 4. Contract award → 5. Order and invoice validation → 6. Control

In addition to the normal and recurring interactions in the course of the activity, in the supplier management cycle, a yearly assessment process is conducted internally, within the scope of the Purchasing Department's activity, on a set of suppliers selected according to criteria of relevance for the business, turnover, among others.

Suppliers are assessed in terms of fulfilment of the contractual conditions, compliance level, technical and operational performance, deadline compliance, delivery time, response time and resolution time, quality of materials, products and services, response to requests, problem resolution, technical support and information, flexibility, pro-activity, availability and customer focus, and also the price.

The results are analysed individually and reported to all the assessed suppliers. Suppliers with the lowest score (< 70%) are encouraged to improve their performance according to the improvement opportunities identified.

The assessment process for 2016 points towards very satisfactory results, with 92% of suppliers assessed achieving a score above 70% (+9% over the previous year), which demonstrates the importance of creating and maintaining a close relationship between the suppliers and the different internal areas which they relate with. The assessment for 2017 is taking place during the first quarter of 2018.

5. Ensuring a service of excellence

Material topic

5.1. Responsible marketing

At NOS we aim to provide customers with products and services of excellence. To do this, we seek to provide complete, clear and accurate information necessary to make a clarified and informed decision, ensuring the scrupulous fulfilment of the agreed conditions and the privacy of the information of stakeholders that relate to us.

In this way of communicating, besides ensuring compliance with the laws and rules that regulate the sector, we intend that communication is clear, effective, fast, predictable and consistent, so as to always guarantee customer satisfaction according to the principles of experience that we define.

NOS Voice

NOS unique voice enhances the customer experience and builds a stronger brand image.

At the end of 2016, NOS Campus created the NOS Voice course for employees. The trainees learn to apply the voice attributes - clarity, naturalness, empathy, dynamism and solidity - through practical examples and to adapt the communication to the most appropriate tone.

In 2017, 3,500 hours were spent on NOS Voice training.

We are constantly striving to ensure respect for and compliance with all applicable legal provisions on marketing and advertising, being associated to APAN — Associação Portuguesa de Anunciantes [Portuguese Advertisers Association] and ICAP — Instituto Civil da Autodisciplina da Publicidade [Civil Institute for Advertising Self-Discipline], and adhered to the Code of Conduct drawn up and approved by this body.

In this context, procedures were established to ensure adequate communication with the customer through various means, such as customer service hotlines, the NOS Ombudsman and the network of stores.

Concerning the general requirements of the service we provide, besides being described on the NOS website, they are also described in the documentation submitted when purchasing our products or services.

Material topic

5.2. Customer service

Since our establishment, we have sought to meet customer needs and attain excellent levels of satisfaction. Due to the dynamism of the telecommunications market, we believe that the implementation of a customer-focused innovation strategy is the only way to ensure a sustained pace of customer attraction and retention.

Customer service model

In the listening process carried out in 2017, the topic "Customer Service" was considered by the stakeholders consulted as one of the most relevant topics. Therefore, our Customer Service model is a cornerstone of our sustainability strategy.

Customer satisfaction is vital for long-term stability, so we are very focused on meeting their expectations. We know that each customer has specific needs, so we are present in several channels, all adapted to the specificities of each customer profile (visits to the stores, clarification of doubts through the different available digital channels, among others).

We highlight the concern with the growth of customer autonomy and the use of the digital, which has led to reinforcing the priority ascribed to self-care channels, with particular emphasis on the client APP. We have achieved greater simplicity in the relationship of service with NOS. The 40% growth in the ratio of self-care channels use vs. call centre calls is a clear reflection of this reality.

2017 was characterised by the development of new proximity channels. An investment was made, with great success, in the community of clients (forum.nos.pt), where the clients themselves help each other on how to take greater advantage of our value proposition. Our community has 17,000 active clients and was accessed, during 2017, close to 1 million times.

At the same time, new practices of interaction with customers in social networks have been developed (Facebook Messenger of the WTF and NOS brands), and are a laboratory of experimentation of new concepts of digitally assisted service.

A new email channel has also been opened, aimed to address a need identified as important by some client sub-segments. This channel currently represents less than 1% of our channels mix, but is highly valued by some customer profiles.

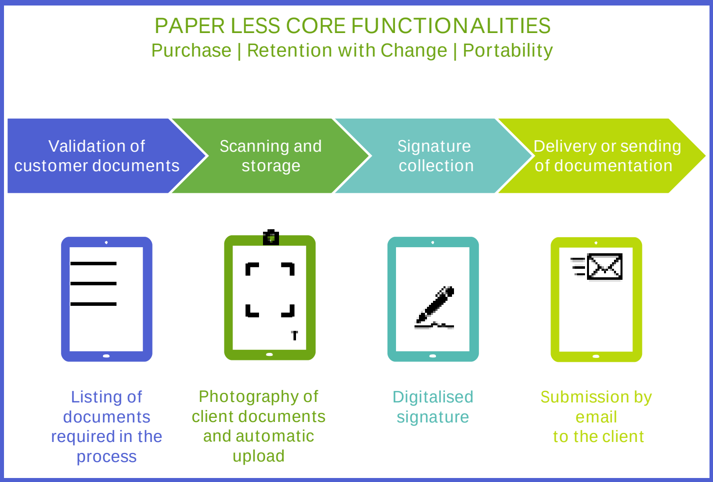
Finally, in 2017, we have invested in a set of initiatives with the purpose of becoming a reference company in the implementation of a sustainable development model. Along with digitalisation, several paperless initiatives are underway, aimed to decrease printed documentation and, consequently, reduce paper use. At the same time, we have invested in efficiency and have reduced the process treatment time, through the automation of back office tasks. New training models have been created and implemented, increasingly oriented towards behavioural competencies and reduction of customer effort.

Paperless Project

The PaperLess project was born to make retail even more digital, with the purpose of continuing to improve the customer experience and enhancing the principles of the service model, and at the same time contribute to the Group's environmental responsibility, through paper reduction and printed documentation decrease.

The project has several benefits for stores in terms of customer satisfaction, optimisation of document management tasks, simplification and dematerialisation of processes, safety and error reduction, and at the same time it allows not only a faster and more efficient service, but also a reduction of costs with printing, paper and mail services, also contributing to the compliance with good environmental preservation practices under the ISO 14001 standard.

The implementation of PaperLess in Own Stores and Franchising began in June 2017 and will run until April 2018. Currently we already have more than 150 stores with the digital process available and hybrid computers that support this service. Customers are satisfied and fully accept the processes in PaperLess.



CHECK IN: Trips through Customer Experience

The Check-in started in 2016 and is one of the many customer-oriented initiatives that we promote internally and that materialises the movement around delivering customers the best experience.
The concept of Check-in is born not only of what the customer lives and experiences in his/her "trip" with NOS, but also of the intention to lead employees to travel through the customer experience, so that they may see, feel and experience the NOS relationship with customers.
Trips, routes, destinations, passengers, crew, passport, stamp, departures and arrivals, itinerary and logbook are some of the most used terms in internal communication regarding this initiative.
The employees, seen as passengers, have the opportunity, in the Check-in, to make a road map that may take place either in one of the company offices from south to north of the country or in a client's house.
In 2017, 2 editions were carried out, totalling 807 registrations that joined the 1,340 registrations from 2016. The overall evaluation of the program made by the participants is, in all editions, above 4.8 (on a scale from 1 to 5).

Our strong concern to develop solutions for people with special needs is also to be highlighted.

Solutions for hearing impaired people	Solutions for visually impaired people
• Hotline for hearing impaired customers: 12472	• Invoice in braille
• TV App for teletext subtitles	• Movies with audio-description in the Video-club
• DVDs with subtitles in Portuguese and sign language	• DVDs with audio-description

The detail about each of these solutions may be found in the institutional area of our website.

The market has acknowledged this focus on proximity and Customer Service, proving the validity of our strategy and giving us renewed energy to continue pursuing this path. As proof of this, in 2017 we received a number of distinctions and awards from Associação Portuguesa de Contact Centres (APCC) (Portuguese Association of Contact Centres) regarding Customer Service. Further detail on these distinctions can be found in the institutional area of the website.

Monitoring customer experience

At NOS we plan our activities and processes so as to enable and ensure continuous improvement, the effectiveness of our system and customer satisfaction. The management of the processes associated to the provision of products and services meets customer satisfaction, which is ensured by a management system certified according to the ISO 9001:2008 standard.

Being the customer the basis of the strategy, we continually monitor the market, the needs and the preference trends through customer and consumer market surveys. In particular, recurrent assessment of NOS customer satisfaction is one of the cornerstones of this positioning, being measured at a relational and transactional level.

In the relational domain, which seeks to perceive the relationship of customers with NOS and its brand, a satisfaction tracking and recommendation study was carried out, with a biannual periodicity for each of the businesses.

The study is carried out on the basis of a questionnaire that assesses the level of overall customer satisfaction with the service provided – measuring metrics that are widely used in the industry, such as the Net Promoter Score (NPS) and the C-SAT, as well as the level of satisfaction with several factors relevant to each service, the interaction of factors between themselves and their contribution to overall satisfaction. Based on the results obtained, a set of strategic and tactical improvement actions is defined, incorporated into the working plans of the business and operational units.

In the transactional domain, we implemented a Customer Voice program, which aims to collect customer feedback on service processes and thus ensure that actions for continuous improvement of operations incorporate the customer perspective. In 2017, the coverage of customer feedback through this program was reinforced to all face-to-face customer interaction channels, resulting in a total of 2.4 million customer satisfaction observations in 2017. These results allowed extracting significant insights on the behaviour and professionalism of our employees, their ability to solve the different issues and the degree of effort required from customers in these processes.

The broadening and sophistication of customer experience monitoring was also a major concern in 2017. We launched the first stage of a customer listening program on the digital where, in the first month, it was possible to get feedback from 10.6 thousand users on the experience of using these channels.

5.3. Service quality and reliability

As the network and platforms are one of NOS main assets, one of the central aspects for strengthening our competitive position is the way we ensure their sustainable growth, maintaining a high requirement in terms of availability, quality and efficiency of the operation and a control of operating costs. This action is systematically subject to continuous improvement that guarantees the adequacy of our performance to the increasingly rapid and evolutionary market trends. Thus, year after year, the challenges that lie ahead are ever greater, and we have been responding to them with increasingly state-of-the-art strategies. Aware of this, we have made a deep reformulation of the operating model, which we implemented in the first half of 2017.

Along with this reformulation of the operating model, in 2017, the strategic areas of action outlined in 2016 were reinforced and several projects were carried out regarding network capacity and resilience in terms of the transportation network, energy, data, safety, among others.

Several projects of automation, self-configuration and improvement of operational frameworks are also worth mentioning. These projects' objective is to improve efficiency and time-to-market; among them, we highlight: the implementation of a Network Analytics platform with real-time treatment of all network information; use of the Artificial Intelligence and Machine Learning concepts for monitoring, as well as automation of functions associated to the supervision's performance; new configuration and automation portals in processes of configuration and deployment of new software solutions; Service Oriented architectures that enable agility; and Dev Ops strategy with the purpose of shortening the development and production cycle.

In 2018, with the new operating model, we will consolidate the strategy outlined with a strong focus on a Customer Centric action, in order to maximise the impact of the projects developed on customer satisfaction throughout the whole life cycle of our products and services.

The review and optimisation of all the operational processes that derive from the new operating model will allow obtaining gains of efficiency to answer three big blocks of challenges:

- End2End client vision, from the platforms to the client equipment, with characterisation and management of the experience of using the various services;
- Intelligent Service Management supported in Analytics and Automation;
- Use of Artificial Intelligence with predictive algorithms and Machine Learning to anticipate network and service failures.

Material topic

Response to emergency situations

At NOS we have business continuity management processes, whose objective is to reduce the risk of interruption of the activity, due to disaster situations, technical-operational failures or massive failures of human resources. These processes, within the scope of the BCM - Business Continuity Management program, encompass the facilities, the network infrastructures and the most critical activities that support communication services, for which resiliency strategies, continuity plans and actions are developed, as well as procedures of incident/crisis management.

In 2017, within the scope of the business continuity management processes and a Customer Centric strategy, we incorporated the learning obtained during crisis management of the disasters that took place in Portugal during the year, with the updating of risk matrices and the locations with greater risk to new threats, the implementation of additional resilience and protection measures, the improvement of the monitoring and operation of the crisis management operational teams in situations of extreme events.

Material topic

5.4. Access to contents

At NOS, we seek to ensure that the whole delivery of products and services meets the excellence standards, both in terms of innovation and in terms of functionalities for access to contents. In this sense, we provide our customers with functionalities that guarantee access control to the contents distributed by us, avoiding exposure of vulnerable groups, such as children and youth, to abusive content and illegal activities.

Through the boxes, there are several relevant functionalities that also address this concern and that are available to NOS customers, namely channel and content lockout pin, rental pin, M/18P content filtering in the experience and the TV profile functionality that allows creating a profile for each family member and associating a different pin to access it.

Given that we also provide the television service through mobile equipment, namely PCs, tablets and smartphones, via NOS TV and NOS Play, the scope extends beyond the box itself. In these devices, content access control is guaranteed through valid login in the apps, which will correspond to a user registered in the NOS client area (who is the contract holder or a user authorised by the holder).

Concerning the mobile product, we also provide some functionalities that can help protect customers from exposure to abusive content - value-added subscription services via SMS are blocked by default; the access bus to other subscription services and to data services is carried out at the customer's request. Moreover, the customer may also block the making and/or receiving of any calls or international calls only.

6. Valuing human capital

At NOS we believe that people's talent is what contributes to business differentiation, which is why Human Resources management is a vital topic in its activity.

To this end, we continue to invest in the development of new tools, practices and experiences that seek to attract and retain the best professionals, enhance their constant motivation and professional evolution, and ensure that they have, in their daily experience, the knowledge to be agents in their development and, consequently, in the development of the company. All this guaranteeing a healthy and safe working environment.

With this approach, we seek to gain competitive advantage in today's labour market, which has an accelerated pace of change, as well as to align our business with trends, anticipating tomorrow's market.

Material topic

6.1. Diversity

At NOS we seek to ensure that all policies, models and initiatives encompassing the employee's lifecycle (from attraction and recruitment to integration, training and career development, to the employee's departure) are based on the principles of equality, non-discrimination and meritocracy.

In addition to the Sustainability Policy, the Code of Ethics establishes the Group's commitment to creating a working environment that fosters diversity, respect for each person's rights and non-discrimination (based on age, gender, sexual orientation, race, disability, religion or creed), in particular in situations of recruitment, promotion or termination of employment relationship.

At the end of 2017, we had a total of 1,947 employees[5], of which 95% belong to the Telecommunications business. Regarding the distribution by gender, 42% are women and 58% are men; this percentage reflects the company's business area, where there is a predominance of technical areas typically more sought after by the male gender. In 2017 there was a slight decrease in the number of employees compared to 2016 (-1%).

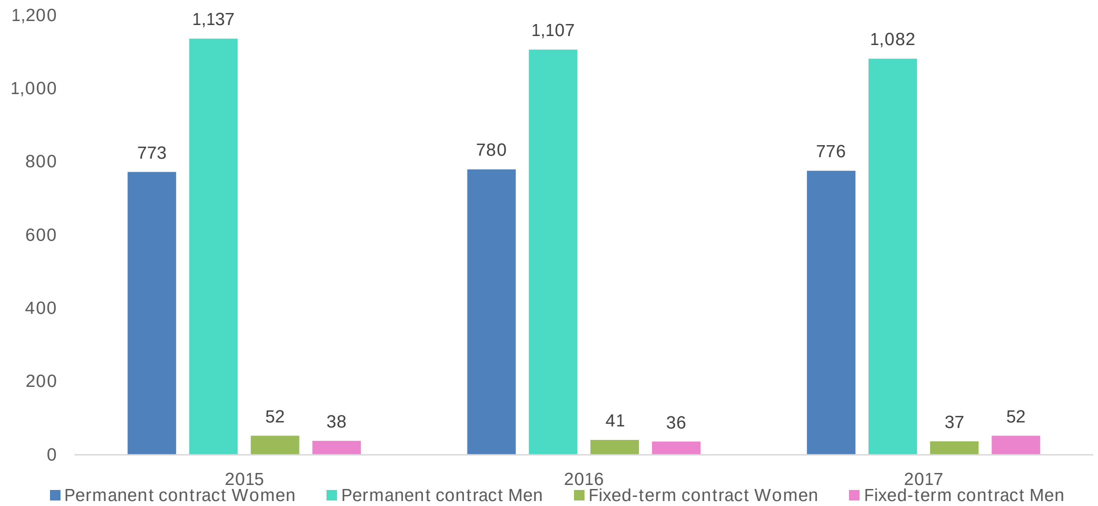
5 Does not include operational employees of Cinemas, with internship contracts and Governance Bodies

Most of our employees (73%) have a higher education level (bachelor's or higher) and the remainder have a secondary education level.

GRI 102-8

Our commitment to sustainable employability policies is further translated by the permanent nature of employees' contracts - 95% have a permanent contract and the remaining have fixed-term contracts. By 2017, 100% of employees are full-time employees. The geographical distribution of our employees can be found in the 2017 Management Report.

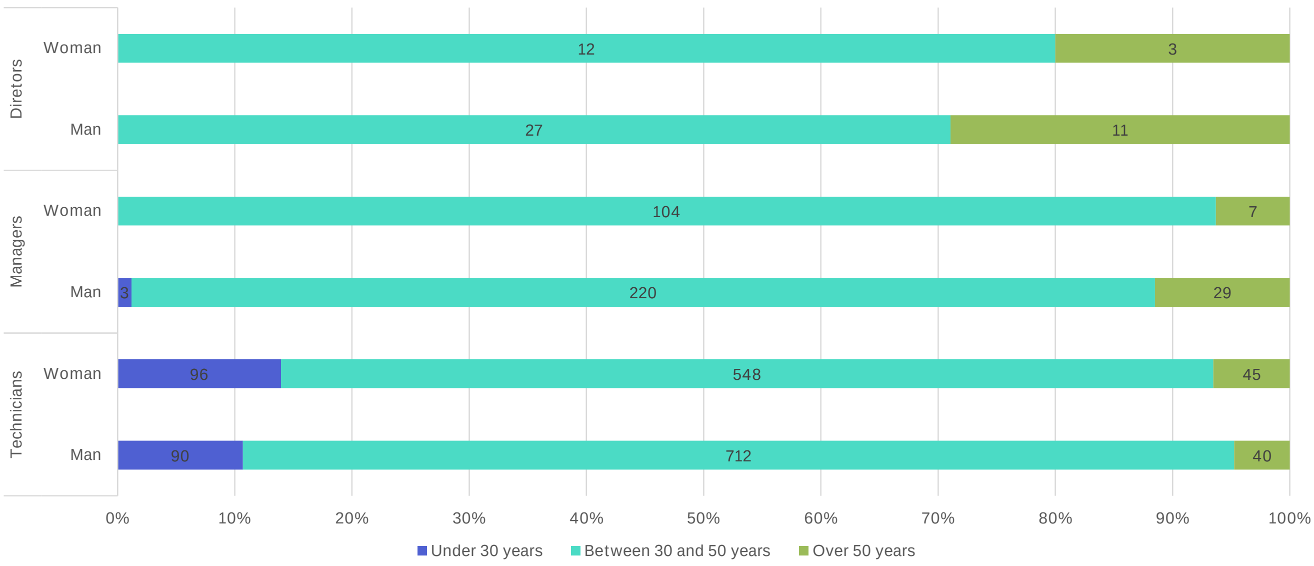
Distribution of employees by type of contract and gender (2015–2017)
(No. of employees)



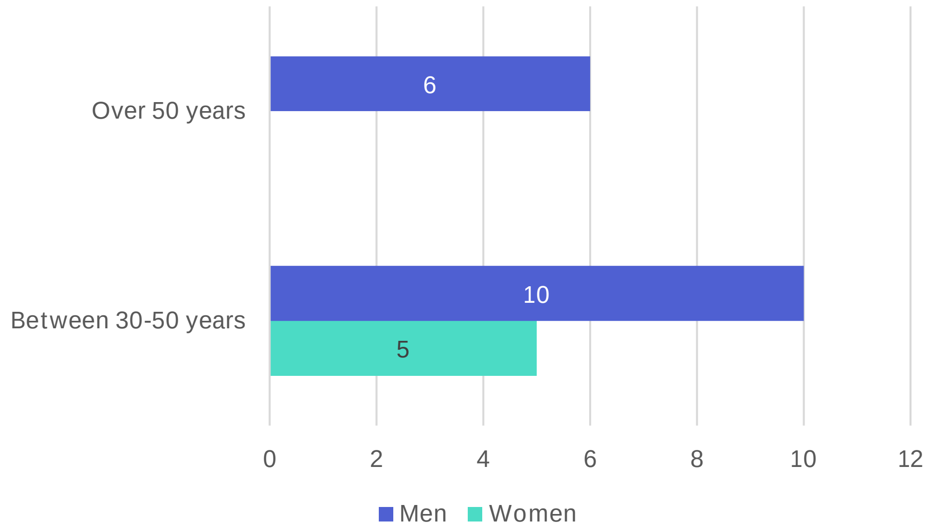
In terms of nationality, our team is composed of employees from 24 nationalities; 4% of employees have foreign nationality.

Regarding age, at the end of the year, 7% of employees are over 50 years of age, 83% are in the age group from 30 to 50 years of age and 10% are under 30 years of age.

Distribution of employees by organisational group, gender and age group (2017)
(No. of employees)



Distribution of Governance Bodies by gender and age group (2017)
(No.)



These results reflect our growing investment in the integration and development of young people: not only do we recruit a number of young graduates every year to integrate the different areas of our business, but we also provide them with professional internships, summer internships and curricular internships. The trainees' program "NOS Alfa" is the result of this investment (for further detail, see the 2017 Management Report).

Through the various initiatives and programs developed in this field, we seek not only to leverage young people's integration into the labour market, but also to enhance the new generations' personal and professional growth.

Material topic

6.2. Performance and development

Performance management is one of the most effective tools to promote the sharing of business strategic objectives, organisational values and culture, being a critical success factor for the human capital development.

At NOS we promote a culture of development, management and recognition of all employees that is embodied in the Performance and Development Model, which allows a transversal, equitable and impartial performance management, in order to value the results obtained, the behaviours and attitudes demonstrated, and to promote meritocracy.

This model is based on the following principles: universality; coherence and integration; transparency and impartiality; accountability and development, and also consequent differentiation.

In 2017, 98% of employees received performance appraisal.

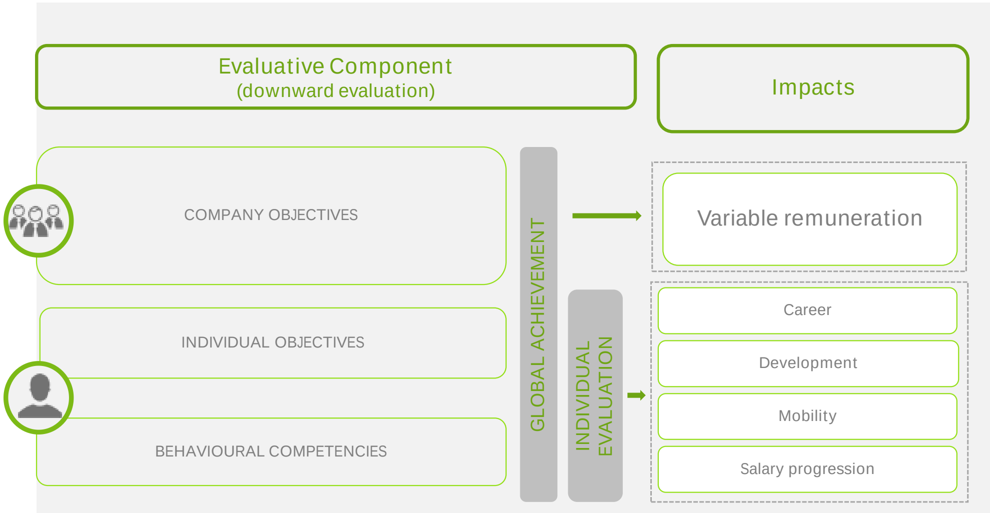
Number and percentage of employees appraised by gender and by organisational group (2017) (No. and %)

	Total number of employees	Number of employees appraised	% of employees appraised
Man	1,132	1,120	99%
Woman	815	783	96%
Technicians	1,531	1,489	97%
Managers	363	361	99%
Directors	53	53	100%
Total	**1,947**	**1,903**	**98%**

The structure of the Performance and Development Model is based on two components - Evaluative and Developmental.

The Development Component is composed of self-assessment and the definition of a Personal Development Plan adjusted to the needs of each employee.

The evaluative component is grouped into two distinct dimensions, considering a collective dimension and an individual dimension (that measures the individual performance of each employee), each with a different purpose and impact.



The global achievement, which encompasses the two dimensions – individual and collective – has an impact only on the attribution of variable remuneration. The individual evaluation has a medium and long-term impact, serving as the basis for the development of the Individual Development Plan, with direct effects in terms of employee development, career, training, salary progression and mobility.

The Performance and Development Model is supported by a manual and timetable of the model execution cycle, so as to clearly communicate its guidelines to employees.

However, the culture of recognition at NOS is not confined to the model. Amongst other initiatives, the following are to be highlighted: special bonuses, consolidation of mid-term feedback in the appraisal and development process, and the investment in employee empowerment, not only through promotion and functional mobility, but also, for example, through the integration in challenging training plans, and in the careful and stimulating increase in autonomy and responsibilities.

Material topic

6.3. Remuneration and benefits

NOS Remuneration Policy is governed by a set of principles aligned with the best national and international practices.

- Equity: ensure the principles of internal equity that support integration into a single culture
- Balance: ensure the balance between the fixed and variable components of the remuneration structure
- Simplicity: simplified remuneration structure, ensuring clarity in its communication and understanding by
- Flexibility: guarantee, within the defined rules, the flexibility to treat distinct situations, namely in the management of high potential employees
- Performance: ensure the linkage of remuneration to individual and company performance in the short and long term
- Competitiveness: guarantee levels of competitiveness needed to ensure Talent attraction and retention

The remuneration package is based on components of basic remuneration and variable remuneration, with differentiated attribution by organisational group, according to the policy in force in the company.

All organisational groups have a reference wage band that aims to ensure a competitive positioning in the telecommunication and information technology market.

Aware of the importance of the remuneration and benefits policy in attracting and retaining talent, we add to the remuneration package a set of benefits, programs and initiatives geared towards the needs of different work generations. Examples of additional benefits are life insurance, health insurance, personal accident insurance and meal card. GRI 401-2

Material topic

6.4. Talent management

NOS is a company with a strong ambition to develop our people and to invest in talent.

Within the scope of talent management, the core objectives are to identify, retain, develop and value the employees with better performance and potential.

Furthermore, we seek to implement specific initiatives that foster the development of competencies, professional acknowledgement and growth through, for example, the integration in transversal strategic projects and, consequently, the retention of talent and the consolidation of NOS attractiveness in the labour market. In 2017, there were a total of 117 admissions and 139 departures of employees, which corresponds to an admission rate of 6% and a net replacement rate of -1%, respectively. GRI 401-1

Net admission and replacement rates by age group and gender (2017)
(No. and %)

	Total no. of admissions	Total no. of departures	Admission rate	Net replacement rate
< 30 years	72	31	4%	22%
Between 30 and 50 years	44	94	2%	-3%
> 50 years	1	14	0%	-10%
Women	46	56	2%	-1%
Men	71	83	4%	-1%
Total	117	139	6%	-1%

NOS Campus

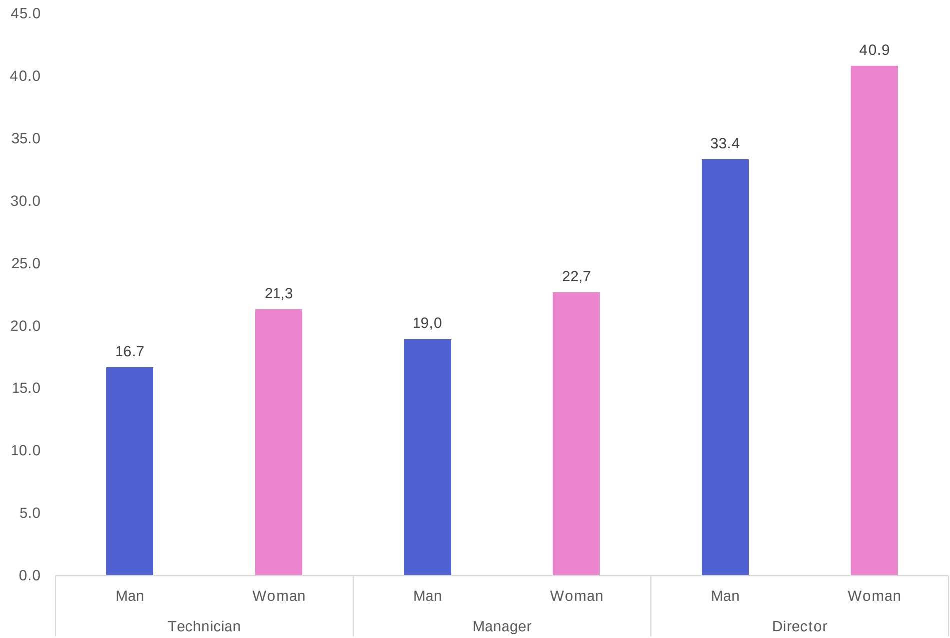
On the basis of the concept “For all of us”, NOS Campus, the NOS corporate university, is a space for sharing and transferring knowledge among all professionals and for developing their potential and talent in five areas of knowledge: management, leadership, technique, technology and fundamentals. It is also an innovation centre, closely monitoring external surroundings, geared to capture new ideas, transform them and integrate them into our organisation. In addition to the actions that are part of the NOS Campus training plan, we provide our employees extra-technical training. In 2017, there were 37,933 training hours (+ 13% compared to 2016), equivalent to an average of 19.5 training hours per employee. In the same year, we dedicated 434 training hours to topics related to sustainability, namely on ethics, information security and health and safety.

Training hours per type (2015-2017)
(Total no. of training hours)

	2015	2016	2017
TOTAL	32,294	33,622	37,933
Corporate university	22,073	17,728	23,183
Extra-plan training	10,221	15,894	14,750

In 2017, on average, female employees received 21.9 training hours, which is slightly higher than the average for male employees (17.8 training hours).

Average hours of training by gender and organisational group (2017)
(Average no. of training hours)



Material topic

6.5. Health and well-being

In line with the NOS Sustainability Policy, we ensure that our employees, suppliers and partners develop their activities in a safe working environment that prevents risks, injuries, and occupational accidents.

Thus, since 2015, NOS Comunicações S.A. has an Occupational Health and Safety (OHS) Management System implemented and certified, in accordance with the OHSAS 18001 standard, which essentially encompasses the Corporate Products and Services segment, although we have good OHS practices implemented throughout the whole company.

The exercise of mapping the main occupational safety and health hazards and risks resulting from the activity carried out by NOS allowed identifying the psychosocial and ergonomic risks, as well as risks associated to in-service missions as the main categories of risks, and which we have been working on through the definition and implementation of a plan of initiatives. In our Sustainability Portal, employees find information related to the management of health and safety issues, such as the matrix of occupational safety and health hazards and risks and associated means of control, relevant legislation and related audit reports.

Within the scope of the commitment to promote a culture of prevention and minimisation of occupational risks and the investment in health and well-being as a performance driver, besides the risk categories identified, we deepen our action in a holistic vision based on three health and well-being axes: physical, emotional/mental and social axis.

"Well-being" (bem-nos-quer) Programme

Under the motto "taking care of you is taking care of us", the "well-being" programme is the communication integrator of several initiatives we have for the improvement of health and well-being, with the aim of adequately contributing to employees' needs, fostering the adoption of healthy lifestyles through four fronts:

Health and well-being week

Organisation of the health and well-being week, in which numerous initiatives took place, namely 11 workshops and two screenings that had the participation of 850 people. The initiatives aimed to raise awareness of the importance of:

- taking care of the body (nutrition and label reading, exercise and posture);
- taking care of the mind (mindfulness and relaxation techniques, and movement of gratitude); and taking care of union bonds.

Publication of content on the Intranet

Publication of contents on the Intranet throughout the year, with the aim to raise consciousness and awareness of healthier behaviours, such as physical activity and food balance.

Promotion of conviviality and celebration moments

The establishment of positive relationships among colleagues is a strong contributor to team engagement and performance; hence, throughout the year we promote moments of celebration of special dates and get together in the common spaces of buildings to promote the ties that bond Employees.

Valuing employees' family and friends

Employees enjoy family moments valued in entertainment dynamics, the celebration of the father's and mother's day, children's Christmas party, access to children festivals, among others. There is also the "Family and Friends" programme with exclusive advantages in the company's products and services for NOS employees' family and friends (differentiated offer at the best price and dedicated follow-up).

Combining work and family life

At NOS we have a set of initiatives aimed at promoting the balance between work and family life, including flexible working hours, all employees' day off on their birthday and also discounts on several activities through various partnerships (health and well-being, culture, sports and leisure, tourism, restaurants).

In addition, we provide our employees with smartphones, laptops, videoconferencing systems and VPN systems, which ensure mobility and flexibility in daily working practices.

Material topic

Intervention in the facilities and working conditions

We have defined a program of biannual audits carried out by accredited external entities, aimed to ensure working conditions, in terms of air quality, noise, lighting conditions and air-conditioning. Quarterly food audits are also carried out to ensure the quality of the food available in the company's buildings.

Throughout 2017, we carried out a set of initiatives that aimed to improve employees' working conditions, with a greater focus on their food and workspaces, so as to stimulate healthier habits, namely:

- Refurbishment of feeding spaces;
- Improved supply of vending machines, with the inclusion of sugar-free, lactose-free, gluten-free and organic products;
- Improvement of workspaces' lighting and air-conditioning;
- Creation of a breastfeeding room and an exercise room, as well as innovative spaces to stimulate productivity, concentration and creativity (rooftops, quiet rooms and thinking rooms);
- Implementation of signs in the elevators and stairs' areas so as to stimulate physical exercise in our buildings.

Over the next five years, we will continue to focus on optimising the real estate portfolio by taking this opportunity to rethink the future of the workplace and make vital decisions for the future of workspaces.

Lastly, to note that in 2017 we developed e-learning training courses in the area of physical security for new employees, having achieved an 82% completion rate.

7. Preserving the environment

According to the most recent estimates[6], the use of information and communication technologies can induce a 20% reduction in global greenhouse gas emissions by 2030, simultaneously increasing productivity in various sectors of the economy and reducing the consumption of scarce resources.

However, as there is an increase in the demand for ever more challenging digital technologies in terms of data processing and transmission, there is also a rise in the energy needs of telecommunication networks and in the waste generated by equipment with increasingly shorter life cycles.

This is our challenge: to minimise our environmental impact while helping our customers reduce theirs.

[6] GeSI, 2015. #SMARTer2030 ICT Solutions for 21st Century Challenges.

Material topic

7.1. Energy and climate change

GRI 302-1

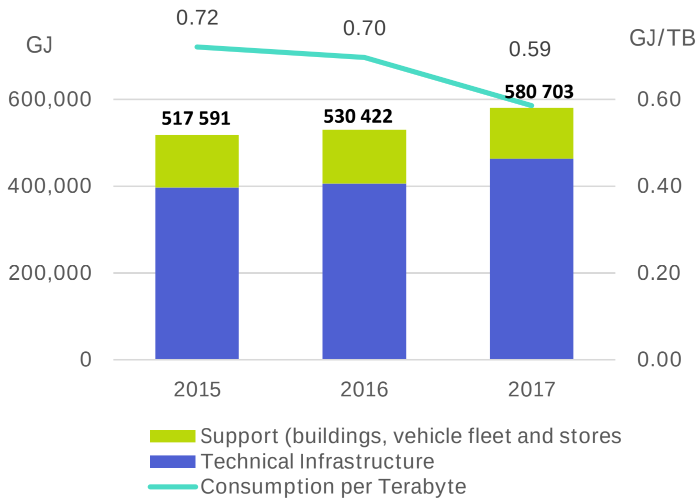
GRI 302-3

GRI 302-4

Energy efficiency

Between 2015 and 2017, data traffic in our network grew 38%, well above the increase in total energy consumption in our activities (12%). The overall ratio of energy consumption by data traffic decreased by 19% over the same period, reflecting an increase in consumption efficiency.

Overall energy consumption and energy consumption by volume of data traffic in the network* (2015-2017)
(in GJ and GJ/TB)



* Mobile and fixed data traffic, excluding fixed TV. Does not fully reflect data centres' activity.

The technical infrastructure - main websites' network, access network and data centres - accounts for about 80% of our total energy consumption. Between 2015 and 2017, as a result of the activity expansion and the fast traffic growth, this consumption increased by 17%. The constant implementation of energy efficiency measures has, however, allowed limiting the increase in absolute consumptions and consistently improving efficiency ratios.

The main form of energy consumed in our activities is electricity, which accounts for an average of 86% of global consumption. Fossil fuels consumed in own vehicle fleet (diesel and gasoline), buildings (natural gas) and emergency systems (diesel) account for an average of 13%. The remaining 1% of consumption refers to thermal energy (heat and cold), purchased from third parties and used in the buildings' air-conditioning systems.

The percentage of renewable energy consumed is directly related to the use, by the respective supplier, of renewable sources in the production of the electricity consumed. In 2015 this percentage was 37%, in 2016 50% and in 2017 again 37%.

Total energy consumption by type of energy consumed (2015-2017)
(in GJ)

	2015	2016	2017
Total energy consumption (GJ)	517,591	530,422	580,703
Fossil fuels	67,049	72,848	67,637
Electricity, heat and cold	450,542	457,574	513,066

In 2017, we continued to invest in the rationalisation of support systems' consumption, in particular with interventions in the main infrastructures: we installed more efficient equipment of energy backup, energy transformation and air-conditioning; and we adopted freecooling solutions, which use the outside air to cool equipment, reducing the use of HVAC units. The potential of consumption reduction of these measures is estimated at around 500 MWh/year, raising the accumulated savings generated by the measures implemented over the last three years to more than 1 GWh/year.

At the same time, in data centres, we consolidated equipment, strengthened measures of cold containment in technical corridors and adopted virtualisation solutions that reduce the use of physical and energy resources. With these interventions, we plan to reduce the energy consumption of these facilities by about 30% compared to the current baseline.

In 2017 we also started an extensive project to modernise the mobile access network. The project, which will cover the entire country and runs until the end of 2018, involves the migration of 2G, 3G and 4G technologies to single equipment, with reinforcement of the network capacity and energy efficiency gains estimated at around 20%.

In the support activities, we optimised the operation of buildings' air-conditioning equipment, we renewed the vehicle fleet with lower consumption vehicles, and installed LED lighting in a set of 18 own stores. In 2017, the energy consumption of these activities recorded a decrease of 4% compared to the previous year, remaining practically constant in relation to 2015.

Carbon footprint

Throughout the life cycle of our products and services, greenhouse gas emissions take place, which is the NOS carbon footprint.

Supply chain	Own operations		P&S use
Production and installation of network and client equipment	Telecommunication networks	Support activities (facilities, vehicle fleet, stores)	Use of P&S by customers and equipment end-of-life

The carbon footprint of our operation is dominated by the indirect emissions associated with the production of the energy we consume (scope 2), especially the electricity needed for the operation of the technical network. The growth, in absolute terms, of network consumption, spurred by the increase in data traffic, contributed to the increase of these emissions. The high year-on-year variability of total emissions is associated to changes in the carbon content of the purchased electricity, which reflects the use of renewable energy sources by the respective supplier, and which, in Portugal, is heavily dependent on weather conditions.

Direct emissions (scope 1) decreased in 2017 as a result of measures that reduced fuel consumption in the vehicle fleet.

Indirect emissions (scope 3) currently accounted for include in-service missions. We have been implementing measures to reduce our employees' travel needs, especially the increase in the number of rooms with video conferencing equipment, and also to optimise the use of means of transport when travelling cannot be avoided. With the Boleias [Rides] project, employees now have a multi-device platform that allows meeting the supply and demand of rides to any of our buildings. System functionalities include sending alerts via email and SMS and monitoring global indicators, including avoided emissions.

We also started accounting for the emissions associated with commuting (home-work-home travel), based on a survey that allowed characterising in detail our employees' mobility pattern and assessing measures to promote more sustainable travel options.

NOS carbon footprint (2015-2017)
(in tCO_2e)

			t CO2e
	2015	2016	2017
Scope 1 - Direct emissions	4 897	5 285	4 961
Fuel consumption	4 645	5 048	4 718
F-gases leaks	252	236	243
Scope 2 - Energy indirect emissions	54 064	38 914	57 740
Electricity consumption - Market-based method	53 615	38 500	57 337
Electricity consumption - Location-based method	34 552	33 754	49 134
Thermal energy consumption	449	414	403
Scope 3 - Other indirect emissions	1 133	2 687	2 248
In-service missions	1 039	908	956
Waste treatment	94	90	87
Commuting	n.d.	1 689	1 205
Total scope 1 + scope 2 - Market-based method	58 961	44 199	62 701

We intend to progressively expand the scope of accounting for our footprint, with the objective of knowing and reducing the carbon emissions of our operations, but also those that occur in our supply chain and in the use of our products and services by customers.

GRI 305-1

GRI 305-2

GRI 305-3

Among the measures already implemented to reduce emissions downstream of our activities, we include the recovery and reuse of customer equipment, in a circular economy perspective, and the launch of TV boxes, associated to the Iris and UMA bundles, which, together with innovation in the customer experience, incorporate advanced energy-saving functionalities, significantly reducing stand-by consumption.

Adapting to climate change

At NOS we are also increasing the resilience of our activity, particularly the technical infrastructure, to the effects of climate change, whether concerning long-term changes in temperature and rain patterns or changes resulting from extreme weather events.

The increase in the cooling needs of critical equipment, resulting from the expected rise in average temperatures in Southern Europe, is managed through programs that increase the reliability and energy efficiency of air-conditioning systems.

These efficiency measures - in addition to the maintenance and reinforcement of energy autonomy solutions, whether backup systems or websites with renewable self-production - also reinforce the infrastructure resilience in situations of electricity supply interruption.

Material topic

7.2. Low carbon solutions

With a 1:10 ratio between the carbon emissions it induces and the emissions avoided[7] with the adoption of the products and services it provides, the information and communication technologies sector is vital in the fight against climate change.

To materialise the potential of digital technologies in the transition to a low-carbon economic model, we have developed innovative solutions for the various customer segments that bring more functionalities and productivity, while reducing consumption and emissions.

NOS low carbon solutions			
Collaboration and videoconference	M2M connectivity	Virtualisation	Cloud
Videoconference systems Wide range of videoconference solutions	ezENERGY Simple and intelligent solution of energy consumption monitoring	NOS IP Centrex Virtual workplace-oriented communications centre	Virtual servers Virtual servers, integrated in cutting-edge data centres with the best security conditions
Benefits			
• Increased productivity and costs reduction • Emissions reduction	• Consumption optimisation and costs reduction through contracted plans • Emissions reduction	• Simplified management, service quality and costs rationalisation • Consumption and materials reduction and waste production reduction	• Uninterrupted availability • Growth capacity and flexibility • No investment in equipment and infrastructure • Energy and emissions reduction

[7] GeSI, 2015. #SMARTer2030 ICT Solutions for 21st Century Challenges.

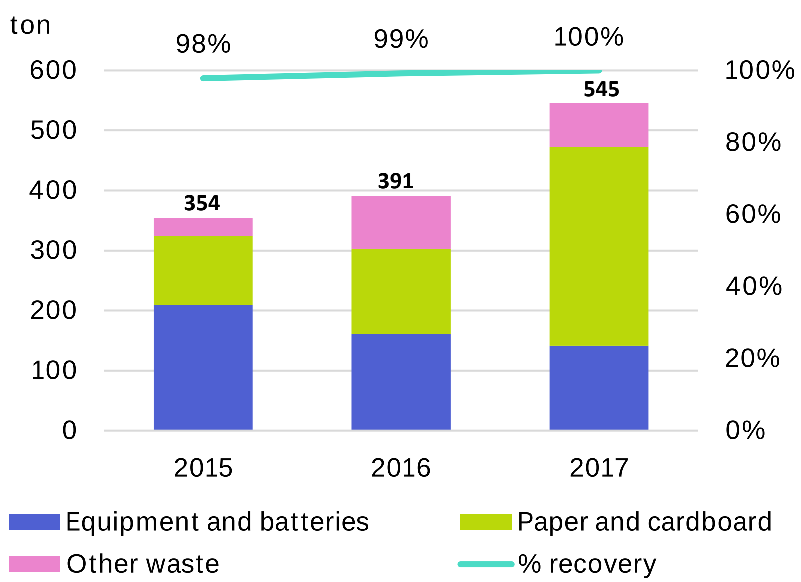
7.3. Waste management and circular economy

End-of-life electrical and electronic equipment - whether the ones existing in our network or those used by our customers - are the main waste associated with our activity. In a sector where technological renewal is constant, the transformation of this waste into resources, through its reuse and recycling, is an important contribution to the circular economy objectives.

In own operations, we have implemented selective collection systems that guarantee the channelling to recycling or energy recovery of virtually 100% of the total waste we produce.

GRI 306-2

Waste production in own operation and overall recovery rate (2015-2017) (tons)



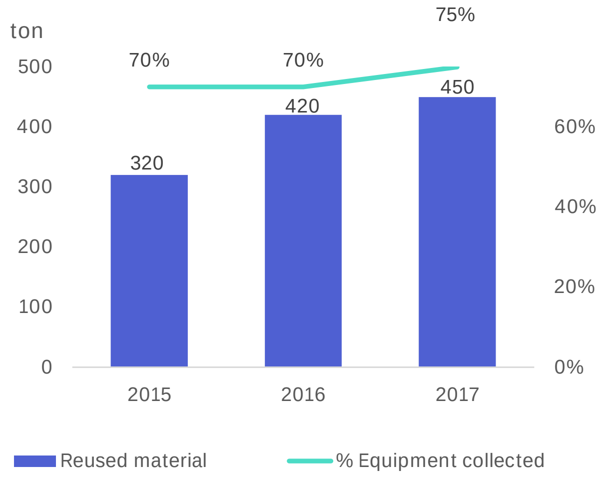
Final destination of the waste produced (tons)

		Hazardous waste (t)			Non-hazardous waste (t)		
	Final destination	2015	2016	2017	2015	2016	2017
Elimination	Landfill	0,0	0,0	0,0	7,7	3,2	0,02
Recovery	Recycling	4,1	1,7	1,2	341,8	364,2	540,6
	Energy Recovery	0,0	0,0	0,0	0,3	21,5	3,6
	TOTAL	4,1	1,7	1,2	349,8	388,9	544,2

For our fixed service customers, we have developed a logistics operation that currently assures the collection of about 75% of the equipment withdrawn from service and its use as resources. TV boxes, routers and Hubs are transported to our Logistics Centre, where they are technically assessed. About 50% are considered recoverable, being subject to processes of cleaning, repair, replacement of parts, software update and reconditioning.

The recovered equipment is placed back on the market and the discarded parts and equipment are sent for recycling. This process allowed for the recovery of 505,000 equipment devices in 2017, avoiding the consumption of raw materials and energy and giving new life to more than 450 tons of materials.

Recovery and reuse of customer equipment in the fixed business (2015-2017)
(Tons and %)



For the remaining customer equipment, especially mobile terminals, NOS has associated with management bodies, through which it finances the correct channelling of all end-of-life equipment it places on the market. According to the most recent data[8], about 60% of the equipment and 30% of the batteries are currently collected through this system, being recovered more than 90% of the waste collected.

Waste from all packaging placed on the market is also sent for recycling through the integrated system managed by *Sociedade Ponto Verde*.

Material topic

7.4. Electromagnetic fields

Mobile telecommunications equipment uses radio frequencies that, similarly to what happens with the operation of other electrical equipment, generate electromagnetic fields. The current scientific consensus is that there is no evidence of a relationship between adverse health effects and the use of mobile telecommunications equipment within the internationally established exposure thresholds.

We follow the latest scientific developments on the topic, including the World Health Organisation recommendations, and seek to respond in a transparent manner to public concerns in this regard.

[8] APA, 2017. Waste of Electrical and Electronic Equipment and Waste of Batteries and Accumulators – 2015 Management Main Results.

All our network equipment and mobile phones provided to customers comply with the Portuguese legislation on thresholds of exposure to electromagnetic fields, which follows the European Union regulations and the international scientific guidelines.

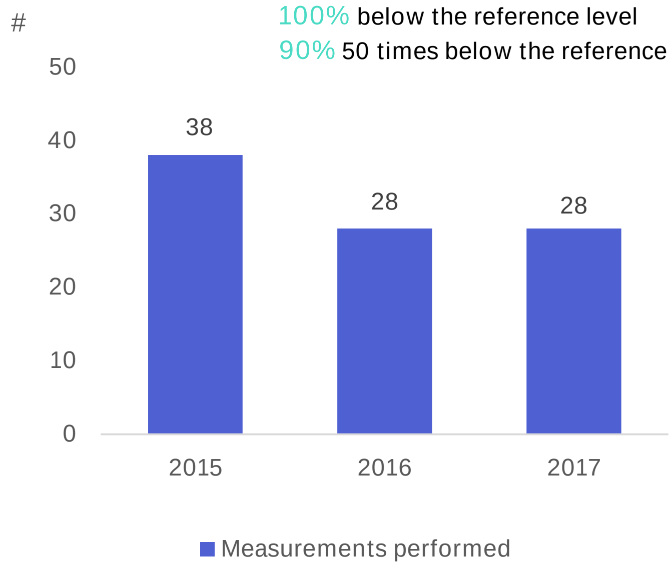
Our main goal is to ensure that, in publicly accessible locations, radiation levels are at least 50 times below the reference power density value.

Employees and partners accessing mobile antennas carry measurement equipment that emits audible warnings whenever exposure values are close to the permitted thresholds.

Our yearly monitoring plan involves the mandatory measurement of the radiation level in network infrastructures installed in buildings, both new equipment and those whose operating conditions have been changed.

Since 2014, we have performed over a hundred measurements, and no non-compliance situations have been detected. The results are conveyed to national and local entities, including Autoridade Nacional de Comunicações [National Communications Authority] (ANACOM), which also discloses the results of measurements made by them in response to requests from public and private bodies and which also demonstrate full compliance with the recommended exposure levels.

Measurement of electromagnetic radiation on mobile network sites (2015-2017)
(in No.)



8. Promoting sustainable innovation

At NOS we acknowledge the important role of information and communication technologies in improving social inclusion, empowering people and stimulating a knowledge society. In this sense, we are committed to developing or supporting the development of new ICT solutions whose use induces economic, environmental and social benefits.

We have been developing a set of products and services that aims to fulfil this purpose. Information on products and services we provide for customers with special needs and low carbon solutions can be found in the chapters "Ensuring a Service of Excellence" and "Preserving the Environment", respectively.

Material topic

8.1. Innovative solutions

In 2017, we continued to invest in the development of innovative solutions and digital transformation projects, specially designed for the needs of the distinct customer segments, based on our cutting-edge networks and service platforms and, whenever necessary, incorporating solutions derived from strong institutional partnerships (for further detail, see chapter "3. Consolidation of our growth strategy" of the 2017 Report and Financial Statement).

Smart Cities

There are currently several technological solutions developed to make cities more intelligent. Intelligent parking, vehicle fleet management, guided tours, art and materials preservation, energy efficiency of public lighting, remote management of water meters, intelligent watering, noise maps, air pollution and ultraviolet radiation are some of the areas for which we develop solutions.

In 2017, we signed a cooperation protocol with the Municipality of Lagoa, aiming to transform this municipality into the first Smart City of the Algarve and at the same time to promote citizens' quality of life and their relationship with the municipality.

At the beginning of 2018, the Control Centre was inaugurated. In a first stage, it will monitor situations reported by citizens regarding water and sanitation, gardens, cleaning/waste, inspection (works) and infrastructures. The Control Centre is followed-up by specialised technicians from our company.

In the future, monitoring is expected to extend to areas such as tourism and electricity, with the help of a network of sensors spread throughout the municipality, optimising the interaction and proximity between the municipality and the citizens in favour of more participatory and efficient communication and resource management, promoting mobility, security and accessibility.

SMART METER NB-IoT

In 2017 we launched a worldwide unprecedented project in partnership with four large companies - the first operational pilot with smart electrical energy meters and NB-IoT communication technology in Lisbon. This solution combines emerging technologies in intelligent electrical energy metering and in the cutting-edge networks for the electrical network supervision. Based on optimised and bi-directional communication, the value of NB-IoT technology is recognised worldwide in the concept of smart networks, addressing the following challenges:

- Customer satisfaction, through automatic detection of energy failure, improving the replenishment service time.
- Online consumption measurement, supporting several values per hour, of various energy records and events.

- On demand response functionality, with installed capacity managed in near real-time. This function is particularly useful considering the progressive adoption of electric vehicles and the increasing transition to renewable sources of electrical energy.
- Continuous development of technology, stirred by the potential mass adoption of operators worldwide.

Enhancing capabilities

Given the nature of the sector which we operate in, we believe that it is our responsibility to contribute to building a more inclusive society that promotes access to new technologies for all, regardless of age, ability, language, culture and technological literacy.

So as to respond to this challenge, we work in partnership with the private and public sectors, and with third sector organisations to jointly develop projects in terms of information and communication technologies (ICT) that impact both these organisations and their target audiences.

We have also developed a program based on the provision and supply, for third sector organisations and their audiences, of communication and television services from the NOS Comunicações portfolio. Among these, we highlight the offer of these services to special audiences. The goal is to make the equipment (cutting-edge laptops with mobile internet, free communications and maintenance support) available to children and young people with serious or chronic illnesses, promoting inclusion, fighting isolation, increasing comfort and strengthening their competencies.

The program allows shortening distances through the intelligent use of new technologies, simultaneously contributing to the education and fight against info-exclusion, and promoting the responsible and correct use of the equipment that it makes available to such a special audience.

PARTNERSHIP TO ENCOURAGE LITERACY AND DIGITAL INCLUSION

We are partners of MUDA - a national movement promoted by several companies, universities and associations and by the Portuguese State that are committed to encouraging the participation of Portuguese citizens in the digital space, contributing to a more advanced, inclusive and participatory Country.

We are committed to the path of digital change, and firmly believe that, in so doing, we free up our clients' time and reduce their efforts. The MUDA website presents some services that add to this goal, namely:

- Internet and television anywhere, 24 hours a day with the NOS Apps: NOS Wi-Fi and NOS TV
- Electronic invoice
- Direct debiting
- Online stores
- App and NOS Client Area available for consultation and change of services in a safe and simple way, 24 hours a day
- NOS Forum - an online community sharing experiences and questions about our services.

Material topic

8.2. Promoting entrepreneurship

Taking on a pivotal role in the innovation ecosystem, in 2017 we launched the 3rd edition of the NOS Innovation Award, which aims to distinguish the best innovation projects in Portugal in three categories: Large Companies and Institutions, Small and Medium-sized Enterprises, and National Start-ups. PwC was responsible for selecting 10 projects for each category, in a total of 30. The winners will be revealed in May 2018.

Also in terms of entrepreneurship, on our website we provide a set of information useful to entrepreneurs, namely practical guides on what is needed to start and manage a business, sharing of cases of successful entrepreneurs who explain how their businesses were born, and also events and news in the area of entrepreneurship. Further detail on this available information can be found in the corporate area of the website.

9. Appendix

9.1. GRI table for the option "in accordance with – Core"

GRI 102 – GENERAL CONTENTS				
Disclosures		Location	UNGC Principles*	ODS*
ORGANISATIONAL PROFILE				
102-1	Name of the organisation	1. On this Report, p. 84		
102-2	Activities, brands, products and services	2017 Annual Report, p. 11-13; 16-19		
102-3	Location of headquarters	On this Report, p. 84		
102-4	Location of operations	2017 Annual Report, p. 44		
102-5	Legal ownership and nature	Consolidated and Individual Financial Statements		
102-6	Markets served	2017 Annual Report, p. 44		
102-7	Dimension of the organisation	2017 Annual Report 2.1. 2017 Main Indicators, p. 85 3.1. Organisational Profile, p. 88		
102-8	Information on employees and other workers	6.1. Diversity, p. 108-110	6	5, 8
102-9	Supply chain	4.3. Sustainable management of the supply chain, p. 100-102		8,12,16,17
102-10	Significant changes in the organisation and supply chain	There were no significant changes during the period covered by the report.		
102-11	Approach to the precautionary principle	3.2. Sustainability Management, p. 88-95		
102-12	External initiatives	NOS is a member of the Business Council for Sustainable Development (BCSD) Portugal, having endorsed in 2017 the BCSD Portugal Charter of Principles. NOS is signatory of the 10 principles of the United Nations Global Compact since 2014.		
102-13	Member of associations	Main institutions that NOS is a member of and where it is part of the corporate bodies: APRITEL – Associação dos Operadores de Comunicações Eletrónicas AEM – Associação de Emitentes de Valores Mobiliários Quinta da Regaleira - Fundação CulturSintra Fundação Serralves IPCG – Instituto Português de Corporate Governance		
STRATEGY				
102-14	Message from the President	2017 Annual Report, p. 4-5		
ETHICS AND INTEGRITY				
102-16	Values, principles, standards and rules of conduct	3.1. Organisational profile, p. 86 4. Acting Ethically and Responsibly, p. 96-102	10	16
GOVERNANCE				
102-18	Governance Structure	3.1. Organisational profile, p. 87-88 Corporate Governance Report, p. 285		

INVOLVEMENT WITH STAKEHOLDERS				
102-40	List of the Stakeholder groups	3.2. Sustainability Management, p. 92		17
102-41	Collective labour agreements	100% of employees of NOS Lusomundo Cinemas and NOS Lusomundo Audiovisuais are covered by a collective labour agreement.	3	8
102-42	Identification and selection of Stakeholders	3.2. Sustainability Management, p. 91-92		17
102-43	Approach of engagement with Stakeholders	3.2. Sustainability Management, p. 91-95 Most of the dialogue channels identified are used continuously. Participation in meetings, business associations, press and specialty conferences, roadshows and events take place whenever necessary. The disclosure of results occurs on a quarterly basis.		17
102-44	Main issues and concerns raised by Stakeholders	3.2. Sustainability Management, p. 92-94		17
REPORTING PRACTICE				
102-45	Bodies included in the consolidated financial statements	The consolidated financial statements include the companies in the NOS universe in which the Group holds more than 50% ownership and holds management control. For further details see the Annual Report.		
102-46	Definition of the report content and the topic boundaries	1. On this Report, p. 84 3.2. Sustainability Management, p. 93-94		
102-47	List of material topics	3.2. Sustainability Management, p. 93-94		
102-48	Reformulation of information	This is the first sustainability report of the NOS SGPS Group.		
102-49	Changes in the report	This is the first sustainability report of the NOS SGPS Group.		
102-50	Reporting period	The sustainability report refers to the 2017 financial year.		
102-51	Date of the most recent report	This is the first sustainability report of the NOS SGPS Group.		
102-52	Cycle of reports	Annual		
102-53	Contact for issues about the report	1. On this Report, p. 84		
102-54	Option "in accordance" with the GRI Standards	This report was prepared in accordance with the GRI Standards, "In accordance with – Core"		
102-55	GRI Content Index	This table		
102-56	External verification	1. On this Report, p. 84		

SPECIFIC STANDARD CONTENTS				
Disclosures and Forms of Management	Location		UNGC Principles*	ODS*
GRI 200 – ECONOMIC DISCLOSURES				
GRI 201 – ECONOMIC PERFORMANCE				
Management approach	3.2. Sustainability Management, p. 93-94 Consolidated Financial Statements, p. 110 Individual Financial Statements, p. 211			
201-1	Direct economic value generated and distributed	2.1. 2017 Main Indicators, p. 85 9.3 Methodological Notes, p. 134-138 Scope: Companies in which the Group holds more than 50% ownership and holds management control (in accordance with consolidated financial statements)		8
201-4	Financial assistance received from government	The support received from the State through tax incentives was 5 million euros. Scope: NOS SGPS		
GRI 204 – PURCHASING PRACTICES				
Management approach	3.2. Sustainability Management, p. 93-94 4.3. Sustainable Management of the Supply Chain, p. 100-102			
204-1	Proportion of spending on local suppliers	4.3 Sustainable Management of the Supply Chain, p. 100 9.3 Methodological Notes, p. 134-138 Scope: NOS SGPS (Suppliers with turnover in the year under analysis)		8, 12, 16, 17
GRI 205 – ANTI-CORRUPTION				
Management approach	3.2. Sustainability Management, p. 93-94 4. Acting Ethically and Responsibly, p. 96-102			
205-2	Communication and training about anti-corruption policies and procedures	4. Acting Ethically and Responsibly, p. 96-97 Scope: NOS SGPS	10	16
205-3	Confirmed corruption incidents and actions taken	In the reporting period, no cases of corruption were identified. Scope: NOS SGPS	10	16
GRI 206 – UNFAIR COMPETITION				
Management approach	3.2. Sustainability Management, p. 93-94 4. Acting Ethically and Responsibly, p. 96-102			
206-1	Legal actions for anti-competitive behaviour, antitrust and monopoly practices	In the reporting period there is no record of such occurrences. Scope: NOS SGPS		16
GRI 300 - ENVIRONMENTAL DISCLOSURES				
GRI 302 – ENERGY				
GRI 305 – EMISSIONS				
GRI 306 – WASTE AND EFFLUENTS				
GRI 307 – CONFORMITY				
Management approach	3.2. Sustainability Management, p. 93-94 7. Preserving the Environment, p. 116-123			
302-1	Energy consumption within the organisation	7. Preserving the Environment, p. 117-118 9.3 Methodological Notes, p. 134-138 Scope: Excludes NOS Azores, NOS Madeira and cinema complexes	7 and 8	7, 9 12,13

<table>
<tr><td>302-3</td><td>Energy intensity</td><td>7. Preserving the Environment, p. 117-118
9.3 Methodological Notes, p. 134-138
Scope: Excludes NOS Azores, NOS Madeira and cinema sites</td><td>8</td><td>7, 9, 12, 13</td></tr>
<tr><td>302-4</td><td>Reduction of energy consumption</td><td>7. Preserving the Environment, p. 117-118
9.3 Methodological Notes, p. 134-138
Scope: Excludes NOS Azores, NOS Madeira and cinema sites</td><td>8 and 9</td><td>7, 12,13</td></tr>
<tr><td>305-1</td><td>Direct (Scope 1) GHG emissions</td><td>7. Preserving the Environment, p. 118-119
9.3 Methodological Notes, p. 134-138
Scope: Excludes NOS Azores, NOS Madeira and cinema sites</td><td>7 and 8</td><td>12, 13</td></tr>
<tr><td>305-2</td><td>Energy indirect (Scope 2) GHG emissions</td><td>7. Preserving the Environment, p. 118-119
9.3 Methodological Notes, 134-138
Scope: Excludes NOS Azores, NOS Madeira and cinema sites</td><td>7 and 8</td><td>7,12, 13</td></tr>
<tr><td>305-3</td><td>Other indirect (Scope 3) GHG emissions</td><td>7. Preserving the Environment, p. 118-119
9.3 Methodological Notes, 134-138
Scope: Excludes NOS Azores, NOS Madeira and cinema sites</td><td>7 and 8</td><td>12, 13</td></tr>
<tr><td>306-2</td><td>Waste by type and disposal method</td><td>7. Preserving the Environment, p. 121-122
Scope: Excludes NOS Azores, NOS Madeira and cinema sites</td><td>7 and 8</td><td>12</td></tr>
<tr><td>307-1</td><td>Non-compliance with environmental laws and regulations</td><td>In the reporting period there is no record of such occurrences.
Scope: NOS SGPS</td><td>8</td><td>16</td></tr>
<tr><td colspan="5">GRI 400 - SOCIAL DISCLOSURES</td></tr>
<tr><td colspan="5">GRI 401 – EMPLOYMENT</td></tr>
<tr><td colspan="5">GRI 403 – OCCUPATIONAL HEALTH AND SAFETY</td></tr>
<tr><td colspan="5">GRI 404 - TRAINING AND EDUCATION</td></tr>
<tr><td colspan="5">GRI 405 - DIVERSITY AND EQUAL OPPORTUNITIES</td></tr>
<tr><td colspan="5">GRI 406 – NON-DISCRIMINATION</td></tr>
<tr><td>Management approach</td><td colspan="2">3.2. Sustainability Management, p. 93-94
6. Valuing Human Capital, p. 108-116</td><td></td><td></td></tr>
<tr><td>401-1</td><td>New employee hires and employee turnover</td><td>6. Valuing human capital, p. 113
9.3 Methodological Notes, p. 134-138
Scope: All employees with the exception of cinema operational staff, internship contracts and governance bodies.</td><td>6</td><td>5,8</td></tr>
<tr><td>401-2</td><td>Benefits provided to full-time employees that are not provided to temporary or part-time employees</td><td>6. Valuing human capital, p. 112, 113 and 116
NOS does not distinguish benefits provided to full-time employees compared to part-time employees.
Scope: All employees with the exception of cinema employees, internship contracts and governance bodies.</td><td></td><td>8</td></tr>
<tr><td>401-3</td><td>Parental leave</td><td><table><tr><td>Rates</td><td>Women</td><td>Men</td><td>Total</td></tr><tr><td>Return</td><td>95%</td><td>100%</td><td>98%</td></tr><tr><td>Retention</td><td>98%</td><td>96%</td><td>97%</td></tr></table>
9.3 Methodological Notes, p. 134-138
Scope: All employees with the exception of cinema operational staff, internship contracts and governance bodies.</td><td>3 and 6</td><td>5,8</td></tr>
<tr><td>403-2</td><td>Types of injury and rates of injury, occupational diseases, lost days, absenteeism and number of work-related fatalities</td><td><table><tr><td>Rates</td><td>2015</td><td>2016</td><td>2017</td></tr><tr><td>Frequency</td><td>3.21</td><td>2.41</td><td>2.18</td></tr><tr><td>Lost Days</td><td>76.50</td><td>69.50</td><td>31.40</td></tr><tr><td>Absenteeism</td><td>1.1%</td><td>1.2%</td><td>1.0%</td></tr></table></td><td></td><td>8</td></tr>
</table>

		Between 2015 and 2017 there is no record of proven occupational diseases and work-related fatalities. 9.3 Methodological Notes, 134-138 Scope: All employees with the exception of cinema operational staff, internship contracts and governance bodies.		
404-1	Average hours of training per year per employee	6. Valuing human capital, p. 113-114 9.3 Methodological Notes, p. 134-138 Scope: All employees with the exception of cinema operational staff, internship contracts and governance bodies.	6	4,5,8
404-3	Percentage of employees receiving regular performance and career development reviews	6. Valuing human capital, p. 111 Scope: All employees covered by the performance appraisal model.	6	5,8
405-1	Diversity of governance bodies and employees	6. Valuing human capital, p. 108-110 Scope: All employees with the exception of cinema operational staff and internship contracts.	6	5,8
405-2	Ratio of basic salary and remuneration of women to men	NOS chose not to report this indicator since wages are defined on the basis of experience and function performed rather than gender. Thus, for the same function and experience men and women earn the same base salary level.	6	5, 8
406-1	Incidents of discrimination and corrective actions taken	In the reporting period there is no record of such occurrences. Scope: NOS SGPS	1 and 6	5,8,16
GRI 407 – FREEDOM OF ASSOCIATION AND COLLECTIVE NEGOTIATION				
GRI 408 – CHILD LABOUR				
GRI 409 – FORCED OR SLAVE-LIKE LABOUR				
407-1 408-1 409-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk; or at significant risk for incidents of child labor or forced or compulsory labor	At NOS there is no knowledge of such situations. NOS guides its action respecting the labour legislation. In addition, it endorsed the United Nations Global Compact Principles and applies its suppliers Sustainability Requirements that include these matters. In 2017, NOS also endorsed the BCSD Portugal Letter of Principles that includes this matter. Scope: NOS SGPS	3,4 and 5	8,16
GRI 414 – SOCIAL ASSESSMENT OF SUPPLIERS				
Management approach	3.2. Sustainability Management, p. 93-94 4.3. Sustainable Management of the Supply Chain, p. 100-102			
414-1	New suppliers that were screened using social criteria	The assessment of ethical, environmental, and social performance was tested in 2015. However, given the low response rate, it was decided to review the methodology, which is still underway.	1,2, 3, 4, 5 and 6	8, 12, 16 and 17
GRI 415 – PUBLIC POLICIES				
Management approach	3.2. Sustainability Management, p. 93-94 4. Acting Ethically and Responsibly, p. 96-102			
415-1	Political contributions	NOS defines itself as a non-partisan and apolitical organisation. It does not support financially or in kind, in any circumstance, political parties, organisations or individuals	10	16

		associated to them, whose mission is essentially political. The Code of Ethics establishes principles in this regard. Scope: NOS SGPS		
GRI 416 – CUSTOMER HEALTH AND SAFETY				
GRI 417 – MARKETING AND LABELLING				
Management approach	3.2. Sustainability Management, p. 93-94 5. Ensuring a Service of Excellence, p. 102-107			
416-2 417-2 417-3	Incidents of non-compliance concerning the health and safety impacts of products and services; product and service information and labelling; marketing communications	In the reporting period there is no record of such occurrences. Scope: NOS SGPS		16
GRI 418 - CUSTOMER PRIVACY				
Management approach	3.2. Sustainability Management, p. 93-94 5. Ensuring a Service of Excellence, p. 102-107			
418-1	Substantiated complaints concerning breaches customer privacy and losses of customer data	We do not report this information for confidentiality reasons.		
GRI 419 – SOCIOECONOMIC CONFORMITY				
Management approach	3.2. Sustainability Management, p. 93-94 4. Acting Ethically and Responsibly, p. 96-102			
419-1	Non-compliance with laws and regulations in the social and economic area	In the reporting period there are no significant fines for non-compliance with laws and regulations. Scope: NOS SGPS		16

Notes:

UNGC Principles – *United Nations Global Compact*

SDG – Sustainable Development Goals

* The correspondence of the GRI Standards to the UNGC Principles and to the SDG carried out by NOS took into consideration its approach to them, its sustainability strategy, as well as NOS activity itself.

9.2. Table of correspondence with Decree-Law 89/2017

Decree-Law No. 89/2017 of July 28	Chapter/section	Page/s
Art. 3 (referred to Art. 66-B and 508-G of CSC): The non-financial statement shall contain the information sufficient for an understanding of the evolution, performance, position and impact of its activities, regarding, at least, environmental, social and employee-related issues, equality between men and women, non-discrimination, respect for human rights, fight against corruption and bribery, including:		
a) Brief description of the company's business model	3.1 Organisational Profile	pp. 86-88
	2017 Annual Report	p. 11-13; 16-19
b) A description of the policies pursued by the company in relation to these issues, including the due diligence procedures applied	1. On this Report	p. 84
	3.2 Sustainability Management	p. 88-95
	4.1 Ethics and Conduct	pp. 96-99
	4.3 Sustainable Management of the Supply Chain	pp. 100-102
	6.1 Diversity	pp. 108-110
	6.3 Remuneration and Benefits	p. 112; 113; 116
	6.5 Health and Well-Being	p. 114-115
c) The results of those policies	1. On this Report	p. 84
	3.2 Sustainability Management	p. 88-95
	4.1 Ethics and Conduct	pp. 96-102
	6. Valuing Human Capital	pp. 108-116
	7. Preserving the Environment	pp. 116-123

d) The main risks associated to these issues, related to the company's activities, including, if relevant and proportionate, its business relationships, its products or services that may have negative impacts in those areas and how these risks are managed by the company	3.2 Sustainability Management	pp. 90
e) Key performance indicators relevant to its specific activity	2. Sustainability in Review	p. 85-86
	4.1 Ethics and Conduct	p. 96-102
	6. Valuing Human Capital	pp. 108-116
	7. Preserving the Environment	pp. 116-123
	9.1 GRI Table	pp. 127-132
	9.3 Methodological Notes	pp. 134-138
Art. 4 (referred to Art 245.- No. 1 r) and No. 2 of CVM): Description of the Diversity Policy applied by the company to its management and supervisory bodies, namely in terms of age, gender, academic qualifications and professional background, the objectives of that diversity policy, how it was applied and the results in the reference period.	Corporate Governance Report	p. 411

9.3. Methodological notes

201-1 Direct economic value generated and distributed

The direct economic value generated and distributed is associated to the activity of NOS SGPS (consolidated financial statements).

Economic value generated: The economic value generated is equivalent to turnover and corresponds to the sum of the following parts: net sales; income from financial investments; revenue from asset sales.

Economic value distributed: The economic value distributed is equivalent to the costs with the purchase of products, materials and services and corresponds to the sum of the following parts: operating costs; employees' salaries and benefits; payments to capital providers; payments to governments; investments in the community.

Economic value accrued: The economic value accrued corresponds to the difference between the economic value generated and the economic value distributed.

204-1 Proportion of expenses with local suppliers

For NOS, a national supplier is a Supplier based in the country of the NOS's company. For example, for NOS Sistemas España, a Spanish supplier is a national supplier.

401-1 New employee admission and net replacement

The following formulas were used to calculate the admission and net replacement rates:

Admission rate: No. admissions/Total no. employees

Net replacement rate: [((Entries-Departures) + Total no. of employees) / Total no. of employees]-1

401-3 Rates of employee return to work and retention

The following formulas were used to calculate the return to work and retention rates:

Return to work rate: Total number of employees who returned to work after compulsory parental leave / Total number of employees who should return to work after compulsory parental leave)*100

Retention rate: Total number of employees who returned to work after compulsory parental leave and remain employed after 12 months / Total number of employees who returned to work after compulsory parental leave in the previous period)*100

403-2 Rates of injuries, occupational diseases, days lost, absenteeism and number of work-related fatalities

Accident rates

Occupational accidents: for the purposes of accounting for occupational accidents occurred in the reporting period, all accidents reported to the Human Resources Department are considered, even if they do not generate days of work lost.

Days lost: only the working days are accounted for in the count of days lost. The count of days lost starts the day after the date of the accident.

Occupational diseases: for NOS, occupational diseases are related to the type of work carried out by the employee and would predictably be related to psychiatric leave, nervous breakdowns, tendinitis and musculoskeletal injuries. For the purposes of reporting this indicator, occupational diseases are those communicated and proven in the reporting year.

Accident rates: the following calculation formulas were used in calculating the accident rates:

Frequency rate = (number of occupational accidents occurred in the reporting period / no. of working hours) * 1000000

Days lost rate = (number of lost working days related to occupational accident or occupational disease in the reporting period / no. of working hours) * 1000000

Absenteeism rate = number of working days lost due to absence / no. of working days

Absenteeism: number of days lost resulting from injuries, occupational diseases, sick leaves, family assistance, medical appointments, quarantine and suspensions for disciplinary proceedings. Days of vacation, study, maternity/paternity leaves and absences due to the death of family members are excluded.

404-1 Average training hours per year and per employee

The following calculation formulas were used to calculate the average number of training hours, by gender and organisational group:

Average number of training hours per employee: Total no. of training hours / Total no. of employees

Average no. of training hours per gender (M/F): Total no. of training hours per gender (M/F) / Total no. of employees per gender (M/F)

Average number of training hours per organisational group (M/F): Total no. of training hours per organisational group / Total no. of employees in each organisational group

302 - Energy consumption and energy efficiency

Global energy consumption - Total energy consumption associated with NOS activity. Includes fossil fuels consumption (vehicle fleet, buildings and emergency generators), electricity consumption, heat and cold purchased from third parties (technical infrastructure, buildings and stores) and consumption of electricity from renewable self-generation (micro-generation in mobile network sites).

The indicator is expressed in Gigajoule (GJ), using the most recent versions of conversion factors published by the Portuguese national authorities: Lower calorific power and fuel density (Direção Geral de Energia e Geologia [Directorate General for Energy and Geology]) and fuel oxidation factor (Agência Portuguesa do Ambiente [Portuguese Environment Agency]).

Data traffic - Total volume of data traffic in the NOS telecommunications network. Includes mobile data (UMTS and GPRS) and fixed data. Excludes traffic associated with the fixed TV service (broadband and non-linear).

Energy consumption per volume of data traffic – Ratio of NOS overall energy consumption, expressed in GJ, and the volume of data traffic in the company's telecommunications network, expressed in Terabyte (TB). Does not reflect voice traffic on the network or Data Centres' activity that does not involve traffic on the network outside these facilities.

305 - Carbon footprint

Methodology – NOS carbon footprint is accounted for according to the methodology The GHG Protocol Corporate Accounting and Reporting Standard - Revised Edition (2004), complemented with the guidelines contained in The GHG Protocol Scope 2 Guidance (2015), in accounting for scope 2 emissions, and The GHG Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011), in accounting for scope 3 emissions. The consolidation approach used is that of operational control.

Greenhouse gases (GHG) – The GHGs included are carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), and fluorinated gases (hydrofluorocarbons - HFCs; Perfluorocarbons - PFCs, Sulphur hexafluoride - SF6; Nitrogen trifluoride - NF_3). The results are converted to carbon dioxide equivalent (CO_2e) using the Global Warming Potential (GWP) values published in the Intergovernmental Panel on Climate Change Forth Assessment Report.

Scope 1 emissions - Total direct emissions occurring in sources owned or controlled by NOS. Includes emissions associated with fixed and mobile combustion of fossil fuels and fugitive emissions of refrigeration gases used in equipment.

Fossil fuels - Emissions calculated on the basis of the fuel supplied and on conversion factors included in the most recent edition of the National Emissions Inventory (Portuguese Environment Agency). For diesel fuel, the most recent information on the rate of incorporation of biodiesel in the fuel traded in Portugal is used.

Fluorinated gases – Emissions calculated by applying PAG values, specific for each type of gas, to the quantities emitted. It is considered that the quantity emitted is equal to the quantity consumed for leaks replacement.

Scope 2 emissions - Total emissions associated with the production of energy purchased from third parties and consumed in NOS facilities and equipment. Includes emissions associated with purchased electricity, heat and cold.

Electricity – Emissions calculated on the basis of electrical energy billed. The calculation according to the Location Based Method uses the representative conversion factor of the average carbon content of the electricity network in Portugal, according to the most recent data published by the International Energy Agency (2017 edition, data regarding electricity production in 2015). The calculation according to the Market Based Method uses the specific conversion factor of the carbonic content of electricity provided by the supplier in 2017.

Thermal energy - Emissions calculated on the basis of thermal energy billed (heat and cold). The calculation uses the specific conversion factor of one of the two thermal energy suppliers. This factor is considered representative of the total supply considering the similarity of fuel (natural gas) and technology (cogeneration) used.

Scope 3 emissions - Total emissions associated with third-party activities in the NOS value chain, upstream and downstream of own activities. Among the emission sources classified in the 15 categories defined by The GHG Protocol, currently the following are accounted for: employees' in-service missions, third-party vehicles (category 6), employees' work-home travels - Commuting (category 7) and treatment of waste generated in operations (category 5).

Airplane travelling – Emissions calculated on the basis of distances travelled and number of passengers. The calculation uses conversion factors per passenger.km, for each route typology, based on the most recent edition of the emission factors published by the UK Department for Environment Food and Rural Affairs. The conversion factors are affected by the Radiative Strength Index, by reference to the CO_2 emitted, and of a distance adjustment factor for the correction of non-linear routes.

Train travelling - Emissions calculated on the basis of distances travelled and number of passengers. The calculation uses a conversion factor per passenger.km representing rail transport in Portugal, based on the most recent information from the operator.

Taxi travelling – Emissions calculated on the basis of estimated distance travelled, made from reimbursed expenses and average travel representative of the taxi travels of NOS employees in Portugal. The calculation of the emissions uses the representative conversion factor of diesel road vehicles, contained in the most recent edition of the National Emissions Inventory (Portuguese Environment Agency).

Waste – Emissions calculated on the basis of information on production and final destination of waste produced, as communicated to the Portuguese Environment Agency. The calculation uses the representative conversion factor for landfill waste, according to the most recent edition of the National Emissions Inventory (Portuguese Environment Agency), considering its full degradation period (30 years). The emissions associated with energy recycling and recovery are considered null because they are, in terms of Portuguese national inventory, allocated to the respective sectors of activity and not to waste treatment.

Wastewater - Emissions calculated on the basis of estimated wastewater discharged, made from quantities supplied. The calculation uses the representative conversion factor of domestic wastewater treatment, according to the most recent edition of the National Emissions Inventory (Portuguese Environment Agency).

Commuting – Emissions calculated on the basis of distances and types of transport, ascertained through an employee survey. The calculation uses representative conversion factors of the different types of transport, similar to those used in the calculation of in-service missions.

Electromagnetic fields

Radiation exposure threshold values - Maximum value of power density allowed for exposure to the electromagnetic field, dependent on the frequency under analysis, according to Ordinance no. 1421/2004 of November 23, which follows Council Recommendation no. 1999/519/CE of July 12.

419 – Non-conformities

For the purpose of reporting this indicator, administrative infraction proceedings from regulatory or public authorities are considered.

9.4. Declaration of external verification

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

Independent Limited Assurance Report of the Non-Financial Information Statements

To the Board of Directors of
NOS, S.G.P.S., S.A.

Introduction

1. We were contracted by the Board of Directors of NOS, S.G.P.S., S.A. to proceed with the independent review of the Non-Financial Information Statements included in the "2017 Financial Report (Relatorio e Contas 2017)", relating to the sustainability activities carried out from 1 January 2017 to 31 December 2017.

Responsibilities

2. The Board of Directors is responsible for preparing the "Non-Financial Information Statements" and to maintain an appropriate internal control system that allows the information presented to be free of material misstatements due to fraud or error.

3. It is our responsibility to issue a limited assurance report, professional and independent, based on the procedures performed and described in the "Scope" section below.

Scope

4. Our review procedures have been planned and executed in accordance with the International Standard on Assurance Engagements (ISAE 3000, Revised) – "Assurance engagements other than Audits and Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board, for a limited level of assurance.

5. A limited assurance engagement consists mainly in the formulation of questions to those in charge of the organization and in analytical procedures, including review tests on a sample basis. Therefore, the assurance provided by these procedures is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our independent review procedures comprised the following:

- Conducting interviews with Management, in order to understand how the information system is structured and assess their level of knowledge of the topics addressed in the report;
- Review of the processes, criteria and systems adopted to collect, consolidate, report and validate the data for the year 2017;
- Analytical review, on a sample basis, of the data calculated by Management, and verification of quantitative and qualitative information disclosed in the report;
- Confirmation on how collection, consolidation, validation and report procedures are being implemented in selected operating units; and
- Verification of the conformity of the information included in the non-financial information statements with the results of our work.

6. Regarding sustainability reporting standards of the Global Reporting Initiative – GRI Standards 2016, we performed a review of the self-evaluation made by Management of the adopted option to apply the GRI Standards 2016 and conformity with Article 508-G of the Portuguese Companies Act (*Codigo das Sociedades Comerciais*) and 245-A, paragraph r) of the Securities Market Code (*Codigo do Mercado dos Valores Mobiliarios*) with respect to non-financial and diversity disclosures.

Quality and independence

7. Our firm applies International Standard on Quality Control 1 (ISQC 1), and consequently maintains a global quality control system which includes documented policies and procedures relating to compliance with ethical requirements, professional standards, and the legal and regulatory provisions applicable and we comply with the independence and ethical requirements of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics and the Code of Ethics of the Order of Chartered Accountants (OROC).

Conclusion

8. Based on our work, nothing has come to our attention that causes us to believe that the systems and procedures for the collection, consolidation, validation and reporting of the information included in the "Non-Financial Information Statements" are not operating appropriately and the information disclosed is not free from relevant material misstatements. Additionally, we concluded that the "Non-Financial Information Statements" include the required data and information for a Core option as defined by the GRI Standards 2016 and by the Article 508-G of the Portuguese Companies Act and paragraph r) of the article 245-A of the Securities Market Code.

Porto, March 16, 2018

Ernst & Young Audit & Associados - SROC, S.A.
Sociedade de Revisores Oficiais de Contas (nº 178)

Represented by:

(signed)

Sandra e Sousa Amorim (ROC nº 1213)
Registada na CMVM com o nº 20160824

Consolidated Financial **Statements**

Consolidated statement of financial position at 31 December 2016 and 2017

(Amounts stated in thousands of euros)

	NOTES	31-12-2016	31-12-2017
ASSETS			
NON - CURRENT ASSETS			
Tangible assets	8	1,158,181	1,137,209
Investment property		663	661
Intangible assets	9	1,158,779	1,141,104
Investments in jointly controlled companies and associated companies	10	7,888	37,130
Accounts receivable - other	11	6,489	6,185
Tax receivable	12	3,617	149
Available-for-sale financial assets		77	180
Deferred income tax assets	13	117,302	99,538
Derivative financial instruments	18	6	-
TOTAL NON - CURRENT ASSETS		**2,453,002**	**2,422,156**
CURRENT ASSETS:			
Inventories	14	51,043	32,044
Accounts receivable - trade	15	348,926	406,904
Accounts receivable - other	11	15,814	10,366
Tax receivable	12	2,861	14,945
Prepaid expenses	16	84,391	77,657
Non-current assets held-for-sale	17	24,237	-
Derivative financial instruments	18	54	19
Cash and cash equivalents	19	2,313	2,977
TOTAL CURRENT ASSETS		**529,639**	**544,911**
TOTAL ASSETS		**2,982,641**	**2,967,067**
SHAREHOLDER'S EQUITY			
Share capital	20.1	5,152	5,152
Capital issued premium	20.2	854,219	854,219
Own shares	20.3	(18,756)	(12,681)
Legal reserve	20.4	1,030	1,030
Other reserves and accumulated earnings	20.4	112,031	105,489
Net income		90,381	124,094
EQUITY BEFORE NON - CONTROLLING INTERESTS		**1,044,057**	**1,077,301**
Non-controlling interests	21	9,041	9,067
TOTAL EQUITY		**1,053,098**	**1,086,368**
LIABILITIES			
NON - CURRENT LIABILITIES			
Borrowings	22	972,003	954,658
Provisions	23	146,287	133,262
Accounts payable	27	21,551	17,615
Tax payable	12	1,298	-
Accrued expenses	24	9,185	8,767
Deferred income	25	4,138	3,773
Derivative financial instruments	18	4,027	2,462
Deferred income tax liabilities	13	10,206	7,140
TOTAL NON - CURRENT LIABILITIES		**1,168,696**	**1,127,678**
CURRENT LIABILITIES:			
Borrowings	22	224,692	210,136
Accounts payable - trade	26	238,828	224,864
Accounts payable - other	27	68,733	58,155
Tax payable	12	23,957	19,222
Accrued expenses	24	174,514	213,564
Deferred income	25	30,123	27,047
Derivative financial instruments	18	-	33
TOTAL CURRENT LIABILITIES		**760,847**	**753,021**
TOTAL LIABILITIES		**1,929,543**	**1,880,699**
TOTAL LIABILITIES AND SHAREHOLDER´S EQUITY		**2,982,641**	**2,967,067**

The Notes to the Financial Statements form an integral part of the consolidated statement of financial position as at 31 December 2017.

The Chief Accountant

The Board of Directors

Consolidated statement of income by nature
for the financial years ended on 31 December 2016 and 2017

(Amounts stated in thousands of euros)

	NOTES	4th QUARTER 16	12M 16	4th QUARTER 17	12M 17
REVENUES:					
Services rendered		364,478	1,425,163	377,501	1,480,102
Sales		21,374	71,609	18,771	68,833
Other operating revenues		5,023	18,197	3,042	12,847
	28	**390,875**	**1,514,969**	**399,316**	**1,561,783**
COSTS, LOSSES AND GAINS:					
Wages and salaries	29	24,374	93,092	23,114	89,201
Direct costs	30	122,873	457,774	133,712	492,701
Costs of products sold	31	15,812	56,883	14,887	51,111
Marketing and advertising		12,898	36,269	13,641	36,415
Support services	32	23,838	91,445	24,564	92,920
Supplies and external services	32	45,285	184,416	45,014	180,110
Other operating losses / (gains)		433	831	122	605
Taxes		7,650	29,466	8,119	32,455
Provisions and adjustments	33	12,740	8,058	7,062	5,627
Depreciation, amortisation and impairment losses	8, 9 and 35	99,052	391,555	111,798	422,211
Reestructuring costs		3,375	14,084	2,242	8,260
Losses / (gains) on sale of assets, net		(29)	(9)	56	56
Other losses / (gains) non recurrent net		7,556	8,333	1,655	7,349
		375,857	**1,372,197**	**385,986**	**1,419,021**
INCOME BEFORE FINANCIAL RESULTS AND TAXES		**15,018**	**142,772**	**13,330**	**142,762**
Net losses / (gains) of affiliated companies	10 and 34	(2,297)	5,948	(7,950)	(22,933)
Financial costs	36	4,278	16,844	4,349	20,135
Net foreign exchange losses / (gains)		(249)	480	(65)	57
Net losses / (gains) on financial assets		-	-	2	2
Net other financial expenses / (income)	36	1,797	7,277	1,408	3,800
		3,529	**30,549**	**(2,256)**	**1,061**
INCOME BEFORE TAXES		**11,489**	**112,223**	**15,585**	**141,701**
Income taxes	13	(273)	22,226	(2,885)	17,480
NET CONSOLIDATED INCOME		**11,761**	**89,996**	**18,470**	**124,221**
ATTRIBUTABLE TO:					
NOS Group Shareholders		11,993	90,381	18,628	124,094
Non-controlling interests	21	(233)	(385)	(157)	128
EARNINGS PER SHARES					
Basic - euros	37	0.02	0.18	0.04	0.24
Diluted - euros	37	0.02	0.18	0.04	0.24

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

The Notes to the Financial Statements form an integral part of the consolidated statement of income by nature for the financial year ended on 31 December 2017.

The Chief Accountant

The Board of Directors

Consolidated statement of comprehensive income for the financial years ended on 31 December 2016 and 2017

(Amounts stated in thousands of euros)

	NOTES	4th QUARTER 16	12M 16	4th QUARTER 17	12M 17
NET CONSOLIDATED INCOME		**11,761**	**89,996**	**18,470**	**124,221**
OTHER INCOME					
ITENS THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO THE INCOME STATEMENT:					
Accounting for equity method	10	-	(867)	6,841	6,825
Fair value of interest rate swap	18	1,354	(659)	271	1,574
Deferred income tax - interest rate swap	18	(305)	148	(61)	(354)
Fair value of equity swaps	18	(94)	(4)	157	177
Deferred income tax - equity swap	18	22	1	(35)	(40)
Fair value of exchange rate forward	18	(10)	47	-	-
Deferred income tax - exchange rate forward	18	2	(14)	4	-
Currency translation differences and others		(122)	(726)	(17)	(48)
INCOME RECOGNISED DIRECTLY IN EQUITY		**847**	**(2,074)**	**7,160**	**8,134**
TOTAL COMPREHENSIVE INCOME		**12,608**	**87,922**	**25,630**	**132,355**
ATTRIBUTABLE TO:					
NOS Group Shareholders		12,375	87,537	25,787	132,227
Non-controlling interests		233	385	(157)	128
		12,608	**87,922**	**25,630**	**132,355**

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

The Notes to the Financial Statements form an integral part of the consolidated statement of comprehensive income for the financial year ended on 31 December 2017.

The Chief Accountant

The Board of Directors

Consolidated statement of changes in shareholders' equity for the financial years ended on 31 December 2016 and 2017

(Amounts stated in thousands of euros)

	NOTES	ATTRIBUTABLE TO NOS GROUP SHAREHOLDERS						NON - CONTROLLING INTERESTS	TOTAL
		SHARE CAPITAL	CAPITAL ISSUED PREMIUM	OWN SHARES	LEGAL RESERVE	OTHER RESERVES AND ACCUMULATED EARNINGS	NET INCOME		
BALANCE AS AT 1 JANUARY 2016		**5,152**	**854,219**	**(10,559)**	**3,556**	**119,004**	**82,720**	**9,430**	**1,063,522**
Result appropriation									
Transfers to reserves		-	-	-	(2,526)	85,246	(82,720)	-	-
Dividends paid		-	-	-	-	(82,121)	-	-	(82,121)
Aquisition of own shares	20.3	-	-	(20,676)	-	-	-	-	(20,676)
Distribution of own shares - share incentive scheme	20.3	-	-	9,743	-	(10,502)	-	-	(759)
Distribuition of own shares - other remunerations	20.3	-	-	2,736	-	(219)	-	-	2,517
Share Plan - costs incurred in the period and others		-	-	-	-	2,864	-	(4)	2,860
Comprehensive Income		-	-	-	-	(2,074)	90,381	(385)	87,922
Others		-	-	-	-	(167)	-	-	(167)
BALANCE AS AT 31 DECEMBER 2016		**5,152**	**854,219**	**(18,756)**	**1,030**	**112,031**	**90,381**	**9,041**	**1,053,099**
BALANCE AS AT 1 JANUARY 2017		**5,152**	**854,219**	**(18,756)**	**1,030**	**112,031**	**90,381**	**9,041**	**1,053,099**
Result appropriation									
Transfers to reserves		-	-	-	-	90,381	(90,381)	-	-
Dividends paid		-	-	-	-	(102,617)	-	-	(102,617)
Distribution of own shares - share incentive scheme	20.3	-	-	5,790	-	(5,790)	-	-	-
Distribuition of own shares - other remunerations	20.3	-	-	285	-	(79)	-	-	206
Share Plan - costs incurred in the period and others	42	-	-	-	-	3,261	-	(44)	3,217
Acquisition of non-controlling interests		-	-	-	-	-	-	(58)	(58)
Comprehensive Income		-	-	-	-	8,133	124,094	128	132,355
Others		-	-	-	-	169	-	-	169
BALANCE AS AT 31 DECEMBER 2017		**5,152**	**854,219**	**(12,681)**	**1,030**	**105,489**	**124,094**	**9,067**	**1,086,368**

The Notes to the Financial Statements form an integral part of the consolidated statement of changes in shareholders' equity for the financial year ended on 31 December 2017.

The Chief Accountant

The Board of Directors

Consolidated statement of cash flows
for the financial years ended on 31 December 2016 and 2017

(Amounts stated in thousands of euros)

	NOTES	12M 16	12M 17
OPERATING ACTIVITIES			
Collections from clients		1,812,084	1,787,339
Payments to suppliers		(1,154,400)	(1,032,457)
Payments to employees		(118,272)	(114,565)
Receipts / (Payments) relating to income taxes		(21,387)	(17,333)
Other cash receipts / (payments) related with operating activities		(7,278)	(99,369)
CASH FLOW FROM OPERATING ACTIVITIES (1)		**510,747**	**523,616**
INVESTING ACTIVITIES			
CASH RECEIPTS RESULTING FROM			
Financial investments	10	25,366	-
Tangible assets		6,927	4,129
Intangible assets		46	55
Available-for-sale financial assets	17	-	29,776
Interest and related income		8,670	5,397
		41,009	**39,356**
PAYMENTS RESULTING FROM			
Financial investments	10	(25,347)	-
Tangible assets		(256,907)	(217,148)
Intangible assets		(174,120)	(169,211)
		(456,374)	**(386,359)**
CASH FLOW FROM INVESTING ACTIVITIES (2)		**(415,365)**	**(347,003)**
FINANCING ACTIVITIES			
CASH RECEIPTS RESULTING FROM			
Borrowings		415,000	228,550
		415,000	**228,550**
PAYMENTS RESULTING FROM			
Borrowings		(330,014)	(270,676)
Lease rentals (principal)		(30,494)	(26,383)
Interest and related expenses		(31,381)	(30,419)
Dividends	20.4	(82,121)	(102,617)
Aquisition of own shares	20.3	(20,676)	-
		(494,686)	**(430,095)**
CASH FLOW FROM FINANCING ACTIVITIES (3)		**(79,686)**	**(201,545)**
Change in cash and cash equivalents (4)=(1)+(2)+(3)		15,696	(24,933)
Effect of exchange differences		(224)	33
Cash and cash equivalents at the beginning of the year		(29,348)	(13,877)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**(13,876)**	**(38,776)**
Cash and cash equivalents	19	2,313	2,977
Bank overdrafts	22	(16,189)	(41,753)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**(13,876)**	**(38,776)**

The Notes to the Financial Statements form an integral part of the consolidated statement of cash flows for the financial year ended on 31 December 2017.

The Chief Accountant

The Board of Directors

Notes to the consolidated financial statements as at 31 December 2017

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

1. Introductory Note

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

During the 2007 financial year, Portugal Telecom proceeded with the spin-off of ZON through the attribution of its participation in the company to their shareholders, which 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 31 December 2017 is shown in Note 20.

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

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

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

NOS Sistemas is a company dedicated to 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 financial year ended on 31 December 2017 are presented in euros and were approved by the Board of Directors and their issue authorised on 9 March 2018.

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

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

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 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 2017 are as follows:

- IAS 7, "Statement of Cash Flows" (amendment) that is effective for annual periods beginning on or after 1 January 2017. The standard establishes that the company needs to disclose information on changes of the liabilities related to financing activities, namely: (i) changes of cash financing flows; (ii) changes resulting from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in exchange rates; (iv) changes in fair value; and (v) other changes.
- IAS 12, "Recognition of deferred tax assets arising from unrealised losses" (amendment) that is effective for annual periods beginning on or after 1 January 2017. The amendments have clarified when a deferred tax asset arising from unrealised losses has to be recognised.
- 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.

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 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.
- 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.

Estimated 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 will replace all the current requests for the recognition of the revenue prescribed in the IFRS and will have to 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.

The earlier application is permitted.

NOS Group will adopt 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, so that the Group anticipates 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.

It is estimated by the group that the main impacts of the application of IFRS 15 occur 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 current policy, the revenue is recognised in accordance with the value of the pack associated with each service. Therefore, the revenue that is associated with the equipment sale is 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 are also situations in which the equipment is 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 will be 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 will be 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 will be anticipated and restated on 1 January 2017, originating 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.

The Group estimates that, as a result of this adjustment, in the financial year ended on 31 December 2017, the revenues and cost of equipment sales are higher than 16 million euros, 11 million euros, respectively, the services provisions are lower than 18 million euros, and the depreciations are lower than 13 million euros. In the statement of the financial position, the Group estimates a reduction of the tangible fixed assets amounting approximately to 10 million euros and an increase of the revenues accruals amounting to 16 million euros.

Commissions and other costs related to the soliciting of contracts

According to the current policy, the Group capitalises 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 will 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 must be 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.

The Group estimates that, as a result of this adjustment, in the financial year ended on 31 December 2017, the commissions with soliciting and loyalty of customers, amounting to 9 million euros, the amortisations that are higher than 14 million euros must be capitalised and simultaneously amortised. In the statement of the financial position, the Group estimates a significant increase of the intangible assets approximately amounting 59 million euros.

Other adjustments

In addition to the adjustments that were previously described, the application of IFRS 15 will imply the corresponding adjustment concerning taxes. They might exist impacts in other areas that the Group estimates not to be significant.

The impacts estimated by the Group, from the application of IFRS 15, are as follows:

Items	2017 Reported	IFRS15 Impact	2017 Restated
Revenues	1,561,783	(3,143)	1,558,640
Operating costs*	981,145	2,102	983,247
Depreciations and amortisations	422,211	(2,275)	419,936
Income before financial results and taxes	142,762	(2,970)	139,792
Income taxes	17,480	(980)	16,500
Net Consolidated Income**	124,094	(2,011)	122,083
Other reserves and accumulated earnings	105,489	28,353	133,842
Asset	2,967,067	43,481	3,010,548

*Before depreciations, amortisations and impairment losses, integration costs, losses/(gains) with disposal of assets, net and other costs/(gains) non-recurrent.

**Excluding non-controlling interests.

Additionally, the Group does not expect any material impact recurring from the application of the IFRS 9 and the amendment of the IFRS 4, and the impact resulting from the application of IFRS 16 is being ascertained.

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 10 and IAS 28, “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” (amendment) (effective date will be designated). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.
- IFRS 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.

- IAS 40 (amendment), “Investment property transfers” (effective for annual periods beginning on or after 1 January 2018). The amendments clarify if a property under construction or development, which was previously classified as Inventories, can be transferred to investment property when there is an evident change in use.

- IFRIC 22 (interpretation), “Foreign currency transactions and advance consideration” (effective for periods beginning on or after 1 January 2018). Interpretations clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

- IFRIC 23: “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.

- IFRS 9: “Prepayment features with negative compensation” (amendment) that is effective for periods beginning on or after 1 January 2019. The amendments to IFRS 19 clarify that a financial asset meets SPPI test criterion, regardless of the event or circumstances that caused the earlier termination of the contract and the party, which pays or receives a reasonable compensation for the earlier termination of the contract.

- 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.

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 21).

The identifiable acquired assets and the liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date, irrespective of the existence of non-controlled interests. The excess of acquisition cost over the fair value of the Group's share of identifiable acquired assets and liabilities is stated in Goodwill. 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 acquisition or until the date of their disposal, respectively.

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

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

2.3.3. Tangible assets

Tangible assets are stated at acquisition cost, less accumulated depreciation and impairment losses, 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 8).

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

Non-current assets held for sale

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

This situation is deemed to arise only 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:

	2016 (YEARS)	2017 (YEARS)
Buildings and other constructions	2 - 50	2 - 50
Technical equipment:		
Network Installations and equipment	7 - 40	7 - 40
Terminal equipment	2 - 8	2 - 8
Other telecommunication equipment	3 - 10	3 - 10
Other technical equipment	1 - 16	1 - 16
Transportation equipment	3 - 4	3 - 4
Administrative equipment	2 - 10	2 - 10
Other tangible assets	4 - 8	4 - 8

2.3.4. Intangible assets

Intangible assets are stated at acquisition cost, less accumulated amortisation and impairment losses, 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 9) in the case of a controlled company or in the case in which the excess of cost has been originated by a merger, and in "Financial investments in group companies" (Note 10) in the case of a jointly controlled company or an associated company.

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

For the purposes of impairment tests, goodwill is attributed to the cash-generating units to which it is related (Note 9), which may correspond to the business segments in which the Group operates, or a lower level.

Internally generated intangible assets

Internally generated intangible assets, including expenditure on research, are expensed when they are incurred. Research and development costs are only recognised as assets 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 incurred in raising customers' loyalty contracts (i.e. commissions incurred in customer acquisition, portability costs, negative margin in equipment sales, etc.);
- Content utilisation rights;
- Other contractual rights.

The 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:

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

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

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

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

Financial assets at fair value through profit and loss

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

Financial assets available for sale

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

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

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

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

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

Investments held to maturity

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

Borrowing and receivables

The assets classified in this category are non-derivative financial assets with fixed or determinable payments not listed on an active market.

Accounts receivable are initially recognised at fair value and subsequently valued at amortised cost, less adjustments for impairment, when applicable. Impairment losses on customers and accounts receivable are recorded when there is objective evidence that they are not recoverable under the initial terms of the transaction. The identified impairment losses are recorded in the income statement under "Provisions and adjustments", and subsequently reversed by results, when the impairment indicators reduce or cease to exist.

Cash and cash equivalents

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

For the purposes of the statement of cash flows, "Cash and cash equivalents" also includes bank overdrafts included in the statement of financial position under "Borrowings" (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 and equity instruments are recognised only when extinguished, i.e. when the obligation is settled, cancelled, or extinguished.

Financial liabilities of the Group include:

Borrowings

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

Accounts payable

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

Derivative financial instruments

See accounting policy 2.3.9.

2.3.8. Impairment of financial assets

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

Financial assets available for sale

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

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

Customers, other debtors, and other financial assets

Adjustments are made for impairment losses when there are objective indications that the Group will not receive all the amounts to which it is entitled under the original terms of the contracts. Various indicators are used to identify impairment situations, such as default analysis, financial difficulties of the debtor, including probability of insolvency of the debtor.

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

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

2.3.9. Derivative financial instruments

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

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

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

Hedge accounting

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

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

Additionally, the Board of Directors of NOS SGPS, responsible for the plans' attribution, can decide an additional debit related to costs associated to their management, which is debited to its subsidiaries and recognised in equity.

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.

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

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

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

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

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

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

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

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

(i) When the gross inflows from economic benefits do not result in equity increases to the Group, i.e., the amount charged to the customer is equal to the amount delivered to the partner. This situation is applicable to the revenue obtained by the invoicing special services operators, in these cases the amounts charged on account of the capital are not revenue; and,

(ii) When the counterpart is not a "customer" but a partner who shares the risks and benefits of developing a product or services in order for it to be commercialised. Thus, a counterpart of a contract will not be a customer if, for instance, the counterpart has hired from NOS to participate in an activity or process in which the parties in the contract share the risks and benefits instead of obtaining the Group's ordinary activities result. These cases are designated collaborative arrangements. This situation is applicable to revenues from operators affected by the reciprocal availability agreement regarding broadcasting rights of sports content.

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

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

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

Interest revenue is recognised using the effective interest method, only 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.

Therefore, due to the high inflation in Angola and subsequent application of IAS 29, the individual financial statements of the NOS subsidiaries in Angola were restated, for consolidation purposes, with effect on 1 January 2017 and the impacts of this restatement were reflected on the consolidated results of NOS, by the equity method in the last quarter of 2017.

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	204.6	287.5

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

	31-12-2016	31-12-2017
US Dollar	1.0541	1.1993
Angolan Kwanza	184.4750	185.4000
British Pound	0.8562	0.8872
Mozambican Metical	74.5400	70.5700
Canadian Dollar	1.4188	1.5039
Swiss Franc	1.0739	1.1702
Real	3.4305	3.9729

In the financial years ended at 31 December 2016 and 2017, the income statements of subsidiaries expressed in foreign currencies were converted to euros at the average exchange rates of the currencies of their countries of origin against the euro, which are as follows:

	12M 16	12M 17
US Dollar	1.1159	1.1297
Angolan Kwanza	182.3243	184.8662
Mozambican Metical	69.8233	71.5117

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 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 9. 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.

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

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

3.2. Errors, estimates, and changes to accounting policies

In the financial years ended at 31 December 2016 and 2017, no material errors related to previous years were recognised.

4. Financial risk management policies

4.1. Financial risk management

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

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

A) Credit risk

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

The credit risk associated with operations is mainly related to amounts due from customers for services provided to them (Notes 11 and 15). This risk is monitored on a regular business basis and the aim of management is to: i) limit the credit granted to customers, using the average payment time by each customer; ii) monitor the trend in the level of credit granted; and iii) analyse the impairment of receivables on a regular basis.

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

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

The table below shows the Group's maximum exposure to credit risk at 31 December 2016 and 2017, without taking into account any collateral held or other credit enhancements. For assets in the statement of financial position, the defined exposure is based on their book value as stated in the statement of financial position.

	31-12-2016	31-12-2017
Accounts receivable trade - current i)	285,212	351,400
Accounts receivable other - non-current (Note 11)	6,489	6,185
Accounts receivable other - current (Note 11)	12,712	6,614
Cash and cash equivalents ii)	741	975
TOTAL FINANCIAL ASSETS	**305,154**	**365,174**

i) Accounts receivable – customers

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

At 31 December 2016 and 2017, the balances receivable from customers by age were as follows:

	31-12-2016	31-12-2017
Not Due	86,280	120,747
Due but not impaired		
0 to 30	37,194	33,655
30 to 90	25,111	32,487
Over 90	94,054	135,214
Due and impaired		
0 to 90	5,326	4,369
90 - 180	11,301	5,203
180 to 360	21,021	15,661
Over 360	162,678	143,549
	442,965	**490,884**
Impairment of accounts receivable	(157,753)	(139,484)
TOTAL ACCOUNTS RECEIVABLE	**285,212**	**351,400**

At 31 December 2017, the total amount of accounts receivable - trade, impaired and overdue are covered by impairment adjustment almost in its entirety.

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

i) The accounts receivable from operations are subject to review on an individual basis. The maximum exposure to risk determined for each operator and the impairment adjustment is calculated based on the age of each balance, the existence of claims and the financial situation of the operator;
ii) Agents are classified in terms of risk based on the regularity of services rendered and their financial situation. The impairment adjustment is calculated by applying an uncollectibility percentage based on the historical data;
iii) In the case of regular customers, impairment adjustment is calculated by applying an uncollectibility percentage based on group historical data;
iv) In the case of the remaining accounts receivable, impairment adjustments are determined based on the age of the receivable, net of the amounts payable and the information of the financial situation of the debtor.

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

ii) At 31 December 2016 and 2017, the Group's credit risk ratings for these type of assets (cash and cash equivalents as described in Note 19, with the exception of the value of cash), whose counter parties are Financial Statement Institutions, are as follows:

	31-12-2016	31-12-2017
A+	8	-
A-	5	-
BBB+	5	1
BBB	4	4
BB-	4	86
B+	63	-
B-	1	-
without rating	651	704
TOTAL	**741**	**975**

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

B) Liquidity risk

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

b.1) Commercial paper programmes of which around 337.9 million euros is being used, including 12.9 million euros issued without underwriting securities. The commercial paper programmes have a maximum amount of 670 million euros, corresponding to nine programmes, with six banks, which bear interest at market rates;

b.2) Private and direct cash bonds to the value of 585 million euros;

b.3) A Finance Contract with the European Investment Bank to support the development of mobile broadband network in Portugal in the amount of 91.7 million euros.

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

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

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

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

	31-12-2016				31-12-2017			
	LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL	LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	TOTAL
Borrowings:								
- Bond Issue	1,544	372,339	209,872	583,755	1,431	523,130	59,970	584,531
- Commercial Paper	149,290	200,000	-	349,290	122,637	177,500	37,500	337,637
- Foreign Loans	29,397	71,317	18,249	118,963	17,748	72,241	-	89,989
- National Loans	-	-	-	-	-	-	-	-
- Bank overdrafts	16,189	-	-	16,189	41,753	-	-	41,753
- Financial Leases	28,272	72,081	28,145	128,498	26,567	56,525	27,793	110,884
Accounts payable - trade	238,828	-	-	238,828	224,864	-	-	224,864
Accounts payable - other	90,284	-	-	90,284	75,770	-	-	75,770
Derivatives of financial instruments	-	4,027	-	4,027	33	2,462	-	2,495
Operating leases	44,619	101,740	40,860	187,219	58,728	131,050	36,695	226,473
TOTAL	**598,423**	**821,504**	**297,126**	**1,717,053**	**569,531**	**962,908**	**161,958**	**1,694,396**

C) Market risk

Exchange rate risk

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

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

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

A sensitivity analysis was performed using a strengthening or weakening by 10% of the functional currencies of the various financial investments at 31 December 2017. The amount of the investments would increase by 3.546 thousand euros or decrease by 2.901 thousand euros, respectively, and the counterpart of these changes the equity. In this sensitivity analysis, gains or losses that financial investments would recognise resulting from currency fluctuations are not considered.

The table below shows the Group's exposure to exchange rate risk at 31 December 2016 and 2017, based on the amounts of the Group's financial assets and liabilities in the statement of financial position (amounts stated in local currency):

	31-12-2016			
	US DOLLAR	BRITISH POUND	KWANZA	MOZAMBIQUE METICAL
ASSETS				
Account receivable - trade	4,747	-	-	2,960
Account receivable - other	-	-	465,300	2,093
Tax receivable	-	-	-	3,222
Cash and cash equivalents	2	-	-	45,287
TOTAL ASSETS	**4,749**	**-**	**465,300**	**53,562**
LIABILITIES				
Borrowings	-	-	-	-
Account payable - trade	7,958	9	-	993
Accounts payable - other	388	21	-	1,980
Tax payable	-	-	-	24
TOTAL LIABILITIES	**8,346**	**30**	**-**	**2,997**
NET	**(3,597)**	**(30)**	**465,300**	**50,565**

	31-12-2017			
	US DOLLAR	BRITISH POUND	KWANZA	MOZAMBIQUE METICAL
ASSETS				
Account receivable - trade	7,850	5	-	2,534
Account receivable - other	-	1	465,300	896
Tax receivable	-	-	-	5,093
Cash and cash equivalents	-	-	-	45,605
TOTAL ASSETS	**7,850**	**6**	**465,300**	**54,128**
LIABILITIES				
Borrowings	-	-	-	-
Account payable - trade	9,118	32	-	592
Accounts payable - other	354	22	-	185
Tax payable	-	-	-	403
TOTAL LIABILITIES	**9,472**	**54**	**-**	**1,180**
NET	**(1,622)**	**(49)**	**465,300**	**52,948**

NOS uses a sensitivity analysis technique which measures estimated changes in results and equity of an immediate strengthening or weakening of the Euro against other currencies in the rates applying at 31 December 2017 for each class of financial instrument with all other variables remaining constant. This analysis is for illustrative purposes only, since in practice exchange rates rarely change in isolation.

The sensitivity analysis was performed using a strengthening or weakening of the Euro by 10% in all exchange rates. In such case, profits before tax would have decreased by 168 thousand euros (2016: decreased 22 thousand euros) or decreased by 206 thousand euros (2016: increased 27 thousand euros), respectively.

D) Interest rate risk

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

The borrowings by the Group, with the exception of EIB financing of 91.7 million euros, the bond loan of 50 million euros and finance leases, have variable interest rates, which exposes the Group to interest rate cash flow risk. The Group has adopted a policy of hedging risk with interest rate swaps to hedge future interest payments on Bond loans and other borrowings (see Note 18).

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

The sensitivity analysis is based on the following assumptions:

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

Under these assumptions, an increase or decrease of 0.25% in market interest rates for loans that are not covered or loans with variable interest at 31 December 2017 would have resulted in an increase or decrease in annual profit before tax of approximately 1.7 million euros (2016: 1.4 million euros).

In the case of the interest rate swaps contracted, the sensitivity analysis which measures the estimated impact of an immediate increase or decrease of 0.25% (25 basis points) in market interest rates results in changes in the fair value of the swaps of over 948 thousand euros (2016: over 1,702 thousand euros) and down 955 thousand euros (2016: down 1,711 thousand euros) at 31 December 2017.

4.2. Capital risk management

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

The NOS Group's policy is to contract loans with financial institutions, mainly at the level of the parent company, NOS, which in turn makes loans to its subsidiaries and associated companies. In the case of joint ventures, which contract loans in their own name, NOS participates in the contract process and is the guarantor for repayment of the loan. This policy is designed to optimise the capital structure with a view to greater tax efficiency and a reduction in the average cost of capital.

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

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

	31-12-2016	31-12-2017
Total gross debt	1,114,623	1,088,461
Cash and cash equivalents	(2,313)	(2,977)
TOTAL NET DEBT	**1,112,310**	**1,085,484**
EBITDA	556,735	580,638
Total net debt/EBITDA	2.00	1.87

Estimated fair value

The table below shows the financial assets and liabilities of the Group valued at fair value at 31 December 2016 and 2017, as the levels of the fair value hierarchy:

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

	31-12-2017			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
ASSETS				
Available-for-sale financial assets	-	-	180	180
Derivative financial instruments - equity swap (Note 18)	-	19	-	19
	-	**19**	**180**	**199**
LIABILITIES				
Derivative financial instruments - equity swap (Note 18)	-	9	-	9
Derivative financial instruments - interest rate swap (Note 18)	-	2,453	-	2,453
Derivative financial instruments - exchange rate forward (Note 18)	-	33	-	33
	-	**2,495**	**-**	**2,495**

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

- Level 1 – Financial instruments valued based on quotations in active markets to which the company has access are included in this category, securities valued based on executable (immediate liquidity) published by external sources.
- Level 2 – Financial instruments whose value is based on directly or indirectly observable data in active markets are included in this category, securities valued based on bids provided by external entities and internal valuation techniques using only observable market data.

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

Assets available for sale were valued using the discounted cash flow method (level 3).

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

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

5. Changes in the consolidation perimeter

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

1. on 18 January 2016, the company ZON Finance BV was dissolved, which had no impact on the Group's consolidated financial statements;
2. on 28 July 2016, with the entrance of Vodafone on the share capital of Sport TV, NOS SGPS now owns a share of 33.33% (prior to 50%). This operation originated a gain of 2,509 thousand of euros in "Net losses / (gains) of affiliated companies" (1,926 thousands of euros due to the dilution of negative results from 2016 and 583 thousand euros due to the dilution of the share capital on 1 January – Note 10);

The amendments in the consolidation perimeter, during the financial year ended on 31 December 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 10): and
2. on 29 March 2017, the companies NOS Internacional, SGPS ("NOS Internacional SGPS") and NOS Audiovisuais, SGPS ("NOS Audio SGPS") were established and 100% held by NOS SGPS.
3. on 13 July 2017, NOS SGPS acquired 5,664 shares representative of 0.126% of the Share Capital of Lusomundo – SII, SGPS, SA from MPBS Imobiliária, SA. With this acquisition, NOS SGPS came to hold 100% of the share capital of Lusomundo – SII, SGPS, SA.
4. on 13 July 2017, Lusomundo SII acquired 4,262 shares representatives of 0.196% of the Share Capital of Lusomundo Imobiliária 2, SA from MPBS Imobiliária, SA. With this acquisition, Lusomundo SII came to hold 100% of the share capital of Lusomundo Imobiliária 2, SA.
5. after the acquisitions of the minority shareholdings that were mentioned in 3) and 4), reductions of capital were performed in Lusomundo SII, SGPS, SA amounting to 15.9 million euros, in Lusomundo Imobiliária 2, SA amounting to 9.9 million euros and in Empracine amounting to 99.5 thousand euros.
6. on 27 December 2017, East Star Limited was dissolved without generating any impact in the consolidated financial statements.

6. Segment reporting

The business segments are as follows:

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

Lusomundo Sociedade de Investimentos Imobiliários, SGPS, S.A. ("Lusomundo SII") ,Empracine – Empresa Promotora de Atividades Cinematográficas, Lda ("Empracine") and NOS Audio SGPS.

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

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

	31-12-2017			
	TELCO	**AUDIOVISUALS**	**ELIMINATIONS**	**GROUP**
ASSETS				
NON - CURRENT ASSETS:				
Tangible assets	1,125,129	12,080	-	1,137,209
Intangible assets	1,044,672	96,432	-	1,141,104
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	87,582	11,956	-	99,538
Other non-current assets	312	678	-	990
TOTAL NON - CURRENT ASSETS	**2,423,380**	**161,305**	**(162,529)**	**2,422,156**
CURRENT ASSETS:				
Inventories	31,217	827	-	32,044
Account receivables	401,942	76,166	(60,838)	417,270
Prepaid expenses	75,785	2,154	(282)	77,657
Other current assets	14,480	484	-	14,964
Cash and cash equivalents	1,211	1,766	-	2,977
TOTAL CURRENT ASSETS	**524,635**	**81,397**	**(61,120)**	**544,911**
TOTAL ASSETS	**2,948,015**	**242,702**	**(223,649)**	**2,967,067**
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	57,987	56,833	(9,331)	105,489
Net income	146,362	27,250	(49,518)	124,094
EQUITY BEFORE NON - CONTROLLING INTERESTS	**1,052,069**	**117,919**	**(92,685)**	**1,077,301**
Non-controlling interests	9,067	-	-	9,067
TOTAL EQUITY	**1,061,136**	**117,919**	**(92,685)**	**1,086,368**
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	6,670	470	-	7,140
TOTAL NON - CURRENT LIABILITIES	**1,141,915**	**55,151**	**(69,389)**	**1,127,678**
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	**744,964**	**69,632**	**(61,575)**	**753,021**
TOTAL LIABILITIES	**1,886,879**	**124,783**	**(130,964)**	**1,880,699**
TOTAL LIABILITIES AND SHAREHOLDER´S EQUITY	**2,948,015**	**242,702**	**(223,649)**	**2,967,067**

The results by segment and investments in tangible and intangible assets for the financial years ended on 31 December 2016 and 2017 are shown below:

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

	TELCO		AUDIOVISUALS		ELIMINATIONS		GROUP	
	4th QUARTER 17	12M 17	4th QUARTER 17	12M 17	4th QUARTER 17	12M 17	4th QUARTER 17	12M 17
REVENUES:								
Services rendered	364,261	1,424,631	25,793	104,566	(12,553)	(49,095)	377,501	1,480,102
Sales	14,385	51,026	4,450	18,063	(64)	(256)	18,771	68,833
Other operating revenues	3,193	13,245	314	951	(464)	(1,349)	3,043	12,847
	381,839	**1,488,902**	**30,557**	**123,581**	**(13,081)**	**(50,700)**	**399,315**	**1,561,783**
COSTS, LOSSES AND GAINS:								
Wages and salaries	20,186	78,650	2,928	10,551	-	-	23,114	89,201
Direct costs	136,010	501,259	7,925	31,571	(10,223)	(40,129)	133,712	492,701
Costs of products sold	14,791	50,848	102	280	(6)	(17)	14,887	51,111
Marketing and advertising	13,660	36,368	1,973	7,628	(1,992)	(7,581)	13,641	36,415
Support services	24,491	92,463	629	2,200	(556)	(1,743)	24,564	92,920
Supplies and external services	40,098	160,160	5,220	21,180	(304)	(1,230)	45,014	180,110
Other operating losses / (gains)	105	550	17	55	-	-	122	605
Taxes	8,035	31,998	84	457	-	-	8,119	32,455
Provisions and adjustments	7,282	6,421	(220)	(794)	-	-	7,062	5,627
	264,658	**958,717**	**18,658**	**73,128**	**(13,081)**	**(50,700)**	**270,235**	**981,145**
EBITDA	**117,181**	**530,185**	**11,899**	**50,453**	**-**	**-**	**129,080**	**580,638**
Depreciation, amortisation and impairment losses	103,241	386,838	8,557	35,373	-	-	111,798	422,211
Other losses / (gains), net	3,880	15,374	72	291	-	-	3,952	15,665
INCOME BEFORE FINANCIAL RESULTS AND TAXES	**10,060**	**127,973**	**3,270**	**14,789**	**-**	**-**	**13,330**	**142,762**
Net losses / (gains) of affiliated companies	(8,206)	(22,535)	256	(398)	-	-	(7,950)	(22,933)
Financial costs	4,182	19,642	168	493	(1)	-	4,349	20,135
Net foreign exchange losses / (gains)	(49)	68	(17)	(12)	1	1	(65)	57
Net losses / (gains) on financial assets	(8,775)	(33,888)	-	(15,629)	8,777	49,519	2	2
Net other financial expenses / (income)	1,397	3,755	11	45	1	-	1,409	3,800
	(11,451)	**(32,958)**	**418**	**(15,501)**	**8,778**	**49,520**	**(2,255)**	**1,061**
INCOME BEFORE TAXES	**21,511**	**160,931**	**2,852**	**30,290**	**(8,778)**	**(49,520)**	**15,585**	**141,701**
Income taxes	(3,465)	14,442	580	3,038	-	-	(2,885)	17,480
NET INCOME	**24,976**	**146,489**	**2,272**	**27,252**	**(8,778)**	**(49,520)**	**18,470**	**124,221**
CAPEX	**108,620**	**348,092**	**9,423**	**33,502**	**-**	**-**	**118,043**	**381,594**
EBITDA - CAPEX	**8,561**	**182,093**	**2,477**	**16,951**	**-**	**-**	**11,038**	**199,044**

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

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

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

	31-12-2016			
	LOANS AND ACCOUNTS RECEIVABLE	AVAILABLE-FOR-SALE FINANCIAL ASSETS	INVESTMENTS HELD-TO-MATURITY	DERIVATIVES
ASSETS				
Available-for-sale financial assets	-	77	-	-
Derivative financial instruments (Note 18)	-	-	-	60
Accounts receivable - trade (Note 15)	348,926	-	-	-
Accounts receivable - other (Note 11)	19,201	-	-	-
Cash and cash equivalents (Note 19)	2,313	-	-	-
TOTAL FINANCIAL ASSETS	**370,440**	**77**	**-**	**60**
LIABILITIES				
Borrowings (Note 22)	-	-	-	-
Derivative financial instruments (Note 18)	-	-	-	4,027
Accounts payable - trade (Note 26)	-	-	-	-
Accounts payable - other (Note 27)	-	-	-	-
Accrued expenses (Note 24)	-	-	-	-
TOTAL FINANCIAL LIABILITIES	**-**	**-**	**-**	**4,027**

	31-12-2016			
	OTHER FINANCIAL LIABILITIES	TOTAL FINANCIAL ASSETS AND LIABILITIES	NON FINANCIAL ASSETS AND LIABILITIES	TOTAL
ASSETS				
Available-for-sale financial assets	-	77	-	77
Derivative financial instruments (Note 18)	-	60	-	60
Accounts receivable - trade (Note 15)	-	348,926	-	348,926
Accounts receivable - other (Note 11)	-	19,201	3,102	22,303
Cash and cash equivalents (Note 19)	-	2,313	-	2,313
TOTAL FINANCIAL ASSETS	**-**	**370,577**	**3,102**	**373,679**
LIABILITIES				
Borrowings (Note 22)	1,196,695	1,196,695	-	1,196,695
Derivative financial instruments (Note 18)	-	4,027	-	4,027
Accounts payable - trade (Note 26)	238,828	238,828	-	238,828
Accounts payable - other (Note 27)	90,132	90,132	152	90,284
Accrued expenses (Note 24)	183,699	183,699	-	183,699
TOTAL FINANCIAL LIABILITIES	**1,709,354**	**1,713,381**	**152**	**1,713,533**

	31-12-2017			
	LOANS AND ACCOUNTS RECEIVABLE	AVAILABLE-FOR-SALE FINANCIAL ASSETS	INVESTMENTS HELD-TO-MATURITY	DERIVATIVES
ASSETS				
Available-for-sale financial assets	-	180	-	-
Derivative financial instruments (Note 18)	-	-	-	19
Accounts receivable - trade (Note 15)	406,904	-	-	-
Accounts receivable - other (Note 11)	12,800	-	-	-
Cash and cash equivalents (Note 19)	2,977	-	-	-
TOTAL FINANCIAL ASSETS	**422,681**	**180**	**-**	**19**
LIABILITIES				
Borrowings (Note 22)	-	-	-	-
Derivative financial instruments (Note 18)	-	-	-	2,495
Accounts payable - trade (Note 26)	-	-	-	-
Accounts payable - other (Note 27)	-	-	-	-
Accrued expenses (Note 24)	-	-	-	-
TOTAL FINANCIAL LIABILITIES	**-**	**-**	**-**	**2,495**

	31-12-2017			
	OTHER FINANCIAL LIABILITIES	TOTAL FINANCIAL ASSETS AND LIABILITIES	NON FINANCIAL ASSETS AND LIABILITIES	TOTAL
ASSETS				
Available-for-sale financial assets	-	180	-	180
Derivative financial instruments (Note 18)	-	19	-	19
Accounts receivable - trade (Note 15)	-	406,904	-	406,904
Accounts receivable - other (Note 11)	-	12,800	3,751	16,551
Cash and cash equivalents (Note 19)	-	2,977	-	2,977
TOTAL FINANCIAL ASSETS	**-**	**422,880**	**3,751**	**426,631**
LIABILITIES				
Borrowings (Note 22)	1,164,794	1,164,794	-	1,164,794
Derivative financial instruments (Note 18)	-	2,495	-	2,495
Accounts payable - trade (Note 26)	224,864	224,864	-	224,864
Accounts payable - other (Note 27)	75,591	75,591	179	75,770
Accrued expenses (Note 24)	222,331	222,331	-	222,331
TOTAL FINANCIAL LIABILITIES	**1,687,580**	**1,690,075**	**179**	**1,690,254**

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

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

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

8. Tangible assets

At 31 December 2016 and 2017, the movements in this item were as follows:

	31-12-2015	INCREASES	DISPOSALS AND WRITE-OFFS	TRANSFERS AND OTHERS	31-12-2016
ACQUISITION COST					
Lands	919	-	-	-	919
Buildings and other constructions	325,185	5,745	(950)	38,253	368,233
Basic equipment	2,466,229	127,527	(52,164)	(3,205)	2,538,387
Transportation equipment	14,655	339	(3,918)	(2,403)	8,673
Tools and dies	1,266	1	-	74	1,341
Administrative equipment	329,029	16,986	(12,341)	(58,105)	275,569
Other tangible assets	42,251	199	(114)	(1,248)	41,088
Tangible assets in-progress	43,271	87,438	-	(98,642)	32,067
	3,222,805	**238,236**	**(69,487)**	**(125,276)**	**3,266,278**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES					
Lands	37	-	-	-	37
Buildings and other constructions	168,657	12,333	(798)	18,161	198,353
Basic equipment	1,534,237	175,982	(50,601)	(45,226)	1,614,392
Transportation equipment	6,174	950	(3,913)	(150)	3,061
Tools and dies	1,225	28	(2)	(1)	1,250
Administrative equipment	304,204	19,061	(12,145)	(60,254)	250,866
Other tangible assets	40,733	512	(113)	(994)	40,138
	2,055,267	**208,867**	**(67,572)**	**(88,465)**	**2,108,097**
	1,167,538	**29,369**	**(1,915)**	**(36,811)**	**1,158,181**

The amount of "Transfers and others" predominantly corresponds to the reclassification into "Non-current assets held for sale" totalling 24.2 million euros (Note 17) and the transfer of assets totalling 10.8 million euros into "Intangible assets".

	31-12-2016	INCREASES	DISPOSALS AND WRITE-OFFS	TRANSFERS AND OTHERS	31-12-2017
ACQUISITION COST					
Land	919	-	-	36	955
Buildings and other constructions	368,233	818	(3,266)	13,114	378,899
Basic equipment	2,538,387	80,636	(107,504)	72,133	2,583,652
Transportation equipment	8,673	1,621	(871)	(1,124)	8,299
Tools and dies	1,341	-	-	6	1,347
Administrative equipment	275,569	14,222	(4,747)	2,063	287,107
Other tangible assets	41,088	297	(20)	563	41,928
Tangible assets in-progress	32,067	138,071	(351)	(107,091)	62,696
	3,266,278	**235,665**	**(116,759)**	**(20,301)**	**3,364,883**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES					
Land	37	-	-	-	37
Buildings and other constructions	198,353	12,002	(3,134)	795	208,016
Basic equipment	1,614,392	212,636	(107,061)	(11,342)	1,708,625
Transportation equipment	3,061	1,715	(868)	6	3,914
Tools and dies	1,250	32	-	-	1,282
Administrative equipment	250,866	16,789	(4,583)	1,625	264,697
Other tangible assets	40,138	5	(19)	979	41,103
	2,108,097	**243,179**	**(115,665)**	**(7,937)**	**2,227,674**
	1,158,181	**(7,514)**	**(1,094)**	**(12,364)**	**1,137,209**

At 31 December 2017, the tangible assets net value is composed mainly by basic equipment, namely:

i) Network and telecommunications infrastructure (fibre optic network and cabling, network equipment, and other equipment) in the amount of 748.9 million euros (31 December 2016: 785.8 million euros);

ii) Terminal equipment installed on client premises, included under Basic equipment, amounts to 126.1 million euros (31 December 2016: 138.2 million euros).

The acquisition cost of the "Tangible assets" and "Intangible assets" held by the Group under finance lease contracts at 31 December 2016 and 2017, amounted to 231.2 million euros and 188.93 million euros, and their net book value as of those dates amounted to 112.9 million euros and 88.0 million euros, respectively.

The net amount of "Transfers and Others" predominantly corresponds to the transfer of assets into "Intangible assets" (Note 9).

Tangible and intangible assets include interests and other financial expenses incurred directly related to the construction of certain tangible or intangible assets in progress. At 31 December 2017, total net value of these costs amounted to 14.5 million euros (31 December 2016: 15.2 million euros). The amount of interest capitalised in the financial year ended on 31 December 2017 amounted to 1.0 million euros (31 December 2016: 1.1 million euros).

At 31 December 2016 and 2017, the value of commitments to third parties relating to investments to make was as follows:

	31-12-2016	31-12-2017
Network investments	3,988	63,463
Information systems investments	3,023	3,307
	7,011	**66,770**

During the financial year ended on 31 December 2017, NOS carried out the impairment analysis (see assumptions in Note 9, except for the evaluation period used, which was 3 years) of fixed assets related to cinema exhibition. Given the range of influence of each complex, the cinemas were grouped as cash-generating units on a regional basis for impairment testing purposes. Regional cash-generating units are Lisbon, Porto, Coimbra, Aveiro, Viseu and cinemas scattered throughout the other regions of the country are considered individual cash generating units.

In these impairment tests, a discount rate (before tax) of 7.4% and a perpetual growth rate of 1.4% were considered. There were no material impairment adjustments resulting from this analysis.

Sensitivity analyses of the variations of the discount rates and growth rates of revenue were carried out and from approximately 10% of them there was no results of any impairments.

Sensitivity analyses for a perpetual growth rate of 0% were also carried out and neither there were results of impairments.

9. Intangible assets

At 31 December 2016 and 2017, the movements in this item were as follows:

	31-12-2015	INCREASES	DISPOSALS AND WRITE-OFFS	TRANSFERS AND OTHERS	31-12-2016
ACQUISITION COST					
Industrial property and other rights	1,489,997	81,118	(34,503)	160,423	1,697,035
Goodwill	641,599	-	-	-	641,599
Intangible assets in-progress	30,589	73,309	-	(70,524)	33,374
	2,162,185	**154,427**	**(34,503)**	**89,899**	**2,372,008**
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES					
Industrial property and other rights	979,470	182,654	(34,466)	80,792	1,208,450
Other intangible assets	4,156	-	-	623	4,779
	983,626	**182,654**	**(34,466)**	**81,415**	**1,213,229**
	1,178,559	**(28,227)**	**(37)**	**8,484**	**1,158,779**

The amount of “Transfers and Others” corresponds, mainly, to the transfer of assets for an amount of 10.8 million euros, from “Tangible assets".

	31-12-2016	INCREASES	DISPOSALS AND WRITE-OFFS	TRANSFERS AND OTHERS	31-12-2017
ACQUISITION COST					
Industrial property and other rights	1,697,035	75,497	(247)	77,534	1,849,819
Goodwill	641,599	-	-	(199)	641,400
Intangible assets in-progress	33,374	70,432	-	(62,018)	41,788
	2,372,008	**145,929**	**(247)**	**15,317**	**2,533,007**
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES					
Industrial property and other rights	1,208,450	179,029	(201)	59	1,387,337
Intangible assets in-progress	4,779	-	-	(213)	4,566
	1,213,229	**179,029**	**(201)**	**(154)**	**1,391,903**
	1,158,779	**(33,100)**	**(46)**	**15,471**	**1,141,104**

At 31 December 2017, the item "Industrial property and other rights" includes mainly:

(1) A net amount of 126.9 million euros (31 December 2016: 135.2 million euros) mainly related to the investment, net of amortisation, made in the development of the UMTS network by NOS SA, including: (i) 40.2 million euros (31 December 2016: 42.8 million euros) related to the license, (ii) 13.4 million euros (31 December 2016: 14.3 million euros) related to the agreement signed in 2002 between Oni Way and the other three mobile telecommunication operators with activity in Portugal, (iii) 4.1 million euros (31 December 2016: 4.4 million euros) related to the Share Capital of “Fundação para as Comunicações Móveis’’, established in 2007, under an agreement entered with “Ministério das Obras Públicas, Transportes e Comunicações” and the three mobile telecommunication operators in Portugal; (iv) 58.8 million euros (31 December 2016: 62.6 million euros) related with the programme “Initiatives E”; and (v) the net amount of 7.0 million euros (31 December 2016: 7.4 million euros) corresponding to the valuation of the license in the fair value allocation process resulting from the merger;

(2) A net amount of 90.2 million euros (31 December 2016: 94.0 million euros) corresponding to the current value of future payments related with the acquisition of rights of use for frequencies (spectrum) bands of 800 MHz, 1800 MHz, 2600 MHz, which will be used to develop 4th generation services (LTE - Long Term Evolution) and a net amount of 3.1 million euros (31 December 2016: 3.3 million euros) corresponding to the valuation of the license in the fair value allocation process resulting from the merger;

(3) A net amount of 48.08 million euros (31 December 2016: 51.0 million euros) relating to the contract for the exclusive acquisition of satellite capacity celebrated between NOS SA and Hispasat, which is recorded as a finance lease;

(4) Net amounts of 53.5 million euros (31 December 2016: 56.9 million euros) corresponding to customer acquisition costs.

(5) Net amounts of 19.7 million euros (31 December 2016: 20.9 million euros) corresponding to the future rights to use movies and series;

(6) A net amount of approximately 6.6 million euros (31 December 2016: 16.4 million euros) corresponding to the valuation of Optimus customer portfolio under the fair value allocation process resulting from the merger.

Increases in the financial year ended on 31 December 2017 correspond mainly to customer acquisition costs, in the amount of 57.2 million euros (December 2016: 67 million euros), movies and series usage rights, for an amount of 30.5 million euros (31 December 2016: 33 million euros) and software acquisition and development, for an amount of 29.6 million euros (31 December 2016: 28 million euros).

The net amount of "Transfer and others" corresponds, mainly, to the transfer of assets, from "Tangible assets" (Note 8).

Impairment tests on goodwill

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

	31-12-2016	31-12-2017
Telco	564,998	564,799
Audiovisuals	76,601	76,601
	641,599	**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.

10. Investments in jointly controlled companies and associated companies

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

	31-12-2016	31-12-2017
INVESTMENTS - EQUITY METHOD		
Sport TV	2,219	4,693
Dreamia	3,770	3,658
Finstar	1,632	28,389
Mstar	(825)	(425)
Upstar	139	279
Canal 20 TV, S.A.	13	12
East Star	36	-
Big Picture 2 Films	80	100
	7,063	**36,706**
ASSETS	**7,888**	**37,130**
LIABILITIES (NOTE 23)	**(825)**	**(425)**

Movements in "Financial investments in group companies" in the financial years ended on 31 December 2016 and 2017 were as follows:

	12M 16	12M 17
AS AT JANUARY 1	**29,922**	**7,063**
Gains / (losses) of exercise (Note 34)	(6,550)	22,070
Gains with the entrance of new shareholders (Note 34) i)	583	1,237
Dividends received (Dreamia)	-	(490)
Capital increase for covering of losses	25,347	-
Return of supplementary ii)	(41,547)	-
Supplementary capital	175	-
Changes in equity iii)	(867)	6,825
Others	-	1
AS AT DECEMBER 31	**7,063**	**36,706**

i) Gains generated by the entrance of new shareholder MEO in the share capital of Sport TV (Note 5).

ii) During the first quarter of 2016, Sport TV returned supplementary payments for an amount of 41.5 million euros through the delivery of cash for an amount of 25.3 million euros and the assignment of credits for an amount of 16.2 million euros.

iii) Amounts related to changes in equity of the companies registered by the equity method of consolidation are mainly related to foreign exchange impacts of the investment in currencies other than euro and impact of Angola's consideration as a hyperinflationary economy (Note 34).

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

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

* The equity is adjusted, against liabilities, totalling 5.1 million euros resulting from supplementary payments rendered by one of the shareholders which are above the held percentage.

2017							
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 others of the shareholders which are above the held percentage.

** Company dissolved on December 27, 2017.

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

11. Accounts receivable – other

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

	31-12-2016		31-12-2017	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Accounts receivables	13,560	7,317	7,284	7,013
Advances of suppliers	3,102	-	3,752	-
	16,662	**7,317**	**11,038**	**7,013**
Impairment of other receivable	(848)	(828)	(672)	(828)
	15,814	**6,489**	**10,366**	**6,185**

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

	12M 16	12M 17
AS AT JANUARY 1	**2,115**	**1,676**
Increases (Note 33)	136	35
Utilizations / Others	(575)	(211)
AS AT DECEMBER 31	**1,676**	**1,500**

12. Taxes payable and receivable

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

	31-12-2016		31-12-2017	
	RECEIVABLE	PAYABLE	RECEIVABLE	PAYABLE
NON CURRENT				
Value-added tax (Note 41.2)	3,617	-	149	-
Income taxes (i)	-	1,298	-	-
	3,617	**1,298**	**149**	**-**
CURRENT				
Value-added tax	974	18,633	943	13,739
Income taxes (i)	1,457	1,298	13,583	1,293
Personnel income tax witholdings	-	1,980	-	2,140
Social Security contributions	-	1,895	-	1,878
Others	430	151	419	172
	2,861	**23,957**	**14,945**	**19,222**
	6,478	**25,255**	**15,094**	**19,222**

(i) At 31 December 2016, the credit amounts correspond to the amount to be paid in 2017 and 2018, for an amount of 2.6 million euros, following the Group's adhesion to the optional regime of revaluation of fixed tangible assets and investment property, in year 2016.

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

	31-12-2016	31-12-2017
Estimated current tax on income	(20,113)	(12,504)
Payments on account	15,070	19,680
Withholding income taxes	4,565	4,383
Others	(661)	731
	(1,139)	**12,290**

13. Income tax expense

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

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

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

NOS is taxed in accordance with the Special 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 2017 are:

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

Under current legislation, tax declarations are subject to review and correction by tax authorities for a period of four years, except 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 31 December 2017.

A) Deferred tax

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

The movements in deferred tax assets and liabilities for the financial year ended on 31 December 2016 and 2017 were as follows:

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

	31-12-2016	DEFERRED TAXES OF THE PERIOD		31-12-2017
		INCOME (NOTE B)	EQUITY (NOTE 18)	
DEFERRED INCOME TAX ASSETS				
Doubtful accounts receivable	7,380	(2,399)	-	4,981
Inventories	2,482	(142)	-	2,340
Other provision and adjustments	75.704	(12,366)	-	63,338
Intragroup gains	23,034	(2,108)	-	20,926
Liabilities recorded as part of the allocation of fair value to the liabilities acquired in the merger	7,801	(405)	-	7,396
Derivatives	901	50	(394)	557
	117,302	**(17,370)**	**(394)**	**99,538**
DEFERRED INCOME TAX LIABILITIES				
Revaluations of assets as part of the allocation of fair value to the assets acquired in the merger	7,879	(3,028)	-	4,851
Derivatives	10	(10)	-	-
Others	2,317	(28)	-	2,289
	10,206	**(3,066)**	**-**	**7,140**
NET DEFERRED TAX	**107,096**	**(14,304)**	**(394)**	**92,398**

At 31 December 2017, 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 50.3 million euros (2016: 59.3 million euros); and ii) Other provisions amounted to 13 million euros (2016: 16.4 million euros).

At 31 December 2017, the deferred tax liability related to the revaluation of assets relates mainly to the appreciation of customers' portfolio, telecommunications licenses, and other assets of Optimus Group companies.

At 31 December 2017, deferred tax assets were not recognised for an amount of 3.8 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 31 December 2017, the tax rate used to calculate the deferred tax assets relating to tax losses carried forward was 21% (2016: 21%). In the case of temporary differences, the rate used was 22.5% (2016: 22.5%) increased to a maximum of 5.13% (2016: 5.46%) of state surcharge when the taxation of temporary differences in the estimated period of application of the state surcharge was perceived as likely. Tax benefits, related to deductions from taxable income, are considered 100%, and in some cases, their full acceptance is conditional upon the approval of the authorities that grants such tax benefits.

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

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 financial years ended on 31 December 2016 and 2017, the reconciliation between the nominal and effective rates of tax was as follows:

	4th QUARTER 16	12M 16	4th QUARTER 17	12M 17
Income before taxes	11,489	112,223	15,584	141,701
Statutory tax rate	22.5%	22.5%	22.5%	22.5%
ESTIMATED TAX	**2,585**	**25,250**	**3,507**	**31,883**
Permanent differences i)	(1,931)	114	(4,168)	(7,733)
Differences in tax rate of group companies	159	(1,904)	484	(2,709)
Income tax related to previous years	420	(4,278)	(25)	(855)
Tax benefits ii)	1,907	181	(1,447)	(6,545)
State surcharge	(277)	5,182	(1,903)	3,403
Autonomous taxation	4,133	4,712	213	810
Revaluation of assets iii)	(6,696)	(6,696)	-	-
Provisions (Note 23)	(416)	(307)	336	(845)
Others	(157)	(28)	118	71
INCOME TAXES	**(273)**	**22,226**	**(2,885)**	**17,480**
Effective Income tax rate	-2.4%	19.8%	-18.5%	12.3%
Income tax	7,689	20,387	(16,475)	3,176
Deferred tax	(7,962)	1,839	13,590	14,304
	(273)	**22,226**	**(2,885)**	**17,480**

i) At 31 December 2016 and 2017, the permanent differences were composed as follows:

	4th QUARTER 16	12M 16	4th QUARTER 17	12M 17
Equity method (Note 34)	(2,297)	5,948	(7,950)	(22,933)
Others	(6,283)	(5,440)	(10,574)	(11,437)
	(8,580)	**508**	**(18,524)**	**(34,370)**
	22.5%	22.5%	22.5%	22.5%
	(1,931)	**114**	**(4,168)**	**(7,733)**

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

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

14. Inventories

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

	31-12-2016	31-12-2017
INVENTORIES		
Telco	45,075	39,261
Audiovisuals	15,491	1,744
	60,566	**41,005**
IMPAIRMENT OF INVENTORIES		
Telco	(8,388)	(8,044)
Audiovisuals	(1,135)	(917)
	(9,523)	**(8,961)**
	51,043	**32,044**

The decrease in "Inventories – Audiovisuals" is justified, mainly, by the broadcasting rights acquired under the new contracts of sports content (Note 27 and 38.3).

The movements occurred in impairment adjustments were as follows:

	12M 16	12M 17
AS AT JANUARY 1	**9,640**	**9,523**
Increase and decrease - Cost of products sold (Note 31)	1,617	102
Utilizations / Others	(1,734)	(664)
AS AT DECEMBER 31	**9,523**	**8,961**

15. Accounts receivable – trade

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

	31-12-2016	31-12-2017
Trade receivables	285,212	351,400
Doubtful accounts for trade receivables	157,753	139,484
Unbilled revenues i)	63,714	55,504
	506,679	**546,388**
Impairment of trade receivable	(157,753)	(139,484)
	348,926	**406,904**

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

Accounts receivable by age are presented on Note 4.1.

The movements occurred in impairment adjustments were as follows:

	12M 16	12M 17
AS AT JANUARY 1	**194,497**	**157,753**
Increases and decreases (Note 33)	11,682	7,309
Penalties - i)	8,255	9,076
Utilizations / Others	(56,681)	(34,654)
AS AT DECEMBER 31	**157,753**	**139,484**

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

16. Prepaid Expenses

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

	31-12-2016	31-12-2017
Discounts i)	28,957	31,129
Programming costs	16,974	13,884
Costs of litigation procedure activity	22,775	18,875
Rentals	3,754	3,141
Insurance	1,249	-
Advertising	633	1,213
Others	10,049	9,242
	84,391	**77,657**

i) Discounts correspond mainly to discounts to new customers under loyalty programs. These discounts are allocated to the whole loyalty period of the contract, being recognised at the moment that the goods or services are made available to the customer.

17. Non-current assets held-for-sale

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

On 31 January 2017, the purchase and sale agreement was signed. The sales price that was agreed and received reached 24.2 million euros and did not originate capital gains/losses.

18. Derivative financial instruments

Exchange rate derivatives

At the date of the statement of the financial position there were foreign currency forwards open for 3,141 thousand euros (2016: 1,032 thousand euros), the fair value amounts to a gain of about 33 thousand euros (2016: loss of about 37 thousand euros).

Interest rate derivatives

At 31 December 2017, NOS had contracted two interest rate swaps totalling 250 million euros (2016: 375 thousand euros) whose maturities expire in 2019. The fair value of interest rate swaps, in the negative amount of 2.5 million euros (2016: negative amount of 4.0 million euros), was recorded in liabilities, against shareholder's equity.

Own shares derivatives

At 31 December 2017, NOS had contracted five own shares derivatives, in the amount of 2,318 thousand euros (31 December 2016: 2,041 thousand euros) maturing in March 2018, 2019 and 2020, in order to cover the delivery of share plans liquidated in cash.

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

	31-12-2017				
	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**

Movements during the financial years ended on 31 December 2016 and 2017 were as follows:

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

	31-12-2016	RESULT	EQUITY	31-12-2017
Fair value interest rate swaps	(4,027)	-	1,574	(2,453)
Fair value exchange rate forward	37	(70)	-	(33)
Fair value equity swaps	23	(190)	177	10
DERIVATIVES	**(3,967)**	**(260)**	**1,751**	**(2,476)**
Deferred income tax liabilities	(10)	10	-	-
Deferred income tax assets	901	50	(394)	557
DEFERRED INCOME TAX	**890**	**60**	**(394)**	**557**
	(3,077)	**(200)**	**1,357**	**(1,919)**

19. Cash and cash equivalents

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

	31-12-2016	31-12-2017
Cash	1,572	2,002
Deposits	240	396
Other deposits i)	501	579
	2,313	**2,977**

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

20. Shareholder's equity

20.1. Share capital

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

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

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

(1) In accordance with subparagraphs 1.b) and 1.c) of Article 20 and Article 21 of the Portuguese Securities Code, a qualified shareholding of 52.15% of the share capital and voting rights of company, calculated in accordance with Article 20 of the Securities Code, is attributable to ZOPT SGPS S.A., Sonaecom SGPS S.A. and the following entities:

a. Kento Holding Limited and Unitel International Holdings B.V., as well as Isabel dos Santos, being (i) Kento Holding Limited and Unitel International Holdings, B.V., companies directly and indirectly controlled by Isabel dos Santos, and (ii) ZOPT SGPS S.A., a jointly controlled company by its shareholders Kento Holding Limited, Unitel International Holdings B.V. and Sonaecom SGPS S.A., under the shareholder agreement signed between them;

b. Entities in a control relationship with Sonaecom, 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.

(2) Under the terms of paragraph 1 of Article 20 of the Portuguese Securities Code, the voting rights corresponding to 2.77% of NOS share capital, held by Banco BPI Pension Fund and BPI Vida - Companhia de Seguros de Vida, S.A are attributable to Banco BPI.

20.2. Capital issued premium

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

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

Additionally, the premium for issue of shares was deducted 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.

20.3. Own shares

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

At 31 December 2017 there were 2,040,234 own shares, representing 0.390% of the share capital (31 December 2016: 3,017,603 own shares, representing 0.5858% of the share capital).

Movements in the financial years ended on 31 December 2016 and 2017 were as follows:

	QUANTITY	VALUE
BALANCE AS AT 1 JANUARY 2016	**1,666,482**	**10,559**
Acquisition of own shares	3,312,503	20,676
Distribution of own shares - share incentive scheme	(1,531,842)	(9,743)
Distribution of own shares - other remunerations	(429,540)	(2,736)
BALANCE AS AT 31 DECEMBER 2016	**3,017,603**	**18,756**
BALANCE AS AT 1 JANUARY 2017	**3,017,603**	**18,756**
Distribution of own shares - share incentive scheme	(931,471)	(5,790)
Distribution of own shares - other remunerations	(45,898)	(285)
BALANCE AS AT 31 DECEMBER 2017	**2,040,234**	**12,681**

20.4. 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 31 December 2017, NOS had reserves, which by their nature are considered distributable for an amount of approximately 58.2 million euros, not including the net income.

Dividends

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

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

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

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

21. Non-controlling interests

The movements of the non-controlling interests occurred during the financial years ended on 31 December 2016 and 2017 and the results attributable to non-controlling interests for the year are as follows:

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

	31-12-2016	ATTRIBUTABLE PROFITS	OTHERS	31-12-2017
NOS Madeira	6,450	348	(35)	6,763
NOS Açores	2,533	(220)	(9)	2,304
Lusomundo SII	23	-	(23)	-
Empracine	-	-	-	-
Lusomundo Imobiliária 2	35	-	(35)	-
	9,041	**128**	**(102)**	**9,067**

22. Borrowings

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

	31-12-2016		31-12-2017	
	CURRENT	NON-CURRENT	CURRENT	NON-CURRENT
LOANS - NOMINAL VALUE	**196,216**	**876,667**	**182,987**	**873,333**
Debenture loan	-	585,000	-	585,000
Commercial paper	150,000	200,000	122,901	215,000
Foreign loans	30,027	91,667	18,333	73,333
Bank overdrafts	16,189	-	41,753	-
LOANS - ACCRUALS AND DEFERRALS	**204**	**(4,890)**	**582**	**(2,992)**
LOANS - AMORTISED COST	**196,420**	**871,777**	**183,569**	**870,341**
FINANCIAL LEASES	**28,272**	**100,226**	**26,567**	**84,317**
Long Term Contracts	10,785	71,287	12,858	63,475
Other	17,487	28,939	13,709	20,842
	224,692	**972,003**	**210,136**	**954,658**

During the financial year ended on 31 December 2017, the average cost of debt of the used lines was approximately 2.0% (2016: 2.16%).

22.1. Debenture loans

At 31 December 2016 and 2017, NOS has the following bonds issued, totalling 585 million euros, with maturity after one year:

i) A bond loan in the amount 100 million euros organised by BPI bank in May 2014 and maturing in November 2019. The loan bears interest at variable rates, indexed to Euribor and paid semi-annually.

ii) A bond loan organised by four financial institutions in September 2014, amounting to 175 million euros and maturing in September 2020. The loan bears interest at variable rates, indexed to Euribor and paid 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.

iii) 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, pays interest quarterly at a fixed rate. The issue made in July 2015, bears interest at a variable rate indexed to Euribor and paid semi-annually.

iv) A bond issue 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.

At 31 December 2017, an amount of 469 thousand euros, corresponding to interest and commissions, was deducted from this amount and recorded in the item "Loans - accruals and deferrals".

22.2. Commercial paper

At 31 December 2017, the Company has borrowings of 337.9 million euros in the form of commercial paper, of which 12.9 million euros issued without underwriting securities. The total amount contracted, under underwriting securities, is of 570 million euros, corresponding to 11 programmes, with five banks, which bear interest at market rates. Commercial paper programmes with maturities over 1 year totalling 215 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 31 December 2017 an amount of 264 thousand euros, corresponding to interest and commissions, was deducted to this amount, and recorded in the item "Loans - accruals and deferrals".

22.3. Foreign loans

At 31 December 2016, the escrow account signed with Caixa Geral de Depósitos bears interest at a variable rate indexed to Euribor and paid monthly amounted to 10 million euros. This credit line was terminated during the second quarter of 2017.

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 18,300 thousand 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 31 December 2017, an amount of 1,678 thousand euros was deducted from this amount, corresponding to the benefit associated with the fact that the loan is at a subsidised rate.

22.4. Financial leases

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

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

	31-12-2016	31-12-2017
Until 1 year	33,779	31,255
Between 1 and 5 years	85,895	66,436
Over 5 years	30,615	30,208
	150,289	**127,899**
Future financial costs (lease)	(21,791)	(17,015)
PRESENT VALUE OF FINANCE LEASE LIABILITIES	**128,498**	**110,884**

Financial leases – present value

	31-12-2016	31-12-2017
Until 1 year	28,272	26,567
Between 1 and 5 years	72,081	56,525
Over 5 years	28,145	27,793
	128,498	**110,884**

All bank borrowings contracted (with the exception of EIB loan of 91.7 million euros, bond loan in the amount 50 million euros and finance leases) are negotiated at variable short-term interest rates and their book value is therefore broadly similar to their fair value.

The maturities of the loans obtained are as follows:

	31-12-2016			31-12-2017		
	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS
Debenture loan	1,544	372,339	209,872	1,431	523,130	59,970
Commercial paper	149,290	200,000	-	122,637	177,500	37,500
Foreign loans	29,397	71,317	18,249	17,748	72,241	-
Bank overdrafts	16,189	-	-	41,753	-	-
Financial leases	28,272	72,081	28,145	26,567	56,525	27,793
	224,692	**715,737**	**256,266**	**210,136**	**829,396**	**125,263**

23. Provisions and adjustments

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

	31-12-2016	31-12-2017
Litigation and other - i)	57,697	52,261
Financial investments - ii)	825	425
Dismantling and removal of assets - iii)	29,694	31,651
Contingent liabilities - iv)	33,486	32,490
Contingencies - other - v)	24,585	16,435
	146,287	**133,262**

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. Infraction proceedings relating to the alleged non-compliance by NOS SA of an ANACOM deliberation dated 26 October 2005, concerning charges termination of calls on fixed networks that led NOS SA to the imposition of a fine amounting to approximately 6.5 million euros, that in accordance with the deliberation of the Board of Directors of ANANCOM in April 2012. NOS SA has appealed for the judicial review of the decision and the court has declared in January 2014 the proceedings' nullity (based on violation of the right of defence of NOS, SA). Posteriorly, in April 2014, ANACOM has notified NOS SA of new infraction proceedings, based on the same accusations. These proceedings are a repetition of the initial accusation that was made against NOS SA, which culminated in the application of a new fine for NOS SA for another same amount of approximately 6.5 million euros. This second decision was, in turn, was contested in court by NOS SA, and the Court of 1st Instance delivered an acquittal judgement which revoked the applied fine. As a result, in May 2015, ANACOM has appealed against the judgement and this appeal was judged as totally unfounded, by summary decision, in May 2017, by the Court of Appeal of Lisbon, therefore confirming the full acquittal of NOS SA. Neither ANACOM, nor the Public Prosecutor's Office appealed against the decision and these proceedings has become final at the end of May 2017. During the year of 2017, the total provision that was established was reversed totalling 6.5 million euros;

c. 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 10);

iii) The amount under the item "Dismantling and removal of assets "refers to the estimated future costs discounted to the present value, related with the termination of the use of the space where there are telecommunication towers and cinemas;

iv) The amount in the item "Contingent liabilities" refers to several provisions recorded for present but not likely obligations, related to the merger by incorporation of Optimus SGPS, namely:

a. Extraordinary contribution toward the fund for the compensation of the net costs of the universal service of electronic communications (CLSU): The Extraordinary contribution toward the fund for the compensation of the net costs of the universal service of electronic communications (CLSU) is legislated in Articles 17 to 22 of Law 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 being 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.

- At October 2016, ANACOM approved the results of the audit to the CLSU presented by MEO related with the period between January and June 2014, for an amount of 7.7 million euros that was contested by NOS, in standard terms, in January 2017. In December 2017, NOS, SA, NOS Madeira and NOS Açores were notified of the draft decision of ANACOM relating to the entities that are obliged to contribute for the compensation fund and the setting of contributions values corresponding to CLSU that have to be compensated and relating to 2014, which provide for all these companies a contribution totalling 2.4 million euros.

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

b. Other tax proceedings: which the Board of Directors is convinced that there are strong arguments to obtain a 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 financial year ended on 31 December 2016, movements in provisions were as follows:

	31-12-2015	INCREASES	DECREASES	OTHERS	31-12-2016
Litigation and other	61,042	6,533	(7,901)	(1,977)	57,697
Financial investments	-	825	-	-	825
Dismantling and removal of assets	24,204	362	(186)	5,314	29,694
Contingent liabilities	34,673	-	(3,164)	1,977	33,486
Contingencies - other	19,565	2,926	(11)	2,105	24,585
	139,484	**10,646**	**(11,262)**	**7,419**	**146,287**

During the financial year ended on 31 December 2016, increases of provisions mainly refer to the update of the value of contingencies and respective interest claims, for which there was already a provision. The decreases in provisions correspond to the reduction of contingencies through closed processes and revaluation of the amounts of current contingencies.

The movement recorded in "Other" in the amount of 5.3 million under the heading "Dismantling and removal of assets", was recorded by counterpart of "Tangible assets" and results mainly from the increase in provisions for dismantling of assets result of the change of the rate used in the update for the present value of the liability.

Additionally, the movements recorded in “Other” in the amount of 2.1 million euros are related mainly to the use of provisions created for compensation to employees in the amount of 1.6 million euros and the reclassification of cost estimates which cannot be estimated with high reliability by the time of implementation of the expenditure in the amount of 3.7 million euros.

During the financial year ended on 31 December 2017, movements in provisions were as follows:

	31-12-2016	INCREASES	DECREASES	OTHERS	31-12-2017
Litigation and other	57,697	10,741	(12,710)	(3,468)	52,260
Financial investments	825	-	(400)	-	425
Dismantling and removal of assets	29,694	981	(662)	1,639	31,651
Contingent liabilities	33,486	-	(996)	-	32,490
Contingencies - other	24,585	2,113	(1,182)	(9,080)	16,436
	146,287	**13,835**	**(15,950)**	**(10,909)**	**133,262**

During the financial year ended on 31 December 2017, the reinforcements predominantly concern increases of provisions for proceedings plus corresponding interest and charges which predominantly resulting from the unfavourable decision of a proceeding which refers to the year 2007. Nevertheless, the company lodged the corresponding appeal of the decision rendered.

During the financial year ended on 31 December 2017, the reductions predominantly concern the reversal of provisions for legal proceedings resulting from favourable decisions and agreements achieved, namely the above mentioned infraction proceeding lodged by ANACOM amounting to 6.7 million euros.

The movement recorded under "Others" amounting to 3.5 million euros in the item "On going court proceedings and others" was recorded against the asset (Note 12). Additionally, the movements recorded under "Others", amounting to 8.4 million euros, are predominantly related to the use of provisions created for employee's compensations, amounting to 2.4 million euros, and the reversal of the reclassification of cost estimates for which it was not possible to estimate reliably the expenditure achievement amounting to 6.3 million of euros, already settled.

The net movements for the financial years ended on 31 December 2016 and 2017 reflected in the income statement under "Provisions and adjustments" were as follows:

	12M 16	12M 17
Provisions and adjustments (Note 33)	(3,876)	(1,751)
Financial investments (Note 10)	825	(400)
Other losses / (gains) non-recurrent	2,432	2,057
Interests - dismantling	176	318
Other interests (Note 36)	134	(1,494)
Income tax (Note 13)	(307)	(845)
INCREASES AND DECREASES IN PROVISIONS	**(616)**	**(2,116)**

24. Accrued expenses

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

	31-12-2016	31-12-2017
NON-CURRENT		
Contractual obligations i)	8,776	8,139
Others	409	628
	9,185	**8,767**
CURRENT		
Invoices to be issued by operators ii)	43,630	64,136
Vacation pay and bonuses	25,006	26,504
Advertising	17,272	17,298
Content and film rights	15,841	16,892
Professional services	13,066	14,628
Programming services	12,670	7,946
Investments in tangible and intangible assets iii)	11,806	37,532
Costs of litigation procedure activity	8,380	5,078
Comissions	5,835	5,122
Energy and water	3,696	3,474
Rentals	2,007	1,570
Maintenance and repair	1,621	2,304
Other accrued expenses	13,684	11,081
	174,514	**213,564**

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) This variation can be explained by the strong investment at the end of 2017 related to the modernisation of the mobile network.

25. Deferred income

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

	31-12-2016		31-12-2017	
	CURRENT	NON-CURRENT	CURRENT	NON-CURRENT
Advanced billing i)	29,491	-	26,415	-
Investment subsidy ii)	632	4,138	632	3,773
	30,123	**4,138**	**27,047**	**3,773**

i) This item relates mainly to the billing of Pay TV services regarding the following month to the report period and amounts received from NOS Comunicações' customers, related with the recharges of mobile phones and purchase of telecommunications minutes as of yet unused.

ii) Deferred income related to the implicit subsidy when the EIB loans were obtained at interest rates below market value (Note 22).

26. Accounts payable - trade

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

	31-12-2016	31-12-2017
Suppliers current account	232,305	222,840
Invoices in reception and conference	6,523	2,024
	238,828	**224,864**

27. Accounts payable - other

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

	31-12-2016	31-12-2017
NON-CURRENT		
Assignment of receivables without resources i)	21,551	17,615
	21,551	**17,615**
CURRENT		
Fixed assets suppliers	34,772	40,753
Assignment of receivables without resources i)	18,624	15,493
Football games broadcasting rights (Note 14)	13,500	-
Advances from customers	152	179
Others	1,685	1,730
	68,733	**58,155**
	90,284	**75,770**

i) In the financial year ended on 31 December 2017, 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 and on December 31, the balance amounts to 35.2 million euros This does not imply any change in the accounting treatment of the receivables or in the relationship with their customers.

28. Operating revenues

Consolidated operating revenues, for the financial years ended on 31 December 2016 and 2017, are distributed as follows:

	4th QUARTER 16	12M 16	4th QUARTER 17	12M 17
SERVICES RENDERED:				
Telco i)	344,839	1,350,527	359,402	1,403,621
Audiovisuals and cinema exhibition ii)	19,639	74,636	18,099	76,481
	364,478	**1,425,163**	**377,501**	**1,480,102**
SALES:				
Telco iii)	16,303	53,682	14,379	51,008
Audiovisuals and cinema exhibition iv)	5,071	17,927	4,393	17,825
	21,374	**71,609**	**18,771**	**68,833**
OTHER OPERATING REVENUES:				
Telco	4,434	16,785	2,752	11,957
Audiovisuals and cinema exhibition	589	1,412	290	890
	5,023	**18,197**	**3,042**	**12,847**
	390,875	**1,514,969**	**399,316**	**1,561,783**

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.

29. Wages and salaries

In the financial years ended on 31 December 2016 and 2017, this item was composed as follows:

	4th QUARTER 16	12M 16	4th QUARTER 17	12M 17
Remuneration	16,353	69,424	15,227	65,497
Social taxes	4,254	17,211	4,187	16,817
Social benefits	843	1,804	490	1,961
Other	2,924	4,653	3,210	4,926
	24,374	**93,092**	**23,114**	**89,201**

In the financial years ended on 31 December 2016 and 2017, the average number of employees of the companies included in the consolidation was 2,517 and 2,502, respectively. At the financial year ended on 31 December 2017, the number of employees of the companies included in the consolidation was 2,538 employees.

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

30. Direct costs

In the financial years ended on 31 December 2016 and 2017, this item was composed as follows:

	4th QUARTER 16	12M 16	4th QUARTER 17	12M 17
Exhibition costs	52,973	187,841	51,716	206,045
Traffic costs	51,337	198,693	63,761	218,152
Capacity costs	12,801	49,753	12,077	46,967
Shared advertising revenues	4,969	15,440	4,907	16,035
Others	793	6,047	1,251	5,502
	122,873	**457,774**	**133,712**	**492,701**

The increase in Exhibition costs is justified, mainly, by the new contracts of sports content (Note 38.3) and the revision of Sport TV's distribution rights model, with impact from the second half of 2016.

31. Cost of products sold

In the financial years ended on 31 December 2016 and 2017, this item was composed as follows:

	4th QUARTER 16	12M 16	4th QUARTER 17	12M 17
Costs of products sold	15,410	55,266	14,532	51,009
Increases / (decreases) in inventories impairments (Note 14)	402	1,617	355	102
	15,812	**56,883**	**14,887**	**51,111**

32. Support services and supplies and external services

In the financial years ended on 31 December 2016 and 2017, this item was composed as follows:

	4th QUARTER 16	12M 16	4th QUARTER 17	12M 17
SUPPORT SERVICES:				
Call centers and customer support	8,394	33,849	8,014	31,826
Information systems	5,844	19,690	6,387	19,208
Administrative support and others	9,600	37,906	10,163	41,886
	23,838	**91,445**	**24,564**	**92,920**
SUPPLIES AND EXTERNAL SERVICES:				
Maintenance and repair	11,088	44,419	11,191	45,473
Rentals	11,727	44,682	10,987	43,583
Electricity	5,642	21,816	5,602	22,050
Commissions	2,456	11,472	1,654	9,114
Professional services	3,591	12,944	3,456	13,053
Communications	1,897	7,931	2,031	7,694
Installation and removal of terminal equipment	2,679	9,361	3,995	13,077
Other supplies and external services	6,205	31,791	6,098	26,066
	45,285	**184,416**	**45,014**	**180,110**

33. Provisions and adjustments

In the financial years ended on 31 December 2016 and 2017, this item was composed as follows:

	4th QUARTER 16	12M 16	4th QUARTER 17	12M 17
Provisions (Note 23)	555	(3,876)	1,440	(1,751)
Impairment of account receivables - trade (Note 15)	11,967	11,682	5,557	7,309
Impairment of account receivables - others (Note 11)	126	136	42	35
Others	92	116	23	34
	12,740	**8,058**	**7,062**	**5,627**

34. Losses / (gains) of affiliated companies

In the financial years ended on 31 December 2016 and 2017, this item was composed as follows:

	4th QUARTER 16	12M 16	4th QUARTER 17	12M 17
EQUITY METHOD (NOTE 10)				
Sport TV	(1,396)	3,197	362	(2,474)
Dreamia	35	(657)	252	(378)
Finstar	(939)	2,395	(8,620)	(19,892)
Mstar	77	1,111	(190)	(440)
Upstar	(36)	(42)	(122)	(140)
Others	(37)	(55)	(6)	17
	(2,297)	**5,948**	**(8,324)**	**(23,307)**
OTHERS	**-**	**-**	**374**	**374**
	(2,297)	**5,948**	**(7,950)**	**(22,933)**

During the last quarter of 2017, Angola was considered a hyperinflationary economy and the individual financial statements of the subsidiaries in Angola were restated (for consolidation purposes) in accordance with IAS 29. The impact of this adjustment to the hyperinflation meant a gain increase with the application of the equity method by approximately 3 million euros and a financial investment growth, against equity, for an amount of 6.9 million euros (Note 10).

35. Depreciation, amortisation and impairment losses

In the financial years ended on 31 December 2016 and 2017, this item was composed as follows:

	4th QUARTER 16	12M 16	4th QUARTER 17	12M 17
TANGIBLE ASSETS				
Buildings and other constructions	3,039	12,333	3,877	12,002
Basic equipment	44,367	175,982	58,561	212,636
Transportation equipment	(344)	950	467	1,715
Tools and dies	8	28	8	32
Administrative equipment	4,141	19,061	4,264	16,789
Other tangible assets	1,101	512	(1)	5
	52,313	**208,867**	**67,176**	**243,179**
INTANGIBLE ASSETS				
Industrial property and other rights	46,718	182,654	44,621	179,029
	46,718	**182,654**	**44,621**	**179,029**
INVESTIMENT PROPERTY				
Investment property	21	34	-	2
	21	**34**	**-**	**2**
	99,052	**391,555**	**111,798**	**422,211**

During the financial year of 2017, following the modernisation project of the NOS mobile network, impairment losses were recognised on the current assets for an approximate amount of 33 million euros.

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

In the financial years ended on 31 December 2016 and 2017, financing costs and other financial expenses / (income) were composed as follows:

	4th QUARTER 16	12M 16	4th QUARTER 17	12M 17
FINANCING COSTS:				
INTEREST EXPENSE:				
Borrowings	4,210	16,711	3,872	15,987
Finance leases	1,300	5,663	1,010	5,190
Derivatives	626	2,180	407	2,200
Others	(72)	914	444	2,130
	6,064	**25,468**	**5,734**	**25,507**
INTEREST EARNED	(1,786)	(8,624)	(1,385)	(5,372)
	4,278	**16,844**	**4,349**	**20,135**
NET OTHER FINANCIAL EXPENSES /(INCOME):				
Comissions and guarantees	1,433	5,367	1,040	4,761
Others	364	1,910	368	(961)
	1,797	**7,277**	**1,408**	**3,800**

Interest earned mainly corresponds to default interests charged to customers.

In the second quarter of 2017, following agreements reached for legal procedures, provisions were reversed to interest on arrears and recorded in the item Others in Other net financial costs/ (income) (Note 23).

37. Net earnings per share

Earnings per share for the financial years ended on 31 December 2016 and 2017 were calculated as follows:

	4th QUARTER 16	12M 16	4th QUARTER 17	12M 17
Consolidated net income attributable to shareholders	11,993	90,381	18,628	124,094
Number of ordinary shares outstanding during the period (weighted average)	512,136,639	512,651,058	513,121,146	512,916,991
Basic earnings per share - euros	0.02	0.18	0.04	0.24
Diluted earnings per share - euros	0.02	0.18	0.04	0.24

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

38. Guarantees and financial undertakings

38.1. Guarantees

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

	31-12-2016	31-12-2017
Financial instituitions i)	110,264	91,843
Tax authorities ii)	14,850	13,112
Others iii)	12,288	11,479
	137,402	**116,434**

i) At 31 December 2016 and 2017, this amount relates to guarantees issued by NOS in connection with the loans from EIB.

ii) At 31 December 2016 and 2017, this amount relates to guarantees demanded by the tax authorities in connection with tax proceedings contested by the Company and its subsidiaries (Note 41).

iii) At 31 December 2016 and 2017, this amount mainly relates to guarantees provided in connection with Municipal Wayleave Tax proceedings and guarantees provided to cinema owners, and bank guarantees given to providers of satellite capacity renting services.

In connection with the finance obtained by Upstar from Novo Banco, totalling 20 million euros, NOS signed a promissory note, proportional to the participation held, of 30% of the loan. At 31 December 2017 the debt total amounting to 1.5 million euros.

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.

Additionally, during 2014, in connection with a contract between Upstar and a supplier of TV contents, NOS signed a personal guarantee, in the form of a partial endorsement, proportional to NOS's shareholder position of 30%, as a counter guarantee of a guarantee by Novo Banco for an amount of 30 million dollars, to pledge the fulfilment of the contract's obligations. At 31 December 2017, the active amount of the guarantee is null, resulting from in January, May and August 2017, the supplier partially activated the guarantee in the amount of 12.5, 10 and 7.5 million dollars, respectively, returned through the company's own funds.

During 2015, NOS issued a comfort letter to Caixa Geral de Depósitos as part of an issue of a bank guarantee to Sport TV amounting to 23.1 million euros. At 31 December 2017, the active amount of bank guarantees ascends to 2.1 million euros. This bank guarantee ended in January 2018.

During the first semester of 2015, 2016 and 2017 and following the settlement notes to CLSU 2007-2009, 2010-2011 and 2012-2013, 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 17.4 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 31 December 2017, 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 13.1 million euros.

38.2. Operating leases

The rentals due on operating leases have the following maturities:

	31-12-2016				31-12-2017			
	AUTOMATIC RENEWAL	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	AUTOMATIC RENEWAL	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS
Stores, movie theatre and other buildings	1,170	16,994	41,164	19,888	1,037	22,041	50,033	17,647
Telecommunication towers and rooftops	1,732	19,557	52,684	20,972	2,068	22,407	60,211	19,048
Equipments	-	1,338	2,848	-	-	8,922	18,229	-
Vehicles	-	3,828	5,044	-	-	2,253	2,577	-
	2,902	**41,717**	**101,740**	**40,860**	**3,105**	**55,623**	**131,050**	**36,695**

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 80% to ownership clauses.

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

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, the availability of broadcasting rights of the sports clubs home football games, as well as the broadcasting and distribution rights of sports and sports clubs channels, whose rights are owned by each of the companies in each moment. The agreement came into force from the beginning of the sports season 16/17, assuring access to Benfica's channel and Benfica's home football games to NOS' and Vodafone's clients, independent from the channel where these football games are broadcast.

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

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

The estimated cash flows are estimated as follows:

Seasons	2017/18	following
Estimated cash-flows with the contract signed by NOS with the sport entities*	50.1 M€	1,098 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	22.5 M€	624 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. Notes to the statement of cash flows

The statement of cash flows has been prepared in accordance with the provisions of IAS 7, with the following points to note:

39.1. Cash receipts resulting from financial investments

This item was composed as follows:

	12M 16	12M 17
Return supplementary payments Sport TV	25,347	-
Others	19	-
	25,366	**-**

39.2. Cash payments resulting from financial investments

This item was composed as follows:

	12M 16	12M 17
Loss coverage Sport TV	25,347	-
	25,347	**-**

39.3. Earnings per shares

This item was composed as follows:

	12M 16	12M 17
NOS SGPS	82,121	102,617
	82,121	**102,617**

39.4. Borrowings

This item presents, by net value, the reimbursements, and respective monthly issue renewals of commercial paper programmes.

40. Related parties

40.1. Balances and transactions between related parties

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

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

Balances at 31 December 2016

	ACCOUNTS RECEIVABLES	ACCOUNTS PAYABLE	ACCRUED EXPENSES	DEFERRED INCOME	PREPAID EXPENSES
SHAREHOLDERS					
BPI	1,614	(18)	-	-	-
ASSOCIATED COMPANIES					
Big Picture 2 Films	5	104	193	-	-
Sport TV	4,971	9,634	3,454	-	13,745
JOINTLY CONTROLLED COMPANIES					
Dreamia Holding BV	2,892	-	-	-	-
Dreamia SA	2,471	1,157	293	-	-
Finstar	9,550	-	-	2	-
Mstar	1	-	-	-	-
Upstar	17,880	25	-	-	-
ZAP Cinemas	419	-	-	-	-
ZAP Media	3,451	-	-	-	-
OTHER RELATED PARTIES					
Digitmarket	78	273	-	-	151
Itrust - Cyber Security and Intellig. , S.A.	50	931	(5)	-	-
Modelo Continente Hipermercados	1,233	114	142	-	4
MDS - Corretor de Seguros	83	-	-	-	143
SC-Consultadoria	131	-	-	4	-
Sonae Ind., Prod. e Com.Deriv.Madeira	106	-	-	-	-
Sierra Portugal	509	(19)	-	-	331
Sonae Center II	762	187	-	9	-
Sonaecom	107	-	270	-	-
UNITEL	1,824	1,229	1,441	-	-
We Do Consulting-Sist. de Informação	93	2,527	-	2	18
Worten - Equipamento para o Lar	2,773	-	703	-	4
Other related parties	882	313	(12)	1	190
	51,885	**16,457**	**6,479**	**18**	**14,586**

Transactions in the financial year ended on 31 December 2016

	REVENUES	WAGES AND SALARIES	DIRECT COSTS	MARKETING AND ADVERTISING	SUPPORT SERVICES	OTHER NON-RECURRING LOSSES / (GAINS)	SUPPLIES AND EXTERNAL SERVICES	OTHER OPERATING LOSSES / (GAINS)	FINANCIAL INCOME AND (EXPENSES)	FIXED ASSETS
SHAREHOLDERS										
Banco BPI	5,011	-	104	-	-	-	5	-	(391)	-
ASSOCIATED COMPANIES										
Big Picture 2 Films	52	-	5,240	-	-	-	53	-	-	-
Sport TV	282	-	61,187	-	-	-	-	-	-	-
JOINTLY CONTROLLED COMPANIES AND ASSOCIATED COMPANIES										
Dreamia Holding BV	276	-	-	-	-	-	-	-	212	-
Dreamia SA	2,734	(7)	(564)	38	-	-	(6)	8	-	-
Finstar	939	-	-	-	-	-	-	-	-	-
Mstar	34	-	-	-	-	-	-	-	-	-
Upstar	14,942	-	(435)	20	-	-	(1)	-	-	-
ZAP Cinemas	(19)	-	-	-	-	-	-	-	-	-
ZAP Media	491	-	-	-	-	-	-	-	-	-
OTHER RELATED PARTIES										
Cascaishopping	28	-	-	7	-	1	705	-	-	-
Continente Hipermercados	288	-	-	-	-	-	90	-	-	3
Digitmarket	404	-	-	-	319	-	349	-	-	3,900
Efacec Energia	129	-	-	-	-	-	-	-	-	-
Glunzag	108	-	-	-	-	-	-	-	-	-
Itrust - Cyber Security and Intellig	11	-	246	-	120	-	54	-	-	307
Modelo - Distribuição Materias Construção	193	-	-	-	-	-	-	-	-	-
Modelo Continente Hipermercados	5,036	-	137	477	-	-	(111)	-	-	-
MDS - Corretor de Seguros	492	-	-	-	-	-	302	-	-	-
Modalfa	213	-	-	-	-	-	-	-	-	-
Pharmacontinente	153	-	-	-	-	-	-	-	-	-
Público	193	-	-	30	-	-	1	-	-	-
Saphety Level - Trusted Services	113	-	-	-	519	-	2	-	-	32
SC-Consultadoria	1,201	-	-	-	-	-	-	-	-	-
SONAESR-Serviços e logistica	107	-	-	-	-	-	1	-	-	
Sonae Indústria PCDM	843	-	-	-	-	-	-	-	-	4
Sistavac	131	-	-	-	-	-	6	-	-	64
Sierra Portugal	3,521	-	-	325	-	-	4,970	-	-	
Solinca - Health & Fitness, SA	169	-	-	-	-	-	-	-	-	-
Sonae Center II	2,634	-	-	-	1	-	(7)	-	-	-
Sonaecom	16	(53)	-	-	-	-	-	270	-	-
Sonaecom - Serviços Partilhados	270	-	-	-	1	-	3	-	-	-
Spinveste - Promoção Imobiliária	-	-	-	-	-	-	284	-	-	-
SDSR - Sports Division SR	368	-	-	-	-	-	-	-	-	-
UNITEL	2,061	-	1,671	-	-	-	-	-	-	-
We Do Consulting-Sist. de Informação	506	-	-	7	2,785	-	212	-	-	4,489
Worten - Equipamento para o Lar	6,115	-	-	633	-	30	1,297	-	-	1
Other related parties	1,594	45	(1)	123	39	-	432	-	-	30
	51,639	**(15)**	**67,585**	**1,660**	**3,784**	**31**	**8,641**	**278**	**(179)**	**8,830**

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 financial year ended on 31 December 2017

	REVENUES	WAGES AND SALARIES	DIRECT COSTS	MARKETING AND ADVERTISING	SUPPORT SERVICES	OTHER NON-RECURRING LOSSES / (GAINS)	SUPPLIES AND EXTERNAL SERVICES	OTHER OPERATING LOSSES / (GAINS)	FINANCIAL INCOME AND (EXPENSES)	FIXED ASSETS
SHAREHOLDERS										
Banco BPI	4,980	-	331	-	-	-	6	-	(391)	-
ASSOCIATED COMPANIES										
Big Picture 2 Films	87	-	5,533	-	-	-	59	-	-	-
Sport TV	1,100	-	77,434	-	-	-	-	-	-	-
JOINTLY CONTROLLED COMPANIES										
Dreamia Holding BV	118	-	-	-	-	-	-	-	128	-
Dreamia SA	2,631	(30)	(45)	54	(1)	-	(14)	-	-	-
Finstar	859	-	-	-	-	-	-	-	-	-
Mstar	(34)	-	-	-	-	-	-	-	-	-
Upstar	15,041	-	(294)	25	-	-	(5)	-	-	-
ZAP Cinemas	7	-	-	-	-	-	-	-	-	-
ZAP Media	294	-	-	-	-	-	-	-	-	-
OTHER RELATED PARTIES										
Cascaishopping	24	-	-	8	-	-	662	-	-	-
Centro Colombo	12	-	-	8	-	-	780	-	-	-
Continente Hipermercados	281	-	-	-	-	-	28	-	-	11
Digitmarket	313	-	23	2	224	-	225	-	-	5,136
Efacec Energia	95	-	-	-	-	-	39	-	-	17
Efacec Engenharia	114	-	-	-	-	-	-	-	-	237
Glunzag	115	-	-	-	-	-	-	-	-	-
Itrust - Cyber Security and Intellig	20	-	(246)	-	178	-	221	-	-	174
Maxmat	182	-	-	-	-	-	-	-	-	-
Modelo continente hpermercados	4,949	-	60	145	-	-	(83)	-	-	-
MDS - Corretor de Seguros	512	-	-	-	-	-	180	-	-	-
Modalfa	178	-	-	-	-	-	-	-	-	-
Norteshopping	19	-	-	7	-	-	772	-	-	-
Pharmacontinente	169	-	-	-	-	-	-	-	-	-
Publico	157	-	-	27	-	-	1	-	-	-
Saphety Level - Trusted Services	103	-	-	-	295	-	2	-	-	20
SC-Consultadoria	1,370	-	-	-	-	-	-	-	-	-
Sonae Indústria PCDM	482	-	-	-	-	-	-	-	-	-
Sistavac	140	-	-	-	21	-	1	-	-	440
Sierra Portugal	3,221	-	-	243	-	-	1,739	-	-	-
Solinca HF	294	-	-	-	-	-	-	-	-	-
Sonae Center II	2,840	-	-	-	-	-	-	-	-	-
Sonaecom	31	-	-	-	-	-	17	95	-	-
SonaecomSP	120	-	-	-	(1)	-	0	-	-	-
Spinveste	-	-	-	-	-	-	231	-	-	-
SDSR	297	-	-	-	-	-	-	-	-	-
Troiaverde	76	20	-	26	-	-	-	-	-	-
UNITEL	2,175	-	1,817	-	-	-	-	-	-	-
Vasco da Gama	23	-	-	6	-	-	829	-	-	-
We Do Consulting-Sist. de Informação	446	-	-	13	2,854	-	2	-	-	4,504
Worten - Equipamento para o Lar	5,435	-	-	204	-	-	890	-	-	-
Other related parties	1,383	8	-	157	18	-	444	-	-	30
	50,659	**(2)**	**84,614**	**926**	**3,588**	**-**	**7,027**	**95**	**(263)**	**10,570**

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.

40.2. Remuneration paid to the managers and other key member of the NOS Management

Remuneration paid to managers, other key members of NOS Management (Managers) for the financial years ended on 31 December 2016, and 2017 were as follows:

	12M 16	12M 17
Fixed remuneration	2,719	2,984
Profits sharing / Bonus	1,186	1,131
Share-based compensation plans	1,206	1,134
	5,111	**5,249**

The amounts shown in the table were calculated on an accruals basis for Fixed Remuneration and Profit sharing / Bonus (short-term remuneration). The value for the Share Based Compensation Plans corresponds to the amount to be allocated in 2018 on the performance of 2017 (assigned in 2017 related to 2016 performance). The average number of key members of management in 2016 and 2017 was 16.

The Corporate Governance Report includes detailed information on the NOS remuneration policy.

The Company considers Leaders members of the Board of Directors.

40.3. Fees and auditors' services

Information concerning fees and services rendered by auditors is described on note 47 of the Corporate Governance Report.

41. Legal actions and contingent assets and liabilities

41.1. Legal actions with regulators

NOS SA, NOS Açores and NOS Madeira brought actions for judicial review of ANACOM's decisions in respect of the payment of the Annual Fee (for 2009, 2010, 2011, 2012, 2013, 2014, 2015 and 2016) for carrying on the business of Electronic Communications Services Networks Supplier, and 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 are within the period of impugnation.

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.

Two sole sentences on the matter were given, i.e. on 18 December 2012 and on 29 September 2017, within the scope of the contestation of the 2009 and 2012 Annual Rates, respectively. 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 second judgment also, in turn, ruled in favour of the respective contestation, but, this time for fundamental reasons, annulled the contested act by unlawfulness with the legal consequences, namely imposing the refund of the tax that was paid but still not refunded to NOS and ordering ANACOM to pay compensatory interest. This decision was the subject of an appeal from ANACOM to the Tribunal Central Administrativo – Sul [Central Administrative Court - South].

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.

41.2. 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.

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

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

the amount of 26 million euros (from August 2011 to May 2014), in the case of NOS Açores, in the amount of 195 thousand euros and NOS Madeira, amounting to 817 thousand euros.

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

  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. However, in the event of this instance being acquitted, trial costs, under NOS' responsibility, may amount to 1,150 thousand euros.

41.4. Action against NOS SGPS

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

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

Afterwards, the same company brought a new civil lawsuit based on the same facts, but this time, against NOS Comunicações. NOS appealed in September 2016. A prior hearing was held in May 2017 in which two exceptions pleaded by NOS were dismissed. At the culmination of the final hearing scheduled for February 2018, the parties reached an agreement on the termination of the litigation, due to the author's withdrawal, upon a payment by NOS of approximately 165 thousand euros.

41.5. 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 31 December 2014, revenue from penalties, due to inherent uncertainties was recorded only at the moment when it was received, so at December 2017, the receivables by NOS SA, NOS Madeira and NOS Açores amount to a total of 71,799 thousand euros. During the financial year ended on 31 December 2017, 1,540 thousand euros related to 2014 receivables were received and recorded in the income statement.

From 1 January 2015, revenue from penalties is recognised taking into account an estimated collectability rate taking into account the Group's collection history. The penalties invoiced are recorded as accounts receivable and amounts determined as uncollectible are recorded as impairment by deducting revenue recognised upon invoicing (Note 15).

41.6. Interconnection tariffs

At 31 December 2017, accounts receivable and accounts payable include 37,139,253 euros and 29,913,608 euros, respectively, resulting from a dispute between the subsidiary NOS SA and, essentially, the operator MEO – Serviços de Comunicação e Multimédia, S.A. (previously named TMN – Telecomunicações Móveis Nacionais, S.A.), in relation to the non-definition of interconnection tariffs of 2001, having been the respective costs and income recorded in this year. In the lower court, the decision was favourable to NOS SA. The Court of Appeal, on appeal, rejected the intentions of MEO. However, MEO again appealed to the Supreme Court, for final and permanent decision, who upheld the decision of the "Tribunal da Relação" (Court of Appeal). All the appeals were dismissed, but the timeframe for res judicata is under way concerning the two later ones.

42. Share incentive scheme

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

In addition to the NOS Plan abovementioned, at 31 December 2017, are still unvested:

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

As at 31 December 2017, the unvested plans are:

	NUMBER OF SHARES
STANDARD PLAN	
Plan 2013	60,378
NOS PLAN	
Plan 2015	639,674
Plan 2016	747,714
Plan 2017	848,472

During the financial year ended on 31 December 2017, the movements that occurred in the plans are detailed as follows:

	STANDARD PLAN	MAINROAD PLAN	NOS PLAN
BALANCE AS AT 31 DECEMBER 2016:	**180,067**	**41,958**	**2,303,014**
MOVEMENTS IN THE PERIOD:			
Awarded	-	-	834,211
Vested	(117,296)	(41,958)	(772,217)
Cancelled / elapsed / corrected (1)	(2,393)	-	(129,148)
BALANCE AS AT 31 DECEMBER 2017:	**60,378**	**-**	**2,235,860**

(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 31 December 2017, the outstanding responsibility related to these plans is 6,478 thousand euros and is recorded in Reserves, for an amount of 5,252 thousand euros, for plans liquidated in shares and in Accrued expenses, for an amount of 1,226 thousand euros, for plans liquidated in cash.

The costs recognised in previous years and in the exercise, and its liabilities are as follows:

	ACCRUED EXPENSES	RESERVES	TOTAL
Costs recognised in previous years related to plans as at 31 December 2016	1,199	6,317	7,516
Costs of plans vested in the period	(810)	(4,282)	(5,092)
Costs recognised in the exercise	837	3,217	4,054
TOTAL COST OF THE PLANS	**1,226**	**5,252**	**6,478**

43. Subsequent events

During the first quarter of 2018, following the settlement notes related to CLSU of the year 2014, NOS rendered guarantees in order to support the compensation fund of the universal service, in the amount of 3.0 million euros, to prevent the establishment of tax enforcement processes, with the coercive payment of the amounts settled.

In January 2018, Kwanza registered an exceptional devaluation against Euro of, approximately, 28%, which generated the recognition of cambial losses, in January 2018, by companies hold by NOS in Angola, losses which have impact on "Losses/ (gains) in affiliated companies", in the consolidated financial statements in, approximately, 9 million euros.

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

These financial statements are a translation of financial statements originally issued in Portuguese in accordance with International Financial Reporting Standards (IAS / IFRS) as adopted by the European Union and the format and disclosures required by those Standards, some of which may not conform to or be required by generally accepted accounting principles in other countries. In the event of discrepancies, the Portuguese language version prevails.

44. Annexes

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

COMPANY	HEADQUARTERS	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP EFFECTIVE 31-12-2016	DIRECT 31-12-2017	EFFECTIVE 31-12-2017
NOS, SGPS, S.A. (Holding)	Lisbon	Management of investments	-	-	-	-
Empracine - Empresa Promotora de Atividades Cinematográficas, Lda.	Lisbon	Movies exhibition	Lusomundo SII	100%	100%	100%
Lusomundo - Sociedade de investimentos imobiliários SGPS, SA	Lisbon	Management of Real Estate	NOS	100%	100%	100%
Lusomundo Imobiliária 2, S.A.	Lisbon	Management of Real Estate	Lusomundo SII	100%	100%	100%
Lusomundo Moçambique, Lda.	Maputo	Movies exhibition and commercialization of other public events	NOS Cinemas	100%	100%	100%
NOS Sistemas, S.A. ('NOS Sistemas')	Lisbon	Rendering of consulting services in the area of information systems	NOS SA	100%	100%	100%
NOS Sistemas España, S.L.	Madrid	Rendering of consulting services in the area of information systems	NOS SA	100%	100%	100%
NOS Açores Comunicações, S.A.	Ponta Delgada	Distribution of television by cable and satellite and operation of telecommunications services in the Azores area	NOS SA	84%	84%	84%
NOS Audiovisuais, SGPS, S.A. (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 comunications 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. (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 – Concepção, Construção e Gestão de Redes de Comunicações, S.A. ('Artis')	Matosinhos	Design, construction, management and exploitation of electronic communications networks and their equipment and infrastructure, management of technologic assets and rendering of related services	NOS	100%	100%	100%
NOS TOWERING – Gestão de Torres de Telecomunicações, S.A. ('Be Towering')	Lisbon	Implementation, installation and exploitation of towers and other sites for the instalment of telecommunications equipment	NOS	100%	100%	100%
Per-Mar – Sociedade de Construções, S.A. ('Per-Mar')	Lisbon	Purchase, sale, renting and operation of property and commercial establishments	NOS	100%	100%	100%
Sontária - Empreendimentos Imobiliários, S.A. ('Sontária')	Lisbon	Realisation of urbanisation and building construction, planning, urban management, studies, construction and property management, buy and sale of properties and resale of purchased for that purpose	NOS	100%	100%	100%
Teliz Holding B.V.	Amsterdam	Management of group financing activities	NOS	100%	100%	100%

a) Company established in March 2017.

B) Associated companies

COMPANY	HEADQUARTERS	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP EFFECTIVE 31-12-2016	DIRECT 31-12-2017	EFFECTIVE 31-12-2017
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.	-	100.00%	20.00%
Canal 20 TV, S.A.	Madrid	Production and distribution of TV products rights	NOS	50.00%	50.00%	50.00%
Sport TV Portugal, S.A.	Lisbon	Conception, production, realization and commercialization of sports programs for telebroadcasting, purchase and resale of the rights to broadcast sports programs for television and provision of publicity services	NOS	33.33%	25.00%	25.00%

C) Jointly controlled companies

COMPANY	HEADQUARTERS	ACTIVITY	SHARE HOLDER	PERCENTAGE OF OWNERSHIP EFFECTIVE 31-12-2016	DIRECT 31-12-2017	EFFECTIVE 31-12-2017
Dreamia Holding B.V.	Amsterdam	Management of investments	NOS Audiovisuais	50.00%	50.00%	50.00%
Dreamia - Serviços de Televisão, S.A.	Lisbon	Conception, production, realization and commercialization of audiovisual contents and provision of publicity services	Dreamia Holding BV	50.00%	100.00%	50.00%
East Star Ltd (b)	Port Louis	Management of investments involved in the development, operation and marketing, through any technological means, of telecommunications, television and audiovisual products and services	Teliz Holding B.V.	30.00%	0.00%	0.00%
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%

b) Company liquidated on December 2017.

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

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

Individual Financial **Statements**

Statement of financial position at 31 December 2016 and 2017

(Amounts stated in euros)

	NOTES	31-12-2016	31-12-2017
ASSETS			
NON - CURRENT ASSETS			
Tangible assets	6	131,017	147,424
Intangible assets	7	453,894,603	453,893,458
Financial investments in group companies	8	1,028,499,738	1,040,884,396
Accounts receivable	9	567,917,595	546,344,616
Tax receivable	10	709,685	-
Available-for-sale financial assets	11	76,727	76,727
Deferred income tax assets	12	2,096,703	1,677,875
Derivative financial instruments	20	5,750	-
TOTAL NON - CURRENT ASSETS		**2,053,331,818**	**2,043,024,496**
CURRENT ASSETS:			
Accounts receivable	9	275,393,310	300,117,749
Tax receivable	10	38,296	11,994,675
Prepaid expenses	13	55,320	46,879
Derivative financial instruments	20	17,169	18,651
Cash and cash equivalents	14	72,516	177,277
TOTAL CURRENT ASSETS		**275,576,611**	**312,355,231**
TOTAL ASSETS		**2,328,908,429**	**2,355,379,727**
SHAREHOLDER'S EQUITY			
Share capital	15.1	5,151,614	5,151,614
Capital issued premium	15.2	854,218,633	854,218,633
Own shares	15.3	(18,756,232)	(12,681,291)
Legal reserve	15.4	1,030,323	1,030,323
Other reserves and accumulated earnings	15.4	274,262,896	258,656,515
Net income		80,022,807	96,556,032
TOTAL EQUITY		**1,195,930,041**	**1,202,931,826**
LIABILITIES			
NON - CURRENT LIABILITIES			
Borrowings	16	871,777,232	870,340,798
Provisions	17	3,230,803	2,019,984
Accrued expenses	18	450,181	1,083,198
Deferred income	19	4,138,440	3,773,206
Derivative financial instruments	20	4,027,492	2,461,705
TOTAL NON - CURRENT LIABILITIES		**883,624,149**	**879,678,891**
CURRENT LIABILITIES:			
Borrowings	16	184,465,926	170,523,006
Accounts payable	21	58,916,241	98,656,368
Tax payable	10	2,477,423	408,274
Accrued expenses	18	2,862,551	2,549,264
Deferred income	19	632,098	632,098
TOTAL CURRENT LIABILITIES		**249,354,239**	**272,769,010**
TOTAL LIABILITIES		**1,132,978,388**	**1,152,447,901**
TOTAL LIABILITIES AND SHAREHOLDER´S EQUITY		**2,328,908,429**	**2,355,379,727**

The Notes to the Financial Statements form an integral part of the statement of financial position as at 31 December 2017.

The Chief Accountant

The Board of Directors

Statement of income by nature
for the financial years ended on 31 December 2016 and 2017

(Amounts stated in euros)

	NOTES	2016	2017
REVENUES:			
Services rendered	22	6,976,893	6,792,852
Other operating revenues	23	587,517	344,292
		7,564,409	**7,137,144**
COSTS, LOSSES AND GAINS:			
Wages and salaries	24	6,138,901	6,341,083
Marketing and advertising		13,514	3,837
Support services	25	1,039,041	1,015,335
Supplies and external services	25	937,437	602,714
Other operating losses / (gains)	26	58,623	73,754
Taxes		28,232	48,252
Provisions and adjustments	17	(7,958)	(101,656)
Depreciation, amortisation and impairment losses	6 e 7	(139,756)	(49,426)
Reestructuring costs		365,534	-
Losses / (gains) on sale of assets		(117)	(447)
Other losses / (gains) non recurrent	27	(666,664)	15,608
		7,766,787	**7,949,054**
INCOME BEFORE FINANCIAL RESULTS AND TAXES		**(202,378)**	**(811,910)**
Financial costs / (revenues)	28	(4,069,138)	(2,140,074)
Foreign exchange losses / (gains)		(998)	16
Losses / (gains) of affiliated companies	29	(81,126,863)	(99,118,977)
Other financial expenses / (income)	28	5,763,332	4,904,909
		(79,433,667)	**(96,354,126)**
INCOME BEFORE TAXES		**79,231,289**	**95,542,216**
Income taxes	12	(791,518)	(1,013,815)
NET CONSOLIDATED INCOME		**80,022,807**	**96,556,032**
EARNINGS PER SHARES			
Basic - euros	15.5	0.16	0.19
Diluted - euros	15.5	0.16	0.19

The Notes to the Financial Statements form an integral part of the statement of income by nature for the year ended on 31 December 2017.

The Chief Accountant

The Board of Directors

Statement of comprehensive income
for the financial years ended on 31 December 2016 and 2017

(Amounts stated in euros)

	NOTES	2016	2017
NET INCOME		**80,022,807**	**96,556,032**
OTHER INCOME			
ITENS THAT MAY BE RECLASSIFIED TO THE INCOME STATEMENT			
Fair value of derivative financial investments	20	(513,140)	1,357,333
OTHER COMPREHENSIVE INCOME		**(513,140)**	**1,357,333**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**79,509,668**	**97,913,365**

The Notes to the Financial Statements form an integral part of the statement of comprehensive income for the year ended on 31 December 2017.

The Chief Accountant

The Board of Directors

Statement of changes in shareholders' equity
for the financial years ended on 31 December 2016 and 2017

(Amounts stated in euros)

	NOTES	SHARE CAPITAL	CAPITAL ISSUED PREMIUM	OWN SHARES	LEGAL RESERVE	OTHER RESERVES AND ACCUMULATED EARNINGS	NET INCOME	TOTAL
BALANCE AS AT JANUARY 2016		**5,151,614**	**854,218,633**	**(10,558,533)**	**3,556,300**	**312,760,562**	**49,472,032**	**1,214,600,608**
Result appropriation								
Transfered to reserves		-	-	-	(2,525,977)	51,998,009	(49,472,032)	-
Dividends paid		-	-	-	-	(82,120,996)	-	(82,120,996)
Aquisition of own shares		-	-	(20,675,774)	-	-	-	(20,675,774)
Distribuition of own shares - share plan		-	-	9,742,452	-	(10,501,896)	-	(759,444)
Distribuition of own shares - other remunerations		-	-	2,735,623	-	(219,948)	-	2,515,675
Share Plan - Costs incurred in the year and others		-	-	-	-	2,860,304	-	2,860,304
Comprehensive income for the year		-	-	-	-	(513,140)	80,022,807	79,509,667
BALANCE AS AT DECEMBER 2016		**5,151,614**	**854,218,633**	**(18,756,232)**	**1,030,323**	**274,262,896**	**80,022,807**	**1,195,930,041**
BALANCE AS AT JANUARY 2017		**5,151,614**	**854,218,633**	**(18,756,232)**	**1,030,323**	**274,262,896**	**80,022,807**	**1,195,930,041**
Result appropriation								
Transfered to reserves		-	-	-	-	80,022,807	(80,022,807)	-
Dividends paid	15.4	-	-	-	-	(102,617,128)	-	(102,617,128)
Distribuition of own shares - share plan	15.3	-	-	5,789,657	-	(5,789,657)	-	-
Distribuition of own shares - other remunerations	15.3	-	-	285,284	-	(78,823)	-	206,461
Share Plan - Costs incurred in the year and others	33	-	-	-	-	3,217,251	-	3,217,251
Share Plan - Debit to subsidiaries	33	-	-	-	-	8,281,836	-	8,281,836
Comprehensive income for the year		-	-	-	-	1,357,333	96,556,032	97,913,365
BALANCE AS AT DECEMBER 2017		**5,151,614**	**854,218,633**	**(12,681,291)**	**1,030,323**	**258,656,515**	**96,556,032**	**1,202,931,826**

The Notes to the Financial Statements form an integral part of the statement of changes in shareholders' equity for the year ended on 31 December 2017.

The Chief Accountant

The Board of Directors

Statement of cash flows
for the financial years ended on 31 December 2016 and 2017

(Amounts stated in euros)

	NOTES	2016	2017
OPERATING ACTIVITIES			
Collections from clients		7,416,709	19,586,899
Payments to suppliers		(3,153,929)	(1,820,402)
Payments to employees		(7,003,815)	(9,768,632)
Receipts / (payments) relating to income taxes		(12,934,080)	(4,238,288)
Other cash receipts / (payments) related with operating activities		22,484,131	5,607,221
CASH FLOW FROM OPERATING ACTIVITIES (1)		**6,809,017**	**9,366,799**
INVESTING ACTIVITIES			
CASH RECEIPTS RESULTING FROM			
Financial investments	8	25,347,377	19,147,745
Tangible assets		27,739	851
Loans granted		87,148,178	20,000,000
Interest and related income		24,674,824	20,431,780
Dividends		119,929,280	86,318,975
		257,127,398	**145,899,351**
PAYMENTS RESULTING FROM			
Financial investments	8	(225,377,377)	(31,532,403)
Tangible assets		(8,263)	0
Loans granted		-	(21,603,304)
		(225,385,640)	**(53,135,707)**
CASH FLOW FROM INVESTING ACTIVITIES (2)		**31,741,758**	**92,763,644**
FINANCING ACTIVITIES			
CASH RECEIPTS RESULTING FROM			
Borrowings		424,519,123	268,784,135
		424,519,123	**268,784,135**
PAYMENTS RESULTING FROM			
Borrowings		(330,000,000)	(268,982,333)
Lease rentals (principal)		(10,867)	(544)
Interest and related expenses		(23,702,316)	(22,383,958)
Dividends	15.4	(82,120,996)	(102,617,128)
Aquisition of own shares	15.3	(20,675,774)	-
		(456,509,953)	**(393,983,963)**
CASH FLOW FROM FINANCING ACTIVITIES (3)		**(31,990,830)**	**(125,199,828)**
Change in cash and cash equivalents (4)=(1)+(2)+(3)		6,559,945	(23,069,386)
Cash and cash equivalents at the beginning of the year		(12,019,912)	(5,459,967)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**(5,459,967)**	**(28,529,353)**
Cash and cash equivalents	14	72,516	177,277
Bank overdrafts	16	(5,532,483)	(28,706,630)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**(5,459,967)**	**(28,529,353)**

The Notes to the Financial Statements form an integral part of the statement of cash flows for the year ended on 31 December 2017.

The Chief Accountant

The Board of Directors

Notes to the financial statements at 31 December 2017

(Amounts stated in euros, unless otherwise stated)

1. Introductory note

NOS, SGPS, S.A. ("NOS" or "Company"), formerly named ZON OPTIMUS, SGPS, S.A. ("ZON OPTIMUS"), and until 27 August 2013 named ZON Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, S.A. ("ZON"), with Company headquarters registered at Rua Actor António Silva, 9, Campo Grande, was established by Portugal Telecom, SGPS, S.A. ("Portugal Telecom") on 15 July 1999 with 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 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, which together form the "NOS Group" or "Group", which includes cable and satellite television services, voice and Internet access services, video production and sale, advertising on Pay TV channels, cinema exhibition and distribution, and the production of channels for Pay TV and the provision of consultancy services related to information systems.

NOS' shares are listed on the Euronext Lisbon market. The shareholder structure of the Company at 31 December 2017 is shown in Note 15.

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

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

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

NOS Sistemas is a company dedicated to 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 initial investment through the commercialization of patents and concessions regarding commercial operation, as a result of a creation of new products and services), the demonstration, disclosure, technology and training transfers in the services and information management domains as well as fixed and mobile solutions of the latest generation of TV, internet, voice and data solutions.

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

The financial statements relate to the Company on an individual basis and not consolidated were prepared for publication under the commercial legislation in force.

As provided in IFRS, financial investments are stated at acquisition cost. Consequently, the financial statements do not include the effect of the consolidation of assets, liabilities, income and expenses, which will be made in the consolidated statements. The effect of these consolidation consists in an assets and net income increase of 614,726 thousand euros and 27,538 thousand euros, respectively, and in a reduction shareholder's equity of 112,233 thousand euros.

The financial statements for the financial year ended on 31 December 2017 are presented in euros and were approved by the Board of Directors and their issue authorised on 9 March 2018.

However, they are still subject to approval by the General Meeting of Shareholders in accordance with company law in Portugal. The Board of Directors believes that the financial statements give a true and fair view of the Company's operations, financial performance, and cash flows.

2. Accounting policies

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

2.1. Basis of presentation

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

The financial statements are presented in euros as this the main currency of the Company's operations.

The financial statements were prepared on a going concern basis from the ledgers and accounting records of the Company, using the historical cost convention, adjusted when necessary for the valuation of financial assets and liabilities (including derivatives) at their fair value.

In preparing the financial statements in accordance with IFRS, the Board used estimates, assumptions, and critical judgments with impact on the value of assets, liabilities and the recognition of income and costs in each reporting period. Although these estimates were based on the best information available at the date of preparation of the financial statements, current and future results may differ from these estimates. The areas involving a higher element of judgment and estimates or areas when assumptions and estimates are significant to the financial statements are described in Note 4.1.

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

Changes in accounting policies and disclosures

The standards and interpretations that become effective on 1 January 2017 are as follow:

- IAS 7, "Statement of Cash Flows" (amendment) that is effective for annual periods beginning on or after 1 January 2017. The standard establishes that the company needs to disclose information on changes of the liabilities related to financing activities, namely: (i) changes of cash financing flows; (ii) changes resulting from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in exchange rates; (iv) changes in fair value; and (v) other changes.

- IAS 12, "Recognition of deferred tax assets arising from unrealised losses" (amendment) that is effective for annual periods beginning on or after 1 January 2017. The amendments have clarified when a deferred tax asset arising from unrealised losses has to be recognised.

- 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 financial statements of Company.

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 2, "Classification and Measurement of Share-based Payment Transactions" (amendments) that is effective for annual periods beginning on or after 1 January 2018. The amendments incorporate into the standard guidelines on the accounting treatment of cash-settled share-based payments, which follow the same approach as those on equity-settled share-based payments.

- 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 options, which currently exist in the standard, and might be used to attend 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.

- IFRS 16, "Leasings" (new) that is effective for annual periods beginning on or after 1 January 2019. This standard sets out recognition, presentation, and disclosure of leasing contracts, defining a single accounting model. Aside from lower contracts than 12 months, leases should be accounted as an asset and a liability.

Additionally, the Company does not expect any material impact resulting from the application of the IFRS 9 and IFRS 15 and the amendment of the IFRS 4, and the impact resulting from the application of IFRS 16 is being ascertained.

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

- IFRS 10 and IAS 28, "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (amendment) that are effective for periods beginning on or after 1 January 2016. The amendments address an acknowledged inconsistency between the for annual requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

- IFRS 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, early application is permitted. The objective of the amendment is to harmonise the accounting practices and provide relevant information on decision-making.

- IAS 40, "Investment property transfers" (amendment) that is effective for periods beginning on or after 1 January 2018. The amendments clarify if a property under construction or development, which was previously classified as Inventories, can be transferred to investment property when there is an evident change in use.

- IFRIC 22: "Foreign currency transactions and advance consideration" (interpretation) that is effective for periods beginning on or after 1 January 2018. Interpretations clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

- IFRIC 23: "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.

- IFRS 9: "Prepayment features with negative compensation" (amendment) that is effective for periods beginning on or after 1 January 2019. The amendments to IFRS 19 clarify that a financial asset meets SPPI test criterion, regardless of the event or circumstances that caused the earlier termination of the contract and the party, which pays or receives a reasonable compensation for the earlier termination of the contract.

- 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.

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

2.2. Transactions and balances in foreign currencies

Transactions in foreign currency are recorded at exchange rates on transactions dates. At each reporting date, the carrying amounts of monetary items denominated in foreign currency are updated by applying the exchange rate prevailing on that date. Non-monetary items carried at fair value denominated in foreign currency are restated at the exchange rates of the respective dates on which the fair values were determined. Exchange rate differences on monetary items that constitute an extension of the investment denominated in the functional currency of the Company or the subsidiary in question are recognised as the exchange rate on investment in shareholder's equity. Exchange rate differences on non-monetary items are classified under "Other reserves".

Exchange differences arising on the date of receipt or payment of foreign currency transactions and the resulting updates of the above are recognised in the income statement, under "Foreign exchange losses / (gains)" for all other balances or transactions.

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

CURRENCY	31-12-2016	31-12-2017
US Dollar	1.054	1.199

2.3. Tangible assets

Tangible assets are stated at acquisition cost less accumulated depreciation and eventual impairment losses. The acquisition cost includes the purchase price of the asset, expenses directly attributable to the purchase and costs incurred in preparing the asset to be ready for utilisation. Costs incurred on borrowings for the construction of tangible fixed assets are recognised as part of the cost of the asset, whenever the period of construction / preparation is more than one year.

Subsequent costs with renovations and major repairs that extend the useful life or productive capacity of assets are recognised as a cost of the asset.

The costs of current maintenance and repairs are recognised as a cost when they are incurred.

The estimated costs of dismantling and removal of the assets will be considered as part of the initial cost.

Depreciation is calculated, once the asset becomes available for use by the straight-line method, on a monthly basis in accordance with the estimated useful life for each class of assets.

The estimated useful lives for the most significant tangible fixed assets are as follows:

CLASS OF GOODS	2016 (YEARS)	2017 (YEARS)
Buildings and other constructions	10	10
Basic equipment	3 - 4	3 - 4
Transportation equipment	4	4
Administrative equipment	2 - 10	2 - 10
Other tangible assets	8	8

The useful lives and depreciation method of the tangible assets are reviewed annually. The effect of any changes to these estimates is recognised prospectively in the income statement.

The residual values of assets and their respective useful lives are reviewed and adjusted if appropriate, at the reporting date. If the carrying amount exceeds the recoverable amount of the asset, it is readjusted to the estimated recoverable amount by recognizing impairment losses (Note 2.6).

Gains or losses resulting from the sale or write-off of a tangible fixed asset are determined as the difference between the realizable value of the transaction and the carrying amount of the asset net of accumulated depreciation and any impairment losses and are recognised in the income statement in the year that occurs the write-off or sale.

2.4. Intangible assets

Intangible assets are stated at acquisition cost less accumulated amortisation and impairment losses, when applicable.

Intangible assets are recognised only when they are identifiable, generate future economic benefits for the Company and can be measured reliably.

Amortisation of intangible assets is recognised on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful lives for the most significant intangible assets are as follows:

CLASS OF GOODS	2016 (YEARS)	2017 (YEARS)
Computer Programs	3	3
Industrial property and other rights	3	3

The useful lives and amortisation method of the various intangible assets are reviewed annually. The effect of any changes to these estimates is recognised in the income statement prospectively.

2.5. Goodwill

Goodwill represents the excess of acquisition cost over the net fair value of the assets, liabilities, and contingent liabilities of a business, a subsidiary, jointly controlled company or associated, at the acquisition date, if this is not a business combination of entities under common control in accordance with IFRS 3. In the case of a business combination of entities under common control, Goodwill represents the excess of acquisition cost over the fair value of the asset and liabilities of the acquired business.

Goodwill is presented as a component of the acquisition cost of the financial investments, in the separate accounts of NOS, when business is embodied in an entity.

Given the policy followed by the Company in the recognition and measurement of financial investments, Goodwill is recorded as an asset and included in “Intangible assets” if the excess of the costs common from an acquisition by merger, and in “Financial investments in group companies” in an acquisition of a subsidiary jointly controlled company or an associated company. Goodwill is not amortised and is subject to impairment tests at least once a year, on a specified date, and whenever there are changes in the test’s underlying assumptions at the date of the statement of financial position which may result in a possible loss of value. Any impairment loss is recorded immediately in the income statement in “Impairment losses” and is not liable to subsequent reversal.

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

On disposal of a subsidiary, associate or jointly controlled entity, the corresponding goodwill is included in determining the corresponding gain or loss realised.

2.6. Impairment of tangible and intangible assets, excluding goodwill

At each reporting date is carried out a review of the carrying amounts of tangible fixed assets and intangible assets of the Company to determine whether there is any indication that the recorded amount may not be recoverable. If there is any indicator, we estimate the recoverable amount of the respective assets in order to determine the extent of the impairment loss (if any). When it is not possible to determine the recoverable amount of an individual asset, the recoverable amount is estimated for the cash-generating unit to which the asset belongs.

The recoverable amount of the asset or cash-generating unit is the greater of (i) the fair value less costs to sell and (ii) the current use value. In determining the current use value, the estimated future cash flows are discounted using a discount rate that reflects market expectations for the time value of money and the risks specific to the asset or cash-generating unit for which the estimates of future cash flows have not been adjusted.

When the carrying amount of the asset or cash-generating unit exceeds its recoverable amount, is recognised as an impairment loss. The impairment loss is recognised immediately in the income statement under "Depreciation, amortisation, and impairment losses" unless such loss offset a revaluation surplus recorded in shareholders' equity.

The reversal of impairment losses recognised in previous years is recorded when there are indications that these losses no longer exist or have decreased. The reversal of impairment losses is recognised in the statement of comprehensive income in the captions referred in the previous paragraph. The reversal of the impairment loss is made up to the amount that would be recognised (net of amortisation) if no impairment loss had been recorded in previous years.

2.7. Investments in-group companies

Financial investments in Group companies (companies in which the Company holds directly or indirectly controlling, considering that control over an entity exists when the Group is exposed, and or has rights, as a result of their involvement, on the variable returns the entity's activities, and has the ability to affect this return through the power over the entity) are recorded under the caption "Financial investments in Group companies', at their acquisition cost, in accordance with IAS 27, as Company presents, separately, consolidated financial statements in accordance with IAS/IFRS.

Under this caption are also recorded at nominal value, supplementary capital granted to subsidiaries.

An evaluation of investments in Group companies is performed when there are indications that the recorded amount may not be recoverable or impairment losses recorded in previous years no longer exist.

Impairment losses detected on the realizable value of the financial investments in Group companies are recognised in the year in which they are estimated, under the caption "Losses / (gains) of affiliated companies" in the income statement.

The expenses incurred with the acquisition of financial investments in Group companies are recorded as cost when they are incurred.

2.8. Financial assets

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

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

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

Financial assets at fair value through profit or loss

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

Financial assets available for sale

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

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

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

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

Borrowings and receivables

The assets classified in this category are non-derivative financial assets with fixed or determinable payments not listed on an active market.

Accounts receivable are initially recognised at fair value and subsequently valued at amortised cost, less adjustments for impairment, when applicable. Impairment losses on customers and accounts receivable are recorded when there is objective evidence that they are not recoverable under the initial terms of the transaction. The identified impairment losses are recorded in the statement of comprehensive income under "Provisions and adjustments," and subsequently reversed by results, when the impairment indicators reduce or cease to exist.

Cash and cash equivalents

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

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

2.9. Financial liabilities and equity instruments

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

Borrowings

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

Accounts payable

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

2.10. Impairment of financial assets

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

Financial assets available for sale

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

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

Customers, other debtors, and other financial assets

Adjustments are made for impairment losses when there are objective indications that the Company will not receive all the amounts to which it is entitled under the original terms of the contracts. Various indicators are used to identify impairment situations, such as default; financial difficulties of the debtor; probability of insolvency of the debtor.

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

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

2.11. Derivate financial instruments

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

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

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

Hedge accounting

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

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

2.12. Subsidies

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

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

Investment subsidies are recognised in the statement of financial position as deferred income and it is recognised as income on a systematic and rational basis over the useful life of the asset.

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

2.13. Provisions, contingent liabilities and contingent assets

Provisions are recognised 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 Company discloses the events as a contingent liability unless the likelihood of an outflow of funds resulting from this contingency is remote, in which case they are not disclosed.

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

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

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

Provisions for potential future operating losses are not covered.

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

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

2.14. Leases

Leasing contracts are classified as: (i) finance leases, if substantially all the risks and benefits incident to ownership of the corresponding assets concerned have been transferred; or (ii) operating leases, if substantially no risks and rewards incident to ownership of those assets have been 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 fixed assets are recognised in the income statement for the period to which they relate.

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

2.15. Income 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 that are either to be included in current tax or in deferred tax, resulting from transactions or events recognised in equity accounts, is directly recorded under those items and does not affect the results for the period.

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

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

b) All the other acquired deferred tax benefits performed are recognised in the income statement (when applicable, directly in shareholders' equity).

2.16. Share-based payments

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

In accordance with IFRS 2, since it is not possible to reliably estimate the fair value of the services received from employees, their value is measured by reference to the fair value of equity instruments (own shares) 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 elapsed between the grant and the vesting. The impact on the income statement each year corresponds to the accumulated cost valuation between the beginning and the end of the year.

In turn, benefits granted 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.

Additionally, the Board of Directors of NOS SGPS, responsible for the plans' attribution, can decide an additional debit related to costs associated to their management, which is debited to its subsidiaries and recognised in equity.

2.17. Capital

Legal reserve

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

Share premium reserves

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

Reserves for plans of medium term incentive

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

The Company recognises in equity the responsibility of all the action plans of various companies in the NOS group, since it is responsible for its delivery to its employees, against results for the year and accounts receivable of subsidiaries when dealing with own employees or employees of subsidiary companies, respectively.

Hedging reserves

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

Own shares reserves

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

Own shares

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

Retained results

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

2.18. Revenue

Revenue corresponds to the fair value of the amount received or receivable for the services rendered in the ordinary course of the Company's activity. Revenue is recorded net of any taxes, trade discounts granted.

Revenue from services rendered is recognised according to the percentage of completion or based on the period of the contract when the services rendered are not associated with the implementation of specific activities, but the continuous service provision.

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

Revenue from dividends is recognised when the Company’s right to receive the correspondent amount is established.

2.19. Accruals

Company's revenues and costs are recognised in accordance with the accruals principle, under which they are recognised as they are generated or incurred, regardless 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.

2.20. Financial charges on borrowings

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

2.21. Employee benefits

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

a) Termination of employment. The benefits for termination of employment are due for payment when there is cessation of employment before the normal retirement date or when an employee accepts voluntarily to leave in exchange of these benefits. The company recognises these benefits when it can be shown being 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 company 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 Labour (FGCT). In this context, companies that hire a new employee are required to deduct a percentage of the respective salary for these two new funds (0.925% to 0.075%

and the FCT for FGCT), in order to ensure, in the future, the partial payment the compensation for dismissal. Considering the characteristics of each Fund, the following is considered:

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

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

2.22. Statement of cash flows

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

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

Operating activities include cash received from customers and payments to suppliers, staff and others related to operating activities.

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

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

2.23. Subsequent events

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

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

3. Risk management

3.1. Financial risk factors

NOS as a holding company (SGPS) develops direct and indirect management activities over its subsidiaries. Thus, the fulfilment of assumed obligations depends on the cash flows generated by these. Therefore, the company depends on the eventual distribution of dividends by its subsidiaries, the payment of interest, repayment of loans and other cash flows generated by those companies.

The ability of NOS' subsidiaries to have available funds will depend, in part, on its ability to generate positive cash flows and, on the other hand, is dependent on the respective results, available reserves, and financial structure.

NOS has a program of risk management that focuses its analysis on the financial markets in order to minimise potential adverse effects on its financial performance. Risk management is handled by the Financial Management in accordance with the policy approved by the Board. There is also at NOS an Internal Control Committee with specific functions in the control area of risks of the activity of the Company.

3.2. Exchange rate risk

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

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

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

Additional disclosures are made in the consolidated financial statements of NOS.

3.3. Interest rate risk

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

NOS has adopted a policy of hedging risk through the use of interest rate swaps to hedge future interest payments on bond loans and other borrowings.

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

The sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect interest receivable or payable on financial instruments with variable rates;

- Changes in market interest rates only affect interest receivable or payable on financial instruments with fixed interest rates when they are recognised at fair value;

- Changes in market interest rates affect the fair value of derivatives and other financial assets and liabilities;

- Changes in the fair value of derivatives and other financial assets and liabilities are estimated by discounting future cash flows from current net values using market rates at the end of the year.

Under these assumptions, an increase or decrease of 0.25% in market interest rates for loans that are not covered or loans with variable interest at 31 December 2017 would have resulted in an increase or decrease in annual profit before tax of approximately 1.7 million euros (2016: 1.4 million euros).

In the case of the interest rate swaps contracted, the sensitivity analysis which measures the estimated impact of an immediate increase or decrease of 0.25% (25 basis points) in market interest rates results in changes in the fair value of the swaps of over 945 thousand euros (2016: over 1,702 thousand euros) and down 955 thousand euros (2016: less 1,711 thousand euros) at 31 December 2017.

Additional disclosures are made in the consolidated financial statements of NOS.

3.4. Credit risk

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

This risk is monitored on a regular business basis, and the aim of management is to: i) limit the credit granted to customers, using the average payment time by each customer; ii) monitor the trend in the level of credit granted; and iii) analyse the impairment of receivables on a regular basis.

The Company's subsidiaries do not face any serious credit risk with any particular client, insofar as the accounts receivable derive from a large number of clients from a wide range of businesses and the subsidiaries obtain credit guarantees, whenever the financial situation of the customer requires.

Additional disclosures are made in the consolidated financial statements of NOS.

3.5. Liquidity risk

NOS manages liquidity risk in two ways:

i. ensuring that its debt has a high component of medium and long-term maturities appropriate to the characteristics of industries when its subsidiaries exert their activity; and

ii. through contractual arrangements with financial institutions of credit facilities available at any time, for an amount that ensures adequate liquidity.

Based on estimated cash flows and taking into consideration the compliance with any covenants typically existing in loans payable, management regularly monitors the forecasts of liquidity reserves by subsidiaries of NOS, including the amounts of unused credit lines, amounts of cash and cash equivalents.

Additional disclosures are made in the consolidated financial statements of NOS.

4. Relevant estimates and judgements presented

4.1. Relevant accounting estimates

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

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

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

4.1.1. Provisions

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

4.1.2. Tangible and intangible assets

The determination of the useful lives of assets as well as the amortisation / depreciation method to be applied is crucial in determining the amount of amortisation / depreciation to be recognised in the statement of comprehensive income for each year. These two parameters are defined using management's best estimates for the assets and businesses concerned, and taking account of the practices adopted by sector companies at international level.

4.1.3. Impairment assets, excluding goodwill

The determination of a possible impairment loss can be triggered by the occurrence of various events, many of which outside the Company's sphere of influence, such as future availability of financing, cost of capital, as well as any other changes, either internal or external, to the Company.

The identification of impairment indicators, the estimation of future cash flows and determining the fair value of assets involve a high degree of judgment by the Board of Directors with regard to the identification and evaluation of different impairment indicators, expected cash flows, applicable discount rates, useful lives, and residual values.

4.1.4. Impairment of goodwill

Goodwill is subjected to impairment tests annually or whenever there are indications of a possible loss of value. The recoverable values of the cash-generating units to which goodwill is allocated are determined based on the calculation of current use values. These calculations require the use of estimates by management.

4.1.5. Fair value of financial assets and liabilities

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

The Company uses evaluation techniques for unlisted financial instruments such as derivatives. The valuation models that are used most frequently are discounted cash flow models and options models, incorporating, for example, interest rate curves and market volatility.

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

4.2. Misstatement, estimates and changes to accounting policies

During the financial years ended on 31 December 2016 and 31 December 2017, no material misstatements relating to previous years were recognised.

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

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

	31-12-2016						
	LOANS AND RECEIVABLES	AVAILABLE-FOR-SALE FINANCIAL ASSETS	DERIVATIVES	OTHER FINANCIAL LIABILITIES	TOTAL FINANCIAL ASSETS / LIABILITIES	NON FINANCIAL ASSETS / LIABILITIES	TOTAL
ASSETS							
Accounts receivable - non current (Note 9)	567,917,595	-	-	-	567,917,595	-	567,917,595
Available-for-sale financial assets (Note 11)	-	76,727	-	-	76,727	-	76,727
Accounts receivable - current (Note 9)	275,378,561	-	-	-	275,378,561	14,749	275,393,310
Derivative financial instruments (Note 20)	-	-	22,919	-	22,919	-	22,919
Cash and cash equivalents (Note 14)	72,516	-	-	-	72,516	-	72,516
TOTAL FINANCIAL ASSETS	**843,368,672**	**76,727**	**22,919**	**-**	**843,468,318**	**14,749**	**843,483,067**
LIABILITIES							
Borrowings - non current (Note 16)	-	-	-	871,777,232	871,777,232	-	871,777,232
Accrued expenses - non current (Note 18)	-	-	-	450,181	450,181	-	450,181
Borrowings - current (Note 16)	-	-	-	184,465,926	184,465,926	-	184,465,926
Accounts payable - current (Note 21)	-	-	-	58,916,241	58,916,241	-	58,916,241
Accrued expenses - current (Note 18)	-	-	-	2,862,551	2,862,551	-	2,862,551
Derivative financial instruments (Note 20)	-	-	4,027,492	-	4,027,492	-	4,027,492
TOTAL FINANCIAL LIABILITIES	**-**	**-**	**4,027,492**	**1,118,472,131**	**1,122,499,623**	**-**	**1,122,499,623**

31-12-2017							
	LOANS AND RECEIVABLES	AVAILABLE-FOR-SALE FINANCIAL ASSETS	DERIVATIVES	OTHER FINANCIAL LIABILITIES	TOTAL FINANCIAL ASSETS / LIABILITIES	NON FINANCIAL ASSETS / LIABILITIES	TOTAL
ASSETS							
Accounts receivable - non current (Note 9)	546,344,616	-	-	-	546,344,616	-	546,344,616
Available-for-sale financial assets (Note 11)	-	76,727	-	-	76,727	-	76,727
Accounts receivable - current (Note 9)	300,115,134	-	-	-	300,115,134	2,615	300,117,749
Derivative financial instruments (Note 20)	-	-	18,651	-	18,651	-	18,651
Cash and cash equivalents (Nota 14)	177,277	-	-	-	177,277	-	177,277
TOTAL FINANCIAL ASSETS	**846,637,027**	**76,727**	**18,651**	**-**	**846,732,405**	**-**	**846,735,020**
LIABILITIES							
Borrowings - non current (Note 16)	-	-	-	870,340,798	870,340,798	-	870,340,798
Accrued expenses - non current (Note 18)	-	-	-	1,083,198	1,083,198	-	1,083,198
Borrowings - current (Note 16)	-	-	-	170,523,006	170,523,006	-	170,523,006
Accounts payable - current (Note 21)	-	-	-	98,656,368	98,656,368	-	98,656,368
Accrued expenses - current (Note 18)	-	-	-	2,549,264	2,549,264	-	2,549,264
Derivative financial instruments (Note 20)	-	-	2,461,705	-	2,461,705	-	2,461,705
TOTAL FINANCIAL LIABILITIES	**-**	**-**	**2,461,705**	**1,143,152,634**	**1,145,614,339**	**-**	**1,145,614,339**

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 Company’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 Note 3.

6. Tangible assets

During the years ended at 31 December 2016 and 2017, the movements in acquisition costs and accumulated depreciation in this item were as follows:

	BUILDINGS AND OTHER CONSTRUCTIONS	BASIC EQUIPMENT	TRANSPORTATION EQUIPMENT	ADMINISTRATIVE EQUIPMENT	OTHER TANGIBLE ASSETS	TANGIBLE ASSETS IN PROGRESS	TOTAL
ASSETS							
BALANCE AS AT 1 JANUARY 2016	**253,332**	**226,972**	**478,966**	**2,286,258**	**450,149**	**6,912**	**3,702,590**
Acquisitions	-	-	58,348	4,409	-	-	62,758
Disposals	-	-	-	(14,516)	-	-	(14,516)
Adjustments, transfers and write-offs	-	-	(464,437)	148,592	(148,592)	(6,867)	(471,303)
BALANCE AS AT 31 DECEMBER 2016	**253,332**	**226,972**	**72,878**	**2,424,744**	**301,557**	**45**	**3,279,529**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES							
BALANCE AS AT 1 JANUARY 2016	**(253,332)**	**(332,916)**	**(356,789)**	**(2,292,565)**	**(289,480)**	**-**	**(3,525,082)**
Depreciation and impairment losses	-	(22,911)	106,190	(8,330)	66,080	-	141,029
Adjustments, transfers and write-offs	-	128,855	221,519	(115,492)	660	-	235,542
BALANCE AS AT 31 DECEMBER 2016	**(253,332)**	**(226,972)**	**(29,080)**	**(2,416,387)**	**(222,740)**	**-**	**(3,148,511)**
NET VALUE AT 31 DECEMBER 2016	**-**	**-**	**43,797**	**8,358**	**78,816**	**45**	**131,017**

	BUILDINGS AND OTHER CONSTRUCTIONS	BASIC EQUIPMENT	TRANSPORTATION EQUIPMENT	ADMINISTRATIVE EQUIPMENT	OTHER TANGIBLE ASSETS	TANGIBLE ASSETS IN PROGRESS	TOTAL
ASSETS							
BALANCE AS AT 1 JANUARY 2017	**253,332**	**226,972**	**72,878**	**2,424,744**	**301,557**	**45**	**3,279,529**
Acquisitions	-	-	-	-	-	3,974	3,974
Disposals	-	-	-	(9,009)	-	-	(9,009)
Adjustments, transfers and write-offs	-	-	(40,318)	2,954	-	(2,908)	(40,272)
BALANCE AS AT 31 DECEMBER 2017	**253,332**	**226,972**	**32,560**	**2,418,689**	**301,557**	**1,111**	**3,234,222**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES							
BALANCE AS AT 1 JANUARY 2017	**(253,332)**	**(226,972)**	**(29,080)**	**(2,416,387)**	**(222,740)**	**-**	**(3,148,511)**
Depreciation and impairment losses	-	-	(5,660)	(6,495)	62,726	-	50,570
Disposals	-	-	-	9,009	-	-	9,009
Adjustments, transfers and write-offs	-	-	2,134	-	-	-	2,134
BALANCE AS AT 31 DECEMBER 2017	**(253,332)**	**(226,972)**	**(32,607)**	**(2,413,873)**	**(160,014)**	**-**	**(3,086,798)**
NET VALUE AT 31 DECEMBER 2017	**-**	**-**	**-**	**4,816**	**141,542**	**1,111**	**147,424**

7. Intangible assets

During the years ended at 31 December 2016 and 2017, the movements in acquisition costs and accumulated amortisation in this item were as follows:

	GOODWILL	SOFTWARE	INDUSTRIAL PROPERTY AND OTHER RIGHTS	TOTAL
ASSETS				
BALANCE AS AT 1 JANUARY 2016	**453,888,879**	**461,345**	**5,531,664**	**459,881,888**
Acquisitions	-	-	6,867	6,867
BALANCE AS AT 31 DECEMBER 2016	**453,888,879**	**461,345**	**5,538,531**	**459,888,755**
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES				
BALANCE AS AT 1 JANUARY 2016	**-**	**(461,214)**	**(5,531,664)**	**(5,992,878)**
Amortisation	-	(129)	(1,144)	(1,273)
BALANCE AS AT 31 DECEMBER 2016	**-**	**(461,343)**	**(5,532,808)**	**(5,994,151)**
NET VALUE AT 31 DECEMBER 2016	**453,888,879**	**2**	**5,722**	**453,894,603**

	GOODWILL	SOFTWARE	INDUSTRIAL PROPERTY AND OTHER RIGHTS	TOTAL
ASSETS				
BALANCE AS AT 1 JANUARY 2017	**453,888,879**	**461,345**	**5,538,531**	**459,888,755**
Acquisitions	-	-	-	-
BALANCE AS AT 31 DECEMBER 2017	**453,888,879**	**461,345**	**5,538,531**	**459,888,755**
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES				
BALANCE AS AT 1 JANUARY 2017	**-**	**(461,343)**	**(5,532,808)**	**(5,994,151)**
Amortisation	-	(2)	(1,142)	(1,144)
BALANCE AS AT 31 DECEMBER 2017	**-**	**(461,345)**	**(5,533,951)**	**(5,995,297)**
NET VALUE AT 31 DECEMBER 2017	**453,888,879**	**-**	**4,580**	**453,893,458**

Goodwill

At 31 December 2016 and 2017, the value of goodwill results from the merger occurred on 27 August 2013, by the merger through the incorporation of Optimus SGPS into ZON, by overall transfer of the assets of Optimus SGPS into ZON.

Impairment tests on goodwill

In 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 forecast growth of the businesses and their markets, incorporated in medium/long term approved plans.

These estimates are based on the following assumptions:

Discount Rate (before taxes)	7.4%
Assessment Period	5 years
EBITDA* Growth	3.40%
Perpetuity Growth Rate	1.4%

* EBITDA = Operational result + Depreciation and amortisation

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 criteria for the valuation of each cash-generating unit.

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

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

8. Financial investments in group companies

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

	INVESTMENTS	SUPPLEMENTARY CAPITAL	2016	INVESTMENTS	SUPPLEMENTARY CAPITAL	2017
NOS Comunicações	486,761,600	-	486,761,600	496,761,600	-	496,761,600
NOS Technology	2,159,968	230,187,023	232,346,991	4,159,970	230,187,023	234,346,993
NOS Audiovisuais	118,471,165	-	118,471,165	122,471,165	-	122,471,165
Teliz	76,390,000	410,000	76,800,000	76,425,000	410,000	76,835,000
NOS Towering	2,094,838	26,121,692	28,216,530	4,094,838	26,121,692	30,216,529
NOS Inovação	25,317,153	-	25,317,153	27,317,153	-	27,317,153
NOS Cinemas	19,326,270	2,704,375	22,030,645	21,326,270	704,375	22,030,645
NOS Lusomundo SII	16,368,058	-	16,368,058	437,895	6,000,000	6,437,895
Sport Tv	2,500,000	4,666,560	7,166,560	2,500,000	4,666,560	7,166,560
Mstar	5,518,502	-	5,518,502	5,518,502	-	5,518,502
NOS Communications S.à r.l	5,000,000	-	5,000,000	5,000,000	-	5,000,000
Sontária	2,676,028	50,000	2,726,028	4,676,028	50,000	4,726,028
Per Mar	540,798	1,209,178	1,749,976	1,929,798	-	1,929,798
Upstar	26,528	-	26,528	26,528	-	26,528
NOS Internacional SGPS	-	-	-	50,000	-	50,000
NOS Audiovisuais SGPS	-	-	-	50,000	-	50,000
	763,150,910	**265,348,828**	**1,028,499,738**	**772,744,747**	**268,139,650**	**1,040,884,396**

During the years ended at 31 December 2016 and 2017, the movement in "Financial Investments" of NOS was as follows:

	INVESTMENTS	SUPPLEMENTARY CAPITAL	TOTAL
BALANCE AS AT 1 JANUARY 2016	**760,620,910**	**94,851,246**	**855,472,156**
Increases	25,377,377	200,000,000	225,377,377
Decreases	-	(41,547,377)	(41,547,377)
Impairments (Note 29)	(22,847,377)	12,044,959	(10,802,418)
BALANCE AS AT 31 DECEMBER 2016	**763,150,910**	**265,348,828**	**1,028,499,738**
BALANCE AS AT 1 JANUARY 2017	**763,150,910**	**265,348,828**	**1,028,499,738**
Increases	25,532,403	6,000,000	31,532,403
Decreases	(15,938,566)	(3,209,178)	(19,147,745)
BALANCE AS AT 31 DECEMBER 2017	**772,744,747**	**268,139,650**	**1,040,884,396**

During the year ended on 31 December 2016, the movements in the caption were as follows:

i) ZON Finance BV: on 18 January 2016, a ZON Finance BV was settled and had not generated any impact on the Financial statements;

ii) NOS Technology: Establishment of supplementary capital in the amount of 200 million euros;

iii) Sport TV: Supplementary capital paid in the amount of 41.5 million euros through cash delivery in the amount of 25.3 million euros and the credits transfer in the amount of 16.2 million euros; Capital increase to cover losses in the amount of 25.3 million euros and an impairment recognised in the amount of 10.8 million euros. This impairment was based on the implicit valuation calculated with the entrance of Vodafone in Sport TV share capital. On 28 July 2016, after the capital increase, NOS SGPS held a shareholding of 33.33%.

During the year ended on 31 December 2017, the movements in the caption were as follows:

i) NOS Comunicações: increase of share capital by 10 million euros;

ii) NOS Technology: increase of share capital by 2 million euros;

iii) NOS Audiovisuais: increase of share capital by 4 million euros;

iv) Teliz: increase of share capital by 35 million euros;

v) NOS Towering: increase of share capital by 2 million euros;

vi) NOS Inovação: increase of share capital by 2 million euros;

vii) NOS Lusomundo Cinemas: increase of share capital by 2 million euros and refund of supplementary payments amounting to 2 million euros.

viii) NOS Lusomundo SII: on 13 July 2017, NOS SGPS acquired 5,664 shares representing 0.126% of the share capital of the company from MPBS Imobiliária, S.A., amounting to 8,403 euros, and came to hold 100% of its share capital; NOS SGPS handed over supplementary payments amounting to 6 million euros; and additionally, the company reduced its share capital by approximately 16 million euros;

ix) Sontária: increase of share capital by 2 million euros;

x) Permar: Refund of supplementary payments amounting to 1.2 million euros and increase of share capital by approximately 1.4 million euros;

xi) Sport TV: on 24 February 2017, MEO became an integral part of the shareholder structure of Sport TV, NOS SGPS came to hold 25% of the share capital of Sport TV;

xii) NOS Audiovisuais SGPS: on 29 March 2017, the company was incorporated with a share capital of EUR 50,000;

xiii) NOS Internacional SGPS: on 29 March 2017, the company was incorporated with a share capital of EUR 50,000;

Assets, liabilities and shareholder's equity, income and statutory results of subsidiaries and associated companies at 31 December 2017 are as follows:

	ASSETS	LIABILITIES	SHAREHOLDER'S EQUITY	TOTAL INCOME	TOTAL EXPENSES	NET INCOME / (LOSS)	% HELD
Canal 20 TV	25,040	1,454	23,586	-	(2,257)	(2,257)	50%
Mstar	7,703,887	9,121,788	(1,417,900)	20,652,448	(19,387,839)	1,264,609	30%
NOS Communications S.à r.l	22,731,355	16,373,415	6,357,940	27,367,969	(13,238,342)	14,129,626	100%
NOS Comunicações	1,634,296,081	1,002,771,313	631,524,768	1,399,233,915	(1,370,461,182)	28,772,734	100%
NOS Inovação	43,061,842	13,910,329	29,151,513	12,250,040	(10,433,375)	1,816,665	100%
NOS Lusomundo Audiovisuais	127,136,351	103,586,898	23,549,453	71,807,053	(51,438,449)	20,368,603	100%
NOS Lusomundo Cinemas	35,090,292	22,528,889	12,561,403	65,622,397	(58,694,235)	6,928,161	100%
NOS Lusomundo SII	8,148,663	26,541	8,122,122	-	(40,830)	(40,830)	100%
NOS Technology	681,368,016	425,618,020	255,749,996	281,766,940	(257,551,506)	24,215,434	100%
NOS Towering	157,178,903	120,570,576	36,608,327	35,981,676	(28,624,800)	7,356,876	100%
Per-Mar	1,875,249	287,428	1,587,822	273,412	(179,432)	93,981	100%
Sontária	3,741,900	1,228,549	2,513,351	623,144	(322,224)	300,920	100%
Sport TV	146,300,206	127,528,895	18,771	185,213,317	(180,332,618)	4,880,699	25%
Teliz Holding B.V	2,523,421	5,445	2,517,976	-	(97,956)	(97,956)	100%
Upstar	210,914,617	209,985,617	929,000	105,689,881	105,223,450	466,431	30%

Annually or whenever there are indicators of impairment, the carrying amount of financial investments is compared to its recoverable value. The existence of these indicators is determined when: i) the affiliate's share capital is lower than the carrying amount; or ii) there are recent transactions with implicit valuations lower than the carrying amount; or iii) the stake is located in hyper inflated countries.

The assessment of the recoverable amount is performed taking into consideration internal valuations, by revenue generating units, based on the latest approved business plans, which are prepared using discounted cash flows for 5 years periods and/or external valuations, in the specific case of companies which own real estate. In the perpetuity, the discount rates used were 21.5%, 17.8% and 7.4% and the growth rates used were 5.5%, 9.5 % and 1.4%, for Mstar, Teliz and the other companies, respectively.

Additional disclosures regarding Telco and Audiovisuals segments are made in the consolidated financial statements of NOS SGPS.

Regarding financial investments in Mstar (Mozambique) and Teliz (owner of financial investments in Angola), the business plans include revenue average annual growth rates of 7% and 12%, respectively, meaning (i) the best estimates for customer base growth, reflecting the expectation of acquisition of new customers and churn rate estimates, and (ii) an average annual price growth of 75% of the inflation, since, considering the companies' activity nature, in particular in Angola, and taking into account price increases in previous years, it is not expected for companies to have the capacity to reflect, on their prices, the total inflation registered in the country.

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

9. Accounts receivable

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

	2016		2017	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Accounts Receivable				
Related parties i)	272,648,611	567,659,741	296,329,781	545,887,558
Advances to suppliers	14,749	-	2,615	-
Accrued income - interests i)	2,539,743	-	3,604,531	-
Others	190,208	257,854	180,822	457,058
	275,393,310	**567,917,595**	**300,117,749**	**546,344,616**

i) At 31 December 2017, the amounts receivable from related parties correspond predominantly to short-term loans, shareholder medium and long-term loans and interest receivable from subsidiaries and associated companies (Note 31), and dividends receivable from NOS Communications, for an amount of 12.8 million euros. At the end of the year 2017, these short-term loans and supplies, bear interest at the rate of 2.85% and 2.10%, respectively.

10. Taxes payable and receivable

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

	2016		2017	
	DEBIT BALANCES	CREDIT BALANCES	DEBIT BALANCES	CREDIT BALANCES
NON CURRENT				
Tax Authorities	709,685	-	-	-
	709,685	**-**	**-**	**-**
CURRENT				
Income taxes	-	1,775,139	11,994,675	338
Personnel income tax witholdings	-	80,468	-	91,755
Value-added tax	38,296	549,813	-	231,654
Social Security contributions	-	72,003	-	84,527
	38,296	**2,477,423**	**11,994,675**	**408,274**
	747,981	**2,477,423**	**11,994,675**	**408,274**

At 31 December 2016 and 2017, the amounts receivable and payable in respect of income tax were as follows:

	2016	2017
Current income taxes estimative	(16,983,696)	(7,775,572)
Payments on account	14,045,351	18,798,908
Witholding income taxes	656,393	378,646
Income tax receivable	506,812	592,355
INCOME TAX (PAYABLE) / RECEIVABLE	**(1,775,139)**	**11,994,337**

11. Available-for-sale financial assets

At 31 December 2016 and 2017, the item “Available-for-sale financial assets”, in the amount of 76,727 euros, corresponds to equity investments of low value.

12. Taxes

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

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

The Company 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 2017 are:

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

Under current legislation, tax declarations are subject to review and correction by tax authorities for a period of four years, except 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 financial statements as at 31 December 2017.

A) Deferred taxes

NOS has recorded deferred tax relating to temporary differences between the taxable basis and the book amounts of assets and liabilities.

The movements in deferred tax assets and liabilities for the financial years ended on 31 December 2016 and 2017 were as follows:

	31-12-2015	NET INCOME / (LOSS) FOR THE YEAR	SHAREHOLDER'S EQUITY	31-12-2016
DEFERRED INCOME TAX ASSETS:				
Derivatives	758,012	(5,959)	148,976	901,029
Share plans	144,062	313,474	-	457,536
Other provisions and adjustments	436,693	301,446	-	738,138
	1,338,766	**608,961**	**148,976**	**2,096,703**

	31-12-2016	NET INCOME / (LOSS) FOR THE YEAR	SHAREHOLDER'S EQUITY	31-12-2017
DEFERRED INCOME TAX ASSETS:				
Derivatives	901,029	42,723	(394,064)	549,688
Share plans	457,536	(51,919)	-	405,617
Other provisions and adjustments	738,138	(15,568)	-	722,570
	2,096,703	**(24,764)**	**(394,064)**	**1,677,875**

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 plan of the company, which is regularly revised and updated.

At 31 December 2016 and 2017, the tax rate used to calculate the deferred tax assets relating to temporary differences was 22.5%.

B) Effective tax rate reconciliation

In the years ended at 31 December 2016 and 2017, the reconciliation between the nominal and effective rates of tax was as follows:

	2016	2017
Income before taxes	79,231,289	95,542,216
Statutory tax rate	22.50%	22.50%
Estimated tax	17,827,040	21,496,999
Permanent differences (i)	(18,287,365)	(22,441,763)
Taxes from previous year	(439,308)	(114,758)
Autonomous taxation	25,650	20,123
Provisions (Note 17)	39,780	-
Other adjustments	42,686	25,584
INCOME TAXES	**(791,519)**	**(1,013,815)**
Effective income tax rate	-1.0%	-1.1%
Income tax	182,557	1,038,579
Deferred tax	608,961	(24,764)
	791,519	**1,013,815**

(i) At 31 December 2016 and 2017, the permanent differences were composed as follows:

	2016	2017
Dividends received (Note 29)	(91,929,281)	(99,118,977)
Impairment on Financial Investments (Note 8)	10,802,418	-
Others	(150,317)	(622,195)
	(81,277,180)	**(99,741,172)**
	22.50%	22.50%
	(18,287,365)	**(22,441,763)**

13. Prepaid expenses

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

	2016	2017
Insurances	49,264	44,388
Employees	2,007	2,148
Other prepaid expenses	4,049	343
	55,320	**46,879**

14. Cash and cash equivalents

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

	2016	2017
Cash	4,031	4,231
Deposits	68,485	173,046
	72,516	**177,277**

15. Shareholder's equity

15.1. Share capital

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

The main shareholders at 31 December 2016 and 2017 are:

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

(1) In accordance with subparagraphs 1.b) and 1.c) of Article 20 and Article 21 of the Portuguese Securities Code, a qualified shareholding of 52.15% of the share capital and voting rights of company, calculated in accordance with Article 20.º of the Securities Code, is attributable to ZOPT SGPS S.A., Sonaecom SGPS S.A. and the following entities:

a. Kento Holding Limited and Unitel International Holdings B.V., as well as Isabel dos Santos, being (i) Kento Holding Limited and Unitel International Holdings, B.V., companies directly and indirectly controlled by Isabel dos Santos, and (ii) ZOPT SGPS S.A., a jointly controlled company by its shareholders Kento Holding Limited, Unitel International Holdings B.V. and Sonaecom SGPS S.A., under the shareholder agreement signed between them;

b. Entities in a control relationship with Sonaecom, 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.º and 21.º of the Securities Code.

(2) Under the terms of paragraph 1 of Article 20 of the Portuguese Securities Code, the voting rights corresponding to 2.77% of NOS share capital, held by Banco BPI Pension Fund and BPI Vida - Companhia de Seguros de Vida, S.A are attributable to Banco BPI.

15.2. Capital issued premium

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

i) share capital for an amount of 2,060,646 euros;

ii) premium for issue of shares for an 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:

1. to cover part of the losses on the balance of the year that cannot be covered by other reserves;
2. 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;
3. to increase the share capital.

15.3. Own shares

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

At 31 December 2017, there were 2,040,234 own shares, representing 0.3960% of the share capital (31 December 2016: 3,017,603 own shares, representing 0.5858% of the share capital).

Movements in the years ended at 31 December 2016 and 2017 were as follows:

	QUANTITY	VALUE
BALANCE AS AT 1 JANUARY 2016	**1,666,482**	**10,558,533**
Acquisition of own shares	3,312,503	20,675,774
Distribution of own shares - share incentive scheme	(1,531,842)	(9,742,452)
Distribution of own shares - other remunerations	(429,540)	(2,735,623)
BALANCE AS AT 31 DECEMBER 2016	**3,017,603**	**18,756,232**
BALANCE AS AT 1 JANUARY 2017	**3,017,603**	**18,756,232**
Distribution of own shares - share incentive scheme (Note 33)	(931,471)	(5,789,657)
Distribution of own shares - other remunerations	(45,898)	(285,284)
BALANCE AS AT 31 DECEMBER 2017	**2,040,234**	**12,681,291**

15.4. Reserves

Legal reserve

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

Other reserves

At 31 December 2017, NOS had reserves, which by their nature are considered distributable for an amount of approximately 58.2 million euros, not including net income.

Dividends

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

	2016
Dividends	82,425,821
Dividends of own shares	(304,825)
	82,120,996

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

	2017
Dividends	103,032,276
Dividends of own shares	(415,148)
	102,617,128

15.5. Net earnings per share

Earnings per share for the years ended on 31 December 2016 and 2017 were calculated as follows:

	2016	2017
Net income / (Loss) for the year	80,022,807	96,556,032
Number of ordinary shares outstanding during the year (weighted average)	512,651,058	512,916,991
Basic earnings per share	0.16	0.19
Diluted earnings per share	0.16	0.19

During the year ended on 31 December 2016 and 2017, there were no diluting effects on net earnings per share, so the diluted earnings per share are equal to the basic earnings per share.

16. Borrowings

At 31 December 2016 and 2017, the detail of borrowings is as follows:

	2016		2017	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Loans - Nominal value				
Debenture loan	-	585,000,000	-	585,000,000
Commercial paper	150,000,000	200,000,000	122,901,000	215,000,000
Foreign loans	28,333,333	91,666,667	18,332,730	73,333,333
Bank Overdrafts	5,532,483	-	28,707,232	-
Loans - Accruals and deferrals	564,103	(4,889,435)	582,044	(2,992,535)
Financial leases - Nominal value	36,007	-	-	-
	184,465,926	**871,777,232**	**170,523,006**	**870,340,798**

During the year ended at 31 December 2016, the average cost of debt of the used credit lines was approximately 1.96% (2.16% in 2016).

16.1. Debenture loans

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

i) A bond loan in the amount 100 million euros organised by BPI Bank in May 2014 and maturing in November 2019. The loan bears interest at variable rates, indexed to Euribor and paid semi-annually.

ii) A bond loan organised into four financial institutions in September 2014, amounting to 175 million euros and maturing in September 2020. The loan bears interest at variable rates, indexed to Euribor and paid 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 maturing in June 2019. The first issue, held in June 2015, pays interest quarterly at a fixed rate. The issue made in July 2015, bears interest at a variable rate indexed to Euribor and paid semi-annually.

v) A bond issue for an amount of 60 million euros, whose maturity occurs in June 2023, organised by ING in June 2016. The issue bears interest at a variable rate indexed to Euribor and paid semi-annually.

At 31 December 2017, the value of these loans was deducted from the net amount of 564 thousand euros, corresponding to the respective interest and fees, recorded in the item "Loans - accruals and deferrals".

16.2. Commercial paper

At 31 December 2017, the Company has borrowings of 338 million euros in the form of commercial paper, of which 13 million euros issued without underwriting securities. The total amount contracted, under underwriting securities, is of 570 million euros, corresponding to 9 programmes, with six banks, which bear interest at market rates. Commercial paper programmes with maturities over 1 year totalling 225 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 31 December 2017 an amount of 264 thousand euros, corresponding to interest and commissions, was deducted to this amount, and recorded in the item "Loans - accruals and deferrals".

16.3. Foreign loans

In November 2013, NOS signed a Finance Contract with the European Investment Bank 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.

At 31 December 2017, an amount of 1,581 thousand euros was deducted from this loan, corresponding to the benefit associated with the fact that the loan is at a subsidised rate.

All bank borrowings contracted (with the exception of the EIB loan of 91.7 million euros and the bond loan of 50 million euros and finance leases) are negotiated at variable short-term interest rates and their book value is therefore broadly similar to their fair value.

The maturities of the loans obtained are as follows:

	2016			2017		
	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS
Debenture loan	1,542,589	372,339,726	209,871,775	1,334,605	523,129,870	59,970,082
Commercial paper	149,096,098	200,000,000	-	122,637,444	177,500,000	37,500,000
Foreign loans	28,258,749	71,316,435	18,249,296	17,843,725	72,240,846	-
Bank overdrafts	5,532,483	-	-	28,707,232	-	-
Financial Leases	36,007	-	-	-	-	-
	184,465,926	**643,656,161**	**228,121,071**	**170,523,006**	**772,870,716**	**97,470,082**

17. Provisions

During the years ended at 31 December 2016 and 2017, the movements recorded in provisions are as follows:

	31-12-2015	INCREASES	REDUCTION	UTILIZATION	31-12-2016
Litigation and others	3,085	115	-	-	3,200
Contingencies - Other	3,797,692	242,459	(812,548)	-	3,227,603
	3,800,777	**242,574**	**(812,548)**	**-**	**3,230,803**

	31-12-2016	INCREASES	REDUCTION	UTILIZATION	31-12-2017
Litigation and others	3,200	-	-	-	3,200
Contingencies - Other	3,227,603	75,240	(121,488)	(1,164,571)	2,016,784
	3,230,803	**75,240**	**(121,488)**	**(1,164,571)**	**2,019,984**

Net movements for the years ended at 31 December 2016 and 2017, reflected in the income statement, under Provisions were as follows:

	2016	2017
Other losses / (gains) non-recurring, net (Note 27)	(677,885)	-
Provisions and adjustments	68,131	(96,118)
Income Taxes (Note 12)	39,780	-
Other financial costs / (revenues)	-	49,870
INCREASES AND DECREASES	**(569,974)**	**(46,248)**

Additionally, during the year ended 31 December 2016 and 2017, impairment for accounts receivable in the amount of 76,089 and 5,538 euros was reverted, respectively.

18. Accrued expenses

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

	2016		2017	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Wages and salaries	1,578,811	-	1,670,590	-
Supplies and external services	885,873	-	273,070	-
Share Plan	397,867	450,181	605,604	628,312
Others	-	-	-	454,886
	2,862,551	**450,181**	**2,549,264**	**1,083,198**

19. Deferred income

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

	2016		2017	
	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Investment grant i)	632,098	4,138,440	632,098	3,773,206
	632,098	**4,138,440**	**632,098**	**3,773,206**

i) Deferred income related to the implicit subsidy calculated when the EIB loans were obtained at interest rates below market value (Note 16.3).

20. Derivative financial instruments

At 31 December 2017, NOS had contracted two interest rate swaps totalling of 250 million euros (31 December 2016: 375 thousand euros), whose maturities expire in 2019. The fair value of interest rate swaps, in the negative amount of 2.5 million euros (31 December 2016: negative amount of 4.0 million euros) was recorded in liabilities, against shareholder's equity.

		2016			
	NOTIONAL	ASSETS		LIABILITIES	
		CURRENT	NON CURRENT	CURRENT	NON CURRENT
DERIVATIVES					
Interest rate swaps	375,000,000	-	-	-	4,027,492
Equity Swaps	2,041,239	17,169	5,750	-	-
	377,041,239	**17,169**	**5,750**	**-**	**4,027,492**

		2017			
	NOTIONAL	ASSETS		LIABILITIES	
		CURRENT	NON CURRENT	CURRENT	NON CURRENT
DERIVATIVES					
Interest rate swaps	250,000,000	-	-	-	2,453,113
Equity Swaps	2,317,542	18,651	-	-	8,592
	252,317,542	**18,651**	**-**	**-**	**2,461,705**

Movements during the year ended on 31 December 2016 and 2017 were as follows:

	31-12-2015	INCOME	EQUITY	31-12-2016
Fair value interest rate swaps	(3,368,942)	-	(658,550)	(4,027,492)
Equity swaps	-	26,485	(3,566)	22,919
DERIVATIVES	**(3,368,942)**	**26,485**	**(662,116)**	(4,004,573)
Deferred income tax assets (Note 12)	758,012	(5,959)	148,976	(901,029)
DEFERRED INCOME TAX	**758,012**	**(5,959)**	**148,976**	(901,029)
	(2,610,930)	**20,526**	**(513,140)**	**(4,905,602)**

	31-12-2016	INCOME	EQUITY	31-12-2017
Fair value interest rate swaps	(4,027,492)	-	1,574,379	(2,453,113)
Equity swaps	22,919	(189,878)	177,018	10,059
DERIVATIVES	**(4,004,573)**	**(189,878)**	**1,751,397**	**(2,443,054)**
Deferred income tax assets (Note 12)	(901,029)	42,723	(394,064)	(549,688)
DEFERRED INCOME TAX	**(901,029)**	**42,723**	**(394,064)**	**(549,688)**
	(4,905,602)	**(147,155)**	**1,357,333**	**(2,992,742)**

21. Accounts payable

At 31 December 2016 and 2017, accounts payable to suppliers and other entities were as follows:

	2016	2017
ACCOUNTS PAYABLE		
Related parties i)	58,651,509	98,160,043
Suppliers	319,704	467,574
Fixed assets suppliers	793	2,497
Others	(55,765)	26,254
	58,916,241	**98,656,368**

i) At 31 December 2016 and 2017, the amounts that are payable to related parties correspond predominantly to loans and interests obtained from group companies (Note 31). At the end of 2017, these loans matured at the interest rate of 0.25%.

22. Services rendered

At 31 December 2016 and 2017, this caption corresponds to management services provided to NOS group companies (Note 31).

23. Other operating revenues

At 31 December 2016 and 2017, this caption comprises the following:

	2016	2017
Guarantee	465,527	320,833
Others	121,990	23,459
	587,517	**344,292**

24. Wages and salaries

In the years ended on 31 December 2016 and 2017, this item was composed as follows:

	2016	2017
Remunerations	5,221,035	5,468,743
Social taxes	691,810	742,204
Social benefits	199,711	54,919
Others	26,345	75,217
	6,138,901	**6,341,083**

In the years ended on 31 December 2016 and 2017, the average number of employees of the Company was 6. At 31 December 2017 the average number of employees of the Company amounted to 6.

25. Supplies and external services

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

	2016	2017
Support services	1,039,041	1,019,688
Rentals	270,088	253,832
Insurances	113,301	97,278
Travelling costs	108,820	92,780
Fuels	38,604	27,221
Specialised works	297,012	18,689
Maintenance and repairs	3,063	14,486
Litigation and notaries	11,996	14,411
Energy	19,098	14,386
Cleaning, hygiene and comfort	9,220	8,172
Vigilance and security	6,881	5,017
Communications	7,577	2,842
Fees	1,800	125
Other supplies and external services	49,977	49,122
	1,976,478	**1,618,049**

26. Other operational losses / (gains)

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

	2016	2017
Contributions	8,527	35,457
Others	50,096	38,297
	58,623	**73,754**

27. Other losses / (gains) non-recurring

This caption in the years ended at 31 December 2016 and 2017 is as follows:

	2016	2017
Fines and penalties	6,079	638
Donations	9,000	15,000
Miscellaneous costs i)	(681,743)	(30)
	(666,664)	**15,608**

i) During the year ended on 31 December 2016, the gain on "Miscellaneous costs" corresponds to reversal of provisions (Note 17).

28. Financial costs / (revenues) and other financial expenses / (income)

During the years ended at 31 December 2016 and 2017, financial costs / (gains) and other financial expenses / (income), were as follows:

	2016	2017
FINANCIAL COSTS / (REVENUES)		
INTEREST EXPENSES		
Debenture loans	10,586,725	10,941,574
Commercial paper	4,922,792	3,931,170
Related parties (Note 31)	104,713	120,777
Derivates	2,180,255	2,200,103
Bank loans	2,312,040	2,121,774
Others	3,597	50,145
	20,110,122	**19,365,543**
INTEREST EARNED		
Related parties (Note 31)	(24,168,652)	(21,505,413)
Bank deposits	(10,608)	(204)
	(24,179,260)	**(21,505,617)**
	(4,069,138)	**(2,140,074)**
NET OTHER FINANCIAL EXPENSES / (INCOME)		
Comissions on bank loans	1,603,015	1,477,324
Comissions on debenture loans	1,025,361	1,113,019
Comissions on commercial paper	2,651,664	2,113,280
Bank services	242,963	96,642
Others	240,330	104,636
	5,763,333	**4,904,901**

The decrease of interest expenses and interest earned results predominantly from the reduction in the average rates of financing (Note 16).

29. Losses / (gains) of affiliated companies

During the years ended at 31 December 2016 and 2017, this caption was as follows:

	2016	2017
DIVIDENDS RECEIVED		
NOS Comunicações	78,252,824	28,063,837
NOS Audiovisuais	-	28,026,290
NOS Communications	-	16,434,187
NOS Towering	7,268,398	6,024,432
NOS Cinemas	5,611,046	5,863,199
NOS Technology	-	13,840,276
NOS Inovação	572,688	593,511
Sontária	157,274	197,688
Per-Mar	66,652	75,208
Outros	400	349
	91,929,281	**99,118,977**
OTHERS		
Losses/(loss reversals) for impairment on financial investments (Note 8)	(10,802,418)	-
	(10,802,418)	**-**
	81,126,863	**99,118,977**

30. Guarantees and financial undertakings

30.1. Guarantees

At 31 December 2016 and 2017, the Company had furnished guarantees in favour of third parties corresponding to the following situations:

	2016	2017
GUARANTEES IN FAVOUR OF:		
Financial instituitions i)	110,264,275	91,842,850
Tax authorities ii)	4,485,360	4,361,215
Others	561,290	561,330
	115,310,925	**96,765,395**

i) At 31 December 2016 and 2017, this amount relates to guarantees furnished by NOS in connection with the loan from EIB.

ii) At 31 December 2016 and 2017, this amount relates to the guarantees required by the tax authorities in connection with tax proceedings contested by the Company and its subsidiaries.

Other guarantees

Under the financing obtained by Upstar with the Novo Banco totalling 20 million euros, NOS signed a promissory note in the amount proportional to the shareholding of 30% of the funding, At 31 December 2017 the amount due reached 1.5 million euros.

Under the financing obtained by Upstar with the Novo Banco totalling 10 million euros, NOS signed a promissory note in the amount proportional to the shareholding of 30% of the funding.

Additionally, during 2014, in connection with a contract between Upstar and a supplier of TV contents, NOS signed a personal guarantee, in the form of a partial endorsement, proportional to NOS shareholder position of 30%, as a counter guarantee of a guarantee by Novo Banco for an amount of 30 million dollars, to pledge the fulfilment of the contract's obligations. At 31 December 2017, the active amount of bank guarantees is null, a result of in January, May and August 2017, the supplier partially activated the guarantee for an amount of to 12.5, 10 and 7.5 million dollars, respectively, that was reinstated by the company's own funds.

During the 2015 fiscal year, NOS issued a comfort letter to the Caixa Geral de Depósitos in the context of an issue of a bank guarantee to Sport TV, amounting to 23.1 million euros. At 31 December 2017, the active amount of bank guarantees ascends to 2.1 million euros. This guarantee ends in January 2018.

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

On September 2016, NOS constituted guarantees, on behalf of Sport TV, to The Football Association League Limited for an amount of 29.1 million euros, amounted at 31 December 2017 to 10.2 million euros. This 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 were set up sureties for the current fiscal processes. NOS consisted of NOS SA surety for an amount of 13.1 million euros.

30.2. Operating leases

The rentals due on operating leases have the following maturities:

	2016		2017	
	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS	UNTIL 1 YEAR	BETWEEN 1 AND 5 YEARS
Vehicles	158,765	181,966	105,642	143,423
Buildings	16,226	13,522	16,226	13,522
	174,991	**195,487**	**121,868**	**156,944**

30.3. Other undertakings

Covenants

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

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

The EIB loan totalling 110 million euros with a maturity in 2022 is intended exclusively to finance the next investment project of generation network. This amount may not exceed 50% of the total cost of the project in any circumstances.

Assignment agreements football broadcasting rights

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

Additional disclosures are made in consolidated financial statements of NOS SGPS.

31. Related parties

At 31 December 2016 and 2017, the balances with companies of NOS Group were as follows:

Balances with related parties - 2016

	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	ACCRUED EXPENSES	PREPAID EXPENSES	BORROWINGS
SHAREHOLDERS					
BPI	-	(15,491)	-	-	-
SUBSIDIARIES					
Empracine	(6,879)	-	-	-	115,290
Lusomundo Imobiliária 2	(10,681)	-	-	-	10,018,813
Lusomundo Imobiliária SII	8,124	-	-	-	6,193,231
Lusomundo Moçambique	602	-	-	-	-
NOS Açores	(77,556)	-	-	-	397,335
NOS Audiovisuais	51,906,526	-	-	-	4,930,444
NOS Cinemas	2,156,010	-	-	-	9,109,083
NOS Communications	69,211	-	-	-	5,772,090
NOS Comunicações	300,667,234	507,149	18,752	1,087	-
NOS Inovação	11,029,048	-	-	-	-
NOS Lusomundo TV	1,354,229	-	142	-	8,770,211
NOS Madeira	60,349	-	-	-	6,260,584
NOS PUB	788,422	-	-	-	6,062,323
NOS Sistemas	4,616,638	-	-	-	-
NOS Sistemas España	4,485	-	-	-	-
NOS Technology	368,792,164	38,757	160,593	-	-
NOS Towering	94,568,420	6,151	(19,169)	-	-
Per-Mar	233,337	-	-	-	65,144
Sontaria	3,075,475	-	-	-	310,206
ASSOCIATED COMPANIES					
Dreamia BV	(1,020)	-	-	-	-
Dreamia -Serviços de televisão	7,155	-	-	-	-
Finstar	2,607	-	-	-	-
Mstar	666	-	-	-	-
Sport TV	102,174	-	-	-	-
Upstar	113,657	-	-	-	-
OTHER RELATED PARTIES					
Continente Hipermercados	-	139	-	-	-
Public	-	-	-	27	-
	839,460,400	**536,704**	**160,318**	**1,114**	**58,004,754**

Balances with related parties - 2017

	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	ACCRUED EXPENSES	PREPAID EXPENSES	BORROWINGS
SHAREHOLDERS					
BPI	-	25,548	-	-	-
ASSOCIATED COMPANIES					
SPORT TV	162,877	-	-	-	-
SUBSIDIARIES					
Empracine	1,054	-	-	-	12
Lusomundo Imobiliária 2	(7,587)	-	-	-	5,859,940
Lusomundo Imobiliária SII	(6,658)	-	-	-	383,192
Lusomundo Moçambique	602	-	-	-	-
NOS Açores	1,742,623	-	-	-	-
NOS Audiovisuais	67,963,756	-	402	-	-
NOS Audiovisuais SGPS	-	-	-	-	48,000
NOS Cinemas	2,315,599	3,814	69	-	10,659,680
NOS Communications	12,873,847	-	-	-	13,391,413
NOS Comunicações	324,517,310	307,913	72,564	-	-
NOS Inovação	10,039,378	-	56	-	-
NOS Internacional SGPS	-	-	-	-	48,000
NOS Lusomundo TV	1,143,737	-	199	-	5,573,877
NOS Madeira	170,735	-	-	-	4,634,048
NOS PUB	1,511,379	-	454,886	-	11,683,131
NOS Sistemas	2,685,965	-	-	-	-
NOS Sistemas España	6,368	-	-	-	-
NOS Technology	326,956,981	91,586	3,857	-	45,305,017
NOS Towering	93,738,757	6,615	-	-	-
Per-Mar	212,503	-	-	-	269,174
Sontaria	1,065,706	-	-	-	304,559
JOINTLY CONTROLLED COMPANIES					
Dreamia BV	(1,020)	-	-	-	-
Dreamia -Serviços de televisão	5,301	-	-	-	-
Finstar	2,607	-	-	-	-
Mstar	666	-	-	-	-
Upstar	47,695	-	-	-	-
OTHER RELATED PARTIES					
Public	-	-	-	405	-
	847,150,183	**435,476**	**532,033**	**405**	**98,160,043**

During the years ended at 31 December 2016 and 2017, transactions made with companies of NOS Group were as follows:

Transactions with related parties - 2016

	REVENUE	WAGES AND SALARIES	SUPPLIES AND EXTERNAL SERVICES	OTHER EXPENSES AND LOSSES	FINANCIAL LOSSES / (GAINS)	ASSETS
SHAREHOLDERS						
BPI	-	-	-	-	391,043	-
ASSOCIATED COMPANIES						
Dreamia - Serviços de televisão	-	-	(297)	-	-	-
Sport TV	102,174	-	-	-	0	-
SUBSIDIARIES						
Empracine	1,895	-	-	-	(287)	-
Lusomundo Imobiliária 2	3,753	-	(401)	-	(15,556)	-
Lusomundo SII	18,960	-	-	-	(25,527)	-
NOS Açores	133,554	-	(13,966)	0	(2,888)	-
NOS Audiovisuais	312,187	-	(733)	-	1,530,580	-
NOS Cinemas	199,027	-	(912)	-	(18,720)	-
NOS Communications	66,749	-	(4,149)	-	167,683	-
NOS Comunicações	4,748,836	4,032	980,367	(34,853)	9,580,205	4,409
NOS Inovação	82,682	(2,241)	-	-	242,050	-
NOS Lusomundo TV	37,788	-	16	-	(8,204)	-
NOS Madeira	204,005	-	(12,238)	0	(20,339)	-
NOS PUB	42,517	-	(912)	-	(13,835)	-
NOS Sistemas	111,627	-	(3,914)	-	56,071	-
NOS Technology	453,519	(57,889)	1,835	-	9,778,274	-
NOS Towering	113,537	-	(1,764)	-	2,726,896	-
Per-Mar	2,667	-	-	-	5,941	-
Sontaria	3,743	-	-	-	86,373	-
ZON Finance BV	-	-	-	70	-	-
OTHER RELATED PARTIES						
Continente Hipermercados	-	121	1,727	-	-	-
Modelo Continente Hipermercados	-	29	667	-	-	-
Público	-	-	609	-	-	-
Sonacom	-	(52,927)	-	-	-	-
Sonaecenter II	-	-	92	-	-	-
	6,639,219	**(108,875)**	**946,026**	**(34,783)**	**24,459,761**	**4,409**

Transactions with related parties - 2017

	REVENUE	WAGES AND SALARIES	SUPPLIES AND EXTERNAL SERVICES	OTHER EXPENSES AND LOSSES	FINANCIAL LOSSES / (GAINS)	ASSETS
SHAREHOLDERS						
Sonaecom	-	-	17,121,100	-	-	
BPI	-	-	-	-	12,500,000	
ASSOCIATED COMPANIES						
Dreamia - Serviços de televisão	-	-	(207)	-	-	
UPSTAR	-	-	(596)	-	-	
Sport TV	60,703	-	-	-	-	
SUBSIDIARIES						
Empracine	3,190	-	(0)	-	220	
Lusomundo Imobiliária 2	4,329	-	(0)	-	21,565	
Lusomundo SII	17,236	-	-	-	13,840	
NOS Açores	114,190	300	(2)	-	12,643	
NOS Audiovisuais	277,935	(29,119)	(0)	-	1,539,039	
NOS Cinemas	216,632	(6,555)	(7)	-	21,713	
NOS Communications	65,274	3,865	(4)	-	14,654	
NOS Comunicações	4,957,415	206,831	1,039	-	7,588,320	3,683
NOS Inovação	30,213	(238)	(1)	-	14,603	
NOS Lusomundo TV	177,871	(659)	(3)	-	14,408	
NOS Madeira	39,999	(282)	(0)	-	17,713	
NOS PUB	88,427	203,826	(2)	-	33,384	
NOS Sistemas	521,392	(145,015)	(16)	-	9,387,534	
NOS Technology	90,901	-	(1)	-	2,681,378	
NOS Towering	4,037	-	(1)	-	6,525	
Per-Mar	5,047	-	(1)	-	54,703	
Sontaria	97,359	1,029	(0)	-	203,946	
ZON Finance BV	-	-	-	-	-	
OTHER RELATED PARTIES						
Continente Hipermercados	-	61	0	-	-	
Modelo Continente Hipermercados	-	-	1	-	-	
Público	-	-	0	-	-	
Solinca	-	-	0	-	-	
	6,772,149	**234,043**	**17,121,301**	**-**	**34,126,191**	**3,683**

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

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

Due to the large number of low value related parties’ balances and transactions, it was grouped in the heading "Other related parties" the balances and transactions with entities whose amounts are less than 30 thousand euros.

32. Remuneration earned by management

The remuneration earned by management of NOS, for the years ended at December 2016 and 2017 were as follows:

	2016	**2017**
Fixed remunerations	2,719,001	2,984,164
Profit Sharing / Bonus	1,186,010	1,130,546
Share-based compensation plans	1,206,210	1,134,066
	5,111,221	**5,248,775**

The amounts presented in the table were calculated on an accruals basis for the fixed remuneration and profit sharing / bonus (short-term remunerations). The amount of Share-based compensation plans corresponds to the amount assigned in 2018 related to 2017 performance (and assigned in 2017 related to the 2016 performance). The average number of members' key of management in 2016 and 2017 was 16. The Corporate Governance Report includes detailed information about NOS' remuneration policy.

The Company considered as Directors the members of the Board of Directors.

33. Share incentive schemes

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

In addition to the NOS Plan above mentioned, at 31 December 2017, are still unvested the Share Incentive Schemes approved by the General Meetings of Shareholders on 27 April 2008 ("Standard Plan"). The Standard Plan is aimed at eligible members selected by the responsible bodies, regardless of the roles they perform. In this plan, the vesting period for the assigned shares is five years, starting twelve months after the period to which the respective assignment relates, at a rate of 20% a year, as long as the employee stays in the company during each of these five periods.

As at 31 December 2017, the unvested plans are:

	NUMBER OF SHARES
STANDARD PLAN	
Plan - 2013	60,378
NOS PLAN	
Plan - 2015	639,674
Plan - 2016	747,714
Plan - 2017	848,472

During the year ended on 31 December 2017, the movements that occurred in the plans are detailed as follows:

Movement in number of unvested shares

	STANDARD PLAN	MAINROAD PLAN	NOS PLAN
BALANCE AS AT 31 DECEMBER 2016	**180,067**	**41,958**	**2,303,014**
MOVEMENTS IN THE PERIOD:			
Awarded	-	-	834,211
Vested	(117,296)	(41,958)	(772,217)
Cancelled / elapsed / corrected (1)	(2,393)	-	(129,148)
BALANCE AS AT 31 DECEMBER 2017	**60,378**	**-**	**2,235,860**

(1) Refers mainly to corrections made for dividends paid, exit of employees not entitled to the vesting of shares and other adjustments resulting from the way the shares are vested, which may be made through the purchase of shares at a discount.

The share plans costs are recognised over the year between the award and vesting date of those shares. The responsibility is calculated taking into consideration the share price at attribution date of each plan or at closing date, for the plans liquidated in cash. As at 31 December 2017, the outstanding responsibility related to these plans is of 6,486 thousand euros, and is recorded in reserves, for an amount of 5,252 thousand euros, for the plans liquidated in shares, and in accrued expenses, for an amount of 1,234 thousand years, for the plans liquidated in cash.

The costs recognised in previous years and in 2017, and the respective responsibilities were as follows:

	ACCRUED EXPENSES	RESERVES	TOTAL
Costs recognised in previous years related to plans as at December 31, 2016	1,199,384	6,316,749	7,516,133
Plans of costs vested in the period	(810,298)	(4,281,893)	(5,092,191)
Costs recognised in the period	844,830	3,217,251	4,062,081
TOTAL PLANS COSTS	**1,233,916**	**5,252,107**	**6,486,023**
AMOUNT RECEIVABLE FROM GROUP COMPANIES			**(4,675,600)**
NOS SGPS TOTAL LIABILITY	**1,233,916**	**5,252,107**	**1,810,423**

Additionally, during the year ended on 31 December 2017, the Board of Directors of NOS approved a debit to the subsidiaries relating to the plans of shares amounting to 8.3 million euros.

34. Legally required disclosures

The fees charged for the year ended on 31 December 2017 by Statutory Auditor are detailed as follows:

	2016	2017
Statutory audit	38,810	35,439
AUDIT SERVICES	**38,810**	**35,439**
OTHERS	**14,500**	**13,800**
TOTAL	**53,310**	**49,239**

35. Subsequent events

At the date of the document’s approval, there were no other relevant subsequent events meriting disclosure in this financial report.

These financial statements are a translation of financial statements originally issued in Portuguese in accordance with International Financial Reporting Standards (IAS / IFRS) as adopted by the European Union and the format and disclosures required by those Standards, some of which may not conform to or be required by generally accepted accounting principles in other countries. In the event of discrepancies, the Portuguese language version prevails.

Report and Opinion of the Statutory Auditor

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

Statutory and Auditor's Report

REPORT ON THE AUDIT OF THE CONSOLIDATED AND INDIVIDUAL FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated and individual financial statements of NOS, S.G.P.S., S.A. (the Group), which comprise the Consolidated and Individual Statements of Financial Position as at 31 December 2017 (which show a total of 2,967,067 thousand euros and 2,355,380 thousand euros, respectively, a consolidated and individual total equity of 1,086,368 thousand euros and 1,202,932 thousand euros, respectively, including a consolidated net profit for the year attributable to the equity holders of the parent of 124,094 thousand euros and an individual net profit for the year of 96,556 thousand euros), and the Consolidated and Individual Statements of Comprehensive Income, the Consolidated and Individual Statements of Changes in Equity and the Consolidated and Individual Statements of Cash Flows for the year then ended, and accompanying notes to the consolidated and individual financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and individual financial statements give a true and fair view, in all material respects, of the consolidated and individual financial position of NOS, S.G.P.S., S.A. as at 31 December 2017, and its consolidated and individual financial performance and its consolidated and individual cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and guidelines as issued by the Institute of Statutory Auditors. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated and individual financial statements" section below. We are independent of the Entity in accordance with the law and we have fulfilled other ethical requirements in accordance with the Institute of Statutory Auditors´ code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters – Consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We describe below the key audit matters relevant to the current period:

1. Recognition and measurement of revenue given the complexity of systems and the existence of multiple deliverable arrangements

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement

The Group's revenues consist essentially of:
► Revenue from telecommunications services, namely: i) Cable television services, fixed broadband and fixed voice; ii) satellite television; ii) mobile broadband and voice services;
► Advertising revenue; and
► Revenue from production and distribution of content and channels.
 	
The complexity of information systems that support a significant volume of transactions, combined with the existence of multiple deliverable arrangements, represent a significant audit risk.
 	
The process of revenue recognition and measurement involves significant judgement on the part of Management as disclosed in note 2.3.17 to the financial statements, with particular regard to the appropriate allocation of revenue to each of the multiple deliverable arrangements and estimates of discounts and offers to be granted to customers.
 	
In 2018, the new revenue standard - "IFRS15 - Revenue from contracts with customers" - will come into force, for which the process of recognition and measurement of revenue will be changed, and significant management judgments will be required. The estimated retrospective impact (*full retrospective approach*) of the new revenue accounting standard and the preliminary judgments are disclosed in Note 2.1 to the financial statements, which summarizes the estimated impacts on the opening balances of 2018.
	Our approach to the risk of material misstatement included (i) a global response to the way the audit was conducted overall and (ii) a specific response involving a combined approach of assessing controls and performing substantive procedures, including:
	► Involvement of internal experts in the evaluation of the Group's information technology general controls and in the test of the application controls of the most relevant revenue processes;
	► Execution of specific audit procedures to assess the operational effectiveness of the controls identified as relevant, including: i) reconciliations between systems; ii) testing the controls of the Bill Cycle Review; and iii) validation of the key controls operating throughout the end-to-end process;
	► Analysis of the various types of contracts in order to identify the specific elements of the contracts, such as services, goods, prices, discounts and offers. Our procedures included verifying the correct allocation of revenue to the various services / goods identified;
	► Analytical review tests of the disaggregated revenue, comparing it with the same period of the previous year and with the expectation formed based on projected and actual indicators of the Group's performance, including: i) revenue market share; ii) RGU's (Revenue Generating Units); and iii) ARPU (Average Revenue Per User); and
	► Analysis of the disclosures included in the financial statements:
	  ► In Notes 2.3.17 and 28, in order to ensure that they adequately reflect the accounting policies adopted by the Group as well as the accounting records; and
	  ► In Note 2.1, in order to ensure that it reflects the quantitative and qualitative impacts estimated by Management regarding the application of "IFRS 15 - Revenue from contracts with customers" on the opening balances of 2018, considering the decision of the Group to adopt the retrospective application of the standard (full retrospective approach).

2. Goodwill impairment

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As at 31 December 2017, the carrying amount of Goodwill is 641 million euros, representing 20% of the Group's total assets. Goodwill is allocated to Telco and Audiovisual segments. The possible existence of impairment of Goodwill was considered a key audit matter due to the significance of the amounts to the Group's financial position and due to the complexity involved in the impairment assessment process, which includes assumptions such as future market and economic conditions, market share, revenue and margin evolution.	We assessed the assumptions used in the valuation models prepared by management, namely cash flow projections, discount rates, inflation rates, perpetuity growth rate and sensitivity analysis. We were supported, in the performance of these procedures, by internal specialists in business valuations. We evaluated the reliability of the assumptions used in the development of the business plan when compared to prior periods and as compared to historical data and external information. We evaluated the clerical and arithmetic accuracy of the models used. We focused on the sensitivity analysis of the two cash generating units, in order to validate the appropriateness of the disclosures included in Note 9 to the financial statements, reflecting the results of the impairment tests carried out. We verified compliance with the applicable disclosure requirements (IAS 36).

3. Cost capitalization and useful lives attributable to tangible and intangible assets

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
Capitalization of expenditure and determination of useful lives attributable to tangible and intangible assets are accounting estimates where management uses significant judgement, as disclosed in Notes 2.3.3, 2.3.4 and 3.1 to the financial statements. The risks identified are related to the possibility that the capitalized costs do not comply with the capitalization requirements prescribed in the applicable accounting standards or that the tangible and intangible assets' useful lives are not appropriate or consistent with the period during which economic benefits from the use of those assets will flow to the Group. During 2017, the Group capitalized 92.5 million Euros (2016: 95.8 million Euros) under tangible and intangible assets related mainly to costs incurred in raising customer loyalty contracts. The subsequent measurement of the amounts recognized as assets requires a continued assessment of the existence of impairment indicators.	We performed specific audit procedures to assess the operational effectiveness of internal controls considered relevant in order to assess whether: ► The capitalization criteria are compliant with the Group's policy; and ► The tangible and intangible assets' useful lives are approved by management and are reviewed on a yearly basis. In addition, we analyzed capitalized costs by nature and assessed whether the capitalization requirements were met. In what concerns useful lives, we tested their consistency and appropriateness considering the specificities of the Group's revenue recognition and the practices of the sector in which the Group operates.

4. Recognition, measurement and disclosure of tax, regulatory and legal contingencies

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The Provisions account and Note 41 – Legal processes in course, contingent assets and contingent liabilities of the Notes to the financial statements, refer to obligations for tax, regulatory and legal contingencies. Management periodically evaluates potential liabilities arising from past events the probability for which implies the recognition of a provision and/or a disclosure in the financial statements. This evaluation results from a process involving significant judgment on the part of the Group's management. The risks identified are both in the assessment of the likelihood of outflows of resources from the Group as well as in the quantification of the liability or of the contingent liability.	Our approach to the risk of material misstatement included the following procedures: ► Analysis of the controls established in the Group to identify situations likely to give rise to the recognition of provisions or the disclosure of tax, regulatory and legal contingent situations; ► Obtaining external confirmations from all the lawyers with whom the Group has relations; obtaining explanatory memoranda prepared by external and internal lawyers for the main proceedings in progress; reading the minutes of the Group's various Committees and Commissions; and analysis of the arguments used by management for the graduation of each contingency; ► Involvement in the audit of internal experts in tax matters; ► Evaluation of the probabilities of the outcome of contingencies taking into account not only the historical decisions as well as the conclusion of similar processes in other entities in the sector; and ► Validation of the disclosures included in the Notes to the financial statements related to Provisions and Legal processes, contingent assets and contingent liabilities. In relation to regulatory and legal provisions, the following procedures were also performed: ► Quarterly meetings with the Group's Regulatory and Financial Departments to take note of new contingencies and obtain an update on any situations known in previous periods; ► Analysis of the newsletters issued by the sector regulator (ANACOM) and its decisions on specific issues of regulation of the sector and assessment of their possible impact on the Group's financial statements; and ► Analysis of National and International Regulation Reports prepared by the Group's Regulatory Department.

5. Impairment of trade accounts receivable - recognition and measurement

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
Impairment of trade receivables amounts to 139.5 million Euros as at 31 December 2017, representing approximately 25% of the total balance of trade accounts receivable. The impairment testing of accounts receivable is one of the key areas of judgment for management. The identification of the accounts receivable impaired and the determination of the recoverable amount is a process that involves the analysis of several assumptions and factors, including the aging of the debt, the financial condition of the debtor, the expectation of default and of collection. In specific cases, the use of complex models and assumptions may produce significantly different estimates of impairment of trade receivables, involving a significant volume of information. Audit risk arises from the significant judgment used in this type of calculation, and is increased by the large volume of information managed in different information systems, which requires complex calculations and various assumptions based on historical data.	Our approach to the risk of material misstatement included: i) a global response in the way the audit was conducted overall; and ii) a specific response involving a combined approach of assessing controls and performing substantive procedures on collections, recovery of overdue debts and the calculation of trade receivables impairment as well as the assumptions used by management in quantifying the amount of impairment losses to be recognized. We have analyzed the assumptions underlying the quantification of the trade receivables impairment loss, taking into account the aging of the debt, the financial capacity of the debtors and the historical trends of collections. In addition, we performed sensitivity analysis regarding the assumptions used by the Group. The disclosures included in the financial statements in Notes 2.3.8, 3.1, 4.1 and 15 have been reviewed to evaluate whether they appropriately reflect the accounting policies adopted by the Group and the accounting records.

6. Recognition and measurement of broadcasting rights

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
Broadcasting rights include: ► Television broadcasting rights of films, series and sports content; and ► Rights of transmission of television channels.	Our approach to the risk of material misstatement included (i) a global response in the way the audit was conducted overall and (ii) a specific response involving a combined approach of assessing controls and performing substantive procedures, including: ► Analysis of the process adopted by the Group for the review of the useful lives of the programming rights and analysis of the frequency of use of the broadcasting rights with the relevant recorded costs; ► Assessment of the Group's recognition and measurement policy for broadcasting rights, as well as the assertions of management regarding the use of those rights;

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
Television broadcasting rights for films, series and sports content involve judgment because of the existence of a large number of qualitative factors, which include: ► The definition of when the right and the obligation should be recorded or when contractual obligations should only be disclosed; ► The period during which the rights or programs are expected to be used and their frequency (linear or non-linear); and ► The potential benefits related to the ownership of rights. As disclosed in Notes 2.3.4 and 2.3.10 of the Notes to the financial statements, the determination of the timing of recognition and the amount to be recognized for the rights of transmission of content in the balance sheet, as well as the selection of criteria for recognition of expenses in the financial results require the use of judgment by management.	► Assessment of the impact of qualitative factors, such as the capacity for retention of subscribers due to the ownership of rights; or other factors resulting from agreements that involve the total or partial transfer of broadcasting rights acquired; ► Analysis of the most significant contracts signed during the current year to verify the consistent application of the Group's adopted policy; ► Analysis of the accounting practices for recognition of broadcasting rights of other companies in the sector; ► Analytical review of expenses for broadcasting rights, by comparison with the same period of prior year and with the amounts budgeted for liabilities assumed by the Group; and ► Analysis of the disclosures included in the financial statements in Notes 9, 14, 27 and 38.3 in order to evaluate whether they appropriately reflect the accounting policies adopted by the Group in the recognition and measurement of broadcasting rights, with a special focus on the disclosure of contractual liabilities assumed and shared.

Key audit matters – Individual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the individual financial statements of the current period. These matters were addressed in the context of our audit of the individual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We describe below the key audit matters relevant to the current period:

1. Goodwill and Financial investments impairment

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As at 31 December 2017, the carrying amounts of Goodwill and Financial investments are 454 million Euros and 1,041 million Euros, respectively. These assets represent 63% of the Company's total assets.	We assessed the assumptions used in the valuation models prepared by management, namely cash flow projections, discount rates, inflation rates, perpetuity growth rate and sensitivity analysis. We were supported, in the performance of these procedures, by internal specialists in business valuations. We evaluated the reliability of the assumptions used in the development of the business plan when compared to prior periods and as compared to historical data and external information. We evaluated the clerical and arithmetic accuracy of the models used.

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The possible existence of impairment of Goodwill and Financial investments was considered a key audit matter due to the significance of the amounts on the Entity's financial position and to the complexity involved in the impairment assessment process, which includes assumptions such as future market and economic conditions, market share, revenue and margin evolution.	We focused on the sensitivity analysis of the two cash generating units and in the recoverability of the Financial investments located in Angola and Mozambique, in order to validate the appropriateness of the disclosures included in the Notes 7 and 8 to the financial statements, reflecting the results of the impairment tests carried out. We verified compliance with the applicable disclosure requirements (IAS 36).

Responsibilities of management and the supervisory board for the consolidated and individual financial statements

Management is responsible for:

- the preparation of the consolidated and individual financial statements that presents a true and fair of the Group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards as endorsed by the European Union;
- the preparation of the Management Report, including the Corporate Governance Report, in accordance with the law and regulation;
- the design and maintenance of an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of the appropriate accounting policies considering the circumstances; and
- the assessment of the Group's ability to continue as a going concern, disclosing, as applicable, matters that may raise significant doubts about going concern.

The supervisory board is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated and individual financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and individual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and individual financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated and individual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and individual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated and individual financial statements, including the disclosures, and whether the consolidated and individual financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and individual financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion;
- communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- from the matters communicated with those charged with governance, including the supervisory board, we determine those matters that were of most significance in the audit of the consolidated and individual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and
- we also provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility includes the verification of the consistency of the information included in the Management Report with the consolidated and individual financial statements, as well as the verifications under nr. 4 and nr. 5 of article 451 of the Commercial Companies Code ("Código das Sociedades Comerciais").

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, paragraph e) of the Commercial Companies Code, it is our opinion that the Management Report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited financial statements and, having regard to our knowledge and assessment over the Entity, we have not identified any material misstatement.

On the non-financial statement as required by article 66-B of the Commercial Companies Code

Pursuant to article 451, nr. 6, of the Commercial Companies Code, we inform that the Group has prepared a separate report, separate from the Management Report, which includes non-financial information, as required by article 66-B of Commercial Companies Code, and it has been published together with the Management Report.

On the Corporate Governance Report

In our opinion, the Corporate Governance Report includes the information required to the Entity to provide as per article 245-A of the Securities Code, and we have not identified material misstatements on the information provided therein in compliance with paragraphs c), d), f), h), i) and m) of the said article.

On additional items set out in article 10 of Regulation (EU) nr. 537/2014

Pursuant to article 10 of Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were appointed as auditors of the Group for the first time in the shareholders' general meeting held on 23 April 2014 for the period between 2014 and 2015, to complete the mandate of the three year period from 2013 and 2015. We were reappointed for a second mandate in the shareholders' general meeting held on 26 April 2016 for the period between 2016 and 2018;
- Management has confirmed that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the consolidated and individual financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism and we designed audit procedures to respond to the possibility of material misstatement in the consolidated and individual financial statements due to fraud. As a result of our work we have not identified any material misstatement to the consolidated and individual financial statements due to fraud;
- We confirm that our audit opinion is consistent with the additional report to the supervisory board that we have prepared and delivered today to the supervisory board; and
- We declare that we have not provided any prohibited services pursuant to article 77, nr. 8 of the Statute of the Institute of Statutory Auditors and we have remained independent of the Group in conducting the audit.

Porto, 16 March 2018

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

Sandra e Sousa Amorim (ROC nr. 1213)
Registered with the Portuguese Securities Market Commission under license nr. 20160824

Statement under the terms of Article 245, paragraph 1, sub-paragraph c) of the Portuguese Securities Code

In accordance with Article 245, paragraph 1, c) of the Securities Code, the Board of Directors of NOS, SGPS, S.A., whose names and roles are listed below, declare that, to their knowledge:

a) The management report, the annual individual and consolidated accounts, the legal certification of accounts, required by law or regulation, relative to the year ended 31 December 2017, were elaborated in compliance with the applicable accounting standards, accurately and truthfully portraying the assets and liabilities, the company's financial situation and results, as well as those of the companies included in its consolidation perimeter;

b) The management report faithfully portrays the evolution of the company's business, performance and position, as well as those of the companies included in its consolidation perimeter and, when applicable, contains a description of the main risks and uncertainties that they face.

Lisbon, 9 March 2017

The Board of Directors

Jorge Brito Pereira
(Chairman of the Board of Directors)

Miguel Nuno Santos Almeida
(Chief Executive Officer)

José Pedro Faria Pereira da Costa
(Vice-President)

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

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

Jorge Filipe Santos Graça
(Executive Member of the Board of Directors)

Luís Nascimento
(Executive Member of the Board of Directors)

Manuel Ramalho Eanes
(Executive Member of the Board of Directors)

Ângelo Paupério
(Member of the Board of Directors)

António Domingues
(Member of the Board of Directors)

António Lobo Xavier
(Member of the Board of Directors)

Catarina Tavira Van-Dúnem
(Member of the Board of Directors)

Cláudia Azevedo
(Member of the Board of Directors)

João Torres Dolores
(Member of the Board of Directors)

Joaquim de Oliveira
(Member of the Board of Directors)

Lorena Fernandes
(Member of the Board of Directors)

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

Report and Opinion of the Fiscal Board

Shareholders,

According to the articles of association, the supervision of the Company is committed to a Fiscal Board, comprised of three full members and one alternate member, elected by the General Meeting, as well as to a Statutory Auditor or Firm of Chartered Accountants.

In these circumstances, as set forth in paragraph 1, sub-paragraph g), of Article 420º of the Portuguese Companies Code, we hereby submit our Report on our Supervision Activity and our Opinion on the Individual and Consolidated Annual Report and Accounts of NOS, SGPS, S.A. ("Company") for the financial year ended on 31 December 2017.

The Fiscal Board has regularly accompanied the evolution of the activities of the Company and of its main subsidiaries, monitoring the compliance with the law and with the articles of association, supervising the Company's management, the effectiveness of its risk management systems, internal control and internal auditing and the preparation and disclosure of individual and consolidated financial information. Moreover, the Fiscal Board verified the regularity of the accounting records, the accuracy of the individual and consolidated financial statements and the accounting policies and valuation criteria adopted by the Company in order to ensure that they lead to a correct appraisal of its assets and individual and consolidated profits, as well as its cash flow statements.

As part of its duties, the Fiscal Board met with the Statutory Auditor and External Auditors in order to monitor their audits and learn their conclusions, supervising the works performed by the Statutory Auditor and External Auditors and their independence and competence. The Fiscal Board also met on a regularly basis with the heads of the Internal Audit Department and Legal Department, and the Board Member responsible for the financial area whenever was deemed fit and appropriate. The Fiscal Board received full cooperation from all at all times.

The Fiscal Board monitored the whistleblowing system. This system is available to all shareholders, employees and to the general public. All reports received were duly analyzed.

As for the Corporate Governance report, it is the duty of the Fiscal Board to merely verify that it includes the elements referred to in Article 245-A of the Portuguese Securities Code, which the Fiscal Board did.

The Fiscal Board also received from the Statutory Auditor a letter confirming its independence in relation to the Company.

As such, the Fiscal Board issues the following

OPINION:

The Fiscal Board was informed about the conclusions of the work of the examination of the Company´s accounts and external auditing on the Individual and Consolidated Financial Statements for the financial year of 2017, which include the individual and consolidated financial position in 31 December 2017, the individual and consolidated Statements by nature, the individual and consolidated Statements of comprehensive income, the individual and consolidated Statement of changes in equity, the individual and consolidated cash flow

Statement and its respective Annexes. The Fiscal Board scrutinized the Audit Report from the Statutory Auditor and External Auditors on these documents which expressed no reservations.

Within its powers, and according to paragraph 1, subparagraph c) of the article 245.º of the Portuguese Securities Code, the Fiscal Board declares that, to its knowledge, the Management Report, and the Individual and Consolidated Financial Statements for the financial year ended on 31 December 2017 were drawn up in accordance with the applicable accounting standards, reflecting a true and fair view of the assets and liabilities, financial position and results of NOS, SGPS, S.A. and the companies included in the consolidation as a whole. Additionally, the Management Report faithfully states the businesses' evolution, and the performance and position of the company and of the Group. It also complies with the applicable legal requirements and accounting standards as well as with the articles of association and, whenever deemed necessary, contains a description of the principal risks and uncertainties faced. It is also mentioned that the Non-Financial Statements contain enough information to allow an understanding of the performance, position and impact of the group's activities, related to the matters of environmental, social and worker issues, gender equality, non-discrimination, respect for human rights, fight against corruption and attempts at bribery. The Fiscal Board also ensures that the Company's Corporate Governance Report, which will be announced at the same time as the Management Report, includes the elements referred to in Article 245-A of the Portuguese Securities Code.

In view of the above, taking into account the opinion and the information received from the Board of Directors, the Company's departments, the Statutory Auditor and the External Auditor, the Fiscal Board opinion is as follows:

- i) The Management Report for 2017 may be approved;
- ii) The Individual and Consolidated Financial Statements for 2017 may be approved;
- iii) The Proposal for the Application and Distribution of Profits presented by the Board of Directors, namely taking into account Article 32 of the Portuguese Companies Code, as per the Law Decree nr. 185/2009 of 12th of August, may be approved.

Lisbon, 23 March 2018

The Fiscal Board

____

Paulo Mota Pinto

____

Patrícia Teixeira Lopes

____

Eugénio Ferreira

Corporate Governance **Report**

1. Introduction

NOS, SGPS, S.A. ("NOS" or "Company") is a public company, issuer of shares admitted to trading on the Euronext Lisbon regulated market managed by Euronext Lisbon – Sociedade Gestora de Mercados Regulamentados, S.A..

NOS is firmly committed to creating sustainable value for its shareholders and remaining stakeholders.

Seeing corporate governance as a mean to optimizing Company performance and, hence, as a real tool for competitiveness and value creation, NOS aims to be a national and international benchmark, not only in the governance model, but also in the content and the way it discloses information to its shareholders and the market in general, keeping watch to the evolution of the best practices and committed to permanently and actively improving its practices in this area.

NOS corporate governance, being a transversal undertaken commitment by all Company, is notably based on the following principles:

(i) Commitment with the shareholders;

(ii) Ethics;

(iii) Transparency;

(iv) Supervision; and

(v) Risk assessment.

Part I - Mandatory information concerning shareholder structure, organization and corporate governance

A. Shareholder Structure

I. Capital Structure

1. Share capital, number of shares, categories, admission or not to trading

NOS share capital is 5,151,613.80 euros and it is fully subscribed and paid up. The share capital is represented by 515,161,380 ordinary shares.

All NOS shares are admitted to trading on the Euronext Lisbon regulated market.

2. and 6. Restrictions on the transfer of shares, shareholder agreements and limits on owing the shares

The Articles of Association do not set out limitations or restrictions to the transfer of the shares that represent the share capital of NOS.

Notwithstanding, pursuant to article 9(1) of the Articles of Association, shareholders who directly or indirectly compete with the activity performed by the companies owned by NOS, cannot hold common shares that represent more than 10% of the Company's share capital, without prior authorization from the General Meeting.

NOS is aware of a shareholders agreement entered into between shareholders of ZOPT, SGPS, S.A. ("ZOPT") under the terms of the announcement to the market issued on 27 August 2013.

As disclosed, Sonaecom, SGPS, S.A. ("Sonaecom"), Kento Holding Limited and Unitel International Holdings, B.V. (where Kento and Unitel International hereinafter jointly referred to as "Grupo KJ") entered into a shareholder agreement regarding ZOPT on 14 December 2012, in which they own the following stakes ("Shareholders Agreement"):

a) SONAECOM owns 50% of the share capital and voting rights of ZOPT;

b) Grupo KJ owns 50% of the share capital and voting rights of ZOPT, where 17.35% is owned by Kento Holding Limited and 32.65% is owned by Unitel International Holdings, B.V..

In turn, ZOPT now holds, as result of the merger, more than 50% of the share capital and voting rights of NOS. Furthermore, on 14 June 2016, ZOPT acquired from Sonaecom – SGPS, S.A. 11,012,532 shares representing 2.14% of the share capital and voting rights of NOS. Consequently, ZOPT became the direct holder of 268,644,537 shares representing 52.15% of the share capital of NOS, as disclosed to the market on 16 June 2016.

Due to the Shareholders Agreement, this qualified shareholding can be attributed on the one hand to Kento Holding Limited and Unitel International Holdings B.V., directly or indirectly controlled by Mrs. Isabel dos Santos, and, on the other hand, to Sonaecom SGPS S.A. (which is controlled by Sonae SGPS, S.A. through Sontel BV which, in turn, is controlled by Efanor Investimentos, SGPS, SA). As of November 29th, 2017, EFANOR INVESTIMENTOS, SGPS, S.A., no longer have a controlling shareholder under the terms and for the purposes of articles 20 and 21 of the Portuguese Securities Code

As disclosed, to the market, "*the Parties signed the Shareholders Agreement to govern their legal positions as shareholders of ZOPT, SGPS, S.A., under the terms summarized below:*

"1. CORPORATE BODIES

1.1 ZOPT, SGPS, S.A.'s Board of Directors will be formed by an even number of members. SONAECOM and KJ Group will each have the right to appoint half the members of the Board of Directors, among which the Chairman will be appointed by agreement of the Parties.

1.2 ZOPT, SGPS, S.A.'s Board of Directors will be able to meet regularly when at least the majority of its members is present, and its resolutions will be made with the favourable vote of the majority of its Directors and always with the favourable vote of, at least, one member appointed by each Party.

1.3 ZOPT, SGPS, S.A.'s Chairman of the General Meeting and its Secretary will be appointed by agreement of the Parties. The General Meeting can only meet, in first or second calling, once more than fifty per cent of the Company's share capital is present or duly represented.

1.4 ZOPT, SGPS, S.A. will be supervised by a Fiscal Board whose members will be appointed by agreement of the Parties.

1.5 Any member of the corporate bodies appointed under the Shareholders Agreement can be removed or replaced at any time, by way of a proposal submitted to that effect by the Party that appointed him/her or, if he/she is a member appointed by agreement, by any of the Parties; in such case the other Party must vote in favour and undertake all actions necessary for such removal or replacement.

1.6 The exercise of ZOPT, SGPS, S.A.'s voting right concerning the appointment and election of members of the corporate bodies of any subsidiary or of any companies in which ZOPT, SGPS, S.A. owns a shareholding, as well as concerning any other matters, will be determined by the Board of Directors.

2. SHARES TRANSFER

2.1 The Parties shall abstain from transferring any shares representing ZOPT, SGPS, S.A.'s share capital that they hold, as well as from allowing that they become encumbered in any way.

2.2 The Parties shall undertake all actions necessary to prevent ZOPT, SGPS, S.A. from transferring any shares representing the Company's share capital that it may own in the future, as well as to ensure that such shares will not become encumbered in any way, with the exception of the shares that exceed the number of shares necessary for its shareholding not to be equal to or lower than half of the Company's' share capital and voting rights.

2.3 The Parties shall abstain from acquiring or holding (directly or on behalf of anyone with whom they have a relationship under article 20 of the Portuguese Securities Code) any shares representing the Company's share capital, unless via ZOPT, SGPS, S.A. and/or, in SONAECOM's case, as a result of the Merger.

2.4 Two years after the commercial registry of the Merger, KJ Group will have the right to purchase from SONAECOM, or whomever it appoints, up to half of the shares representing the Company's share capital held by SONAECOM or anyone with whom it has a relationship under article 20 of the Portuguese Securities Code – with the exception of ZOPT, SGPS, S.A. and the entities covered by article 20(1)(d) – unless the Parties agree that, at the end of that period, the relevant shares will be acquired by ZOPT, SGPS, S.A..

3. TERMINATION

3.1 The Shareholders Agreement will remain in force for an undetermined period, and shall only expire in case ZOPT, SGPS, S.A. ceases to exist following its dissolution and liquidation, or in case one of the Parties acquires the shares representing the share capital of ZOPT, SGPS, S.A. held by the other Party.

3.2 In a deadlock situation and in the absence of an agreed solution, as well as once twelve months have passed as from the commercial registry of the merger, any of the Parties is entitled to demand the dissolution of ZOPT SGPS, S.A..

3.3 Should a deadlock situation occur, the Parties will endeavour to find a mutually accepted solution for the situation, appointing each a representative to that effect, whose identity will be notified to the other Party within five days from the occurrence of the deadlock. If, in the following fifteen days, the deadlock has yet to been solved, any Party will have the right to demand the dissolution of ZOPT SGPS, S.A.."

There are no special rules that apply to the amendment of the Company's Articles of Association, being the process to alter the Articles of Association of NOS governed by the legal provisions in force from time to time.

There are neither special rights attributed to shareholders nor rules about employees' participation in the Company's share capital.

3. Treasury Stocks

At the end of 2016, NOS directly owned 3,017,603 own shares.

During 2017, the following transactions took place, which are summarized in the table below:

Description	Number of Shares
Initial Balance	3,017,603
Share Incentive Scheme and Other Remuneration - Distribution	977,369
Final Balance	2,040,234

Following the above mentioned transactions, on 31 December 2017, NOS held 2,040,234 own shares, which corresponded to 0.3960% of the share capital and 0,3960% of the voting rights.

Voting rights attached to own shares are suspended under the applicable law.

4. Significant agreements that variate with a change of control

As far as the Company's Board of Directors is aware, NOS is not a party to any significant agreements that come into force, are amended, or terminate if there is a change of Company control or change in the members of the Board of Directors) following a takeover bid, except for normal market practice regarding debt issues.

NOS and its subsidiaries are parties to some financing contracts and debt issues, which include provisions allowing for the change of control, typical in these types of transactions (including, tacitly, changes in the change of control as a consequence of a public takeover bid), and which are deemed necessary for the mentioned transactions.

5. Defensive measures

NOS has not adopted any defensive measures that could automatically cause a serious erosion of the Company assets in the case of change of control or change to the composition of the Board of Directors.

The Company, independently, or jointly with other Group companies has signed financing agreements with financing entities which set out the possibility of termination if there are significant alterations in the Company's shareholding structure and/or in the respective voting rights.

There are no other significant agreements signed by NOS or by its subsidiaries that include change of control clauses (including following a takeover bid), i.e., that come into force, are altered or terminate if there is a change of control, as well as the respective effects.

There are no agreements between the Company and the board members or other NOS senior managers, in the sense of article 3 of Regulation (EU) no. 596/2014 of the European Parliament and of the Council of 16

April 2014 *ex vi* article 248-B(3) of the Portuguese Securities Code, that set out a compensation in the event of dismissal, unfair dismissal, or termination of the labour relationship following any change in the Company's control.

Measures that could interfere with the success of a takeover bid

NOS has not adopted any measures in order to impede the success of takeover bids contrary to the interests of the Company and its shareholders.

NOS considers that there are no defensive clauses that could automatically cause erosion to the Company's assets in the event of a transfer of control or of a change to the composition of the board of directors.

II. Shareholdings and bonds

7. Owners of qualified shareholdings

The structure of qualified shareholdings in NOS that the Company was notified of (including to information rendered under article 447(5) of the Portuguese Companies Code ("CSC")) was, on 31 December 2017, as follows:

Shareholders	Number of Shares	% Share Capital and Voting Rights
ZOPT, SGPS, SA (1)	268,644,537	52.15%
Banco BPI, SA (2)	14,275,509	2.77%
Blackrock, Inc	11,562,497	2.24%
MFS Investment Management	11,049,477	2.14%
Norges Bank	10,891,068	2.11%
Total Identified	**316,423,088**	**61.42%**

(1) According to paragraphs b) and c) of number 1 of article 20º and article 21º of the Portuguese Securities Code, a qualified shareholding of 52.15% of the share capital and voting rights of NOS, SGPS, S.A. as calculated in the terms of article 20º of the Portuguese Securities Code, is attributable to ZOPT, Sonaecom and the following companies: a. This qualified holding is attributable to the companies Kento Holding Limited ("Kento") and Unitel International Holdings, BV ("Unitel International"), as well as to Mrs. Isabel dos Santos, under the terms of articles 20(1)(b) and (c) and 21 of the Portuguese Securities Code, being (i) Kento and Unitel International directly and indirectly controlled by Mrs. Isabel dos Santos and (ii) ZOPT controlled together by its shareholders Kento, Unitel International and Sonaecom as a result of the shareholders agreement entered into between these entities; b. The aforementioned qualified holding is also attributable to Sonaecom and all entities in a control relationship with Sonaecom, namely SONTEL, BV, Sonae Investments, BV, SONAE, SGPS, S.A., 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.

(2) Under the terms of paragraph 1 of article 20º of the Portuguese Securities Code, the voting rights corresponding to 2.77% of NOS' share capital, held by Banco BPI's Pension Fund, are attributable to Banco BPI.

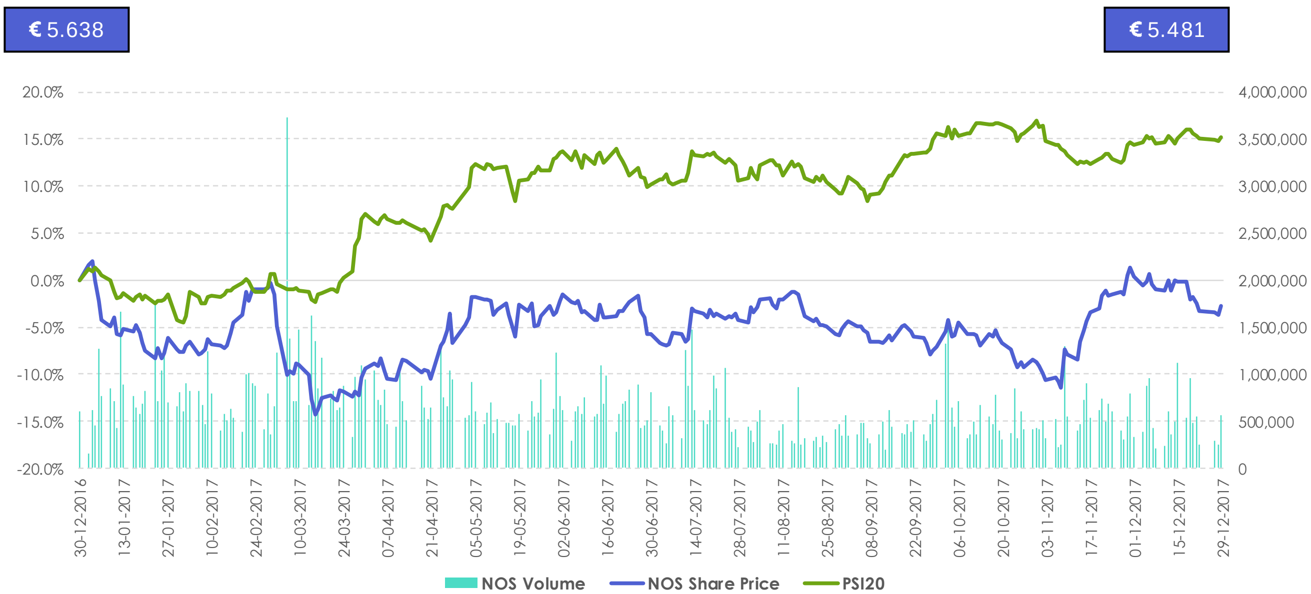
Note: The calculation of the voting rights corresponding to each shareholder does not consider own shares held by the Company.

There is a detailed record of the communications regarding qualified shareholdings on NOS website, on http://www.nos.pt/ir.

Evolution of NOS/PSI 20 share prices

The share price of NOS ended 2017 at € 5.481, representing a decrease of almost 2.8% since the end of 2016, which is compared with valuation of the PSI 20 index of 15.2% during the same period.

The changes in the price of NOS shares over the year, along with the number of shares traded each day, are shown in the following chart.



The following table shows the year's main communication events to the market over the year, such as results presentations, General Meetings of shareholders and dividend payments:

Date	Event
02-03-2017	Full Year 2016 Earnings Announcement
27-04-2017	General Shareholders Meeting
27-04-2017	First Quarter 2017 Earnings Announcement
27-04-2017	Approval of the Own Shares Acquisition Programme
26-05-2017	Dividend payment for the 2016 financial year
20-07-2017	First Half 2017 Earnings Announcement
08-11-2017	Third Quarter 2017 Earnings Announcement

During 2017, the share price of NOS reached a maximum of € 5.816 and a minimum of € 4.771.

In total, 163,555,957 NOS shares have changed hands in 2017, which corresponds to an average volume of 641,396 shares per session – which means 0.12% of the issued shares.

The main Portuguese share index, the PSI20 showed during 2017 a valuation of 15,2%, and the Spanish index, IBEX 35, suffered an increase of 7,4% from the end of 2016.

Other international indices presented, during the year 2017 positive performances, and the FTSE100 (United Kingdom) increased by 7,6%. During 2017, CAC40 (France)and DAX (Germany) appreciated by 9.3% and 12.5%, respectively, while Dow Jones EuroStoxx 50 suffered a fall of 6,9%.

8. Shares and bonds held by members of the board of directors and the audit and finance committee and fiscal board

Name	Position/Job	Shares					
		Balance 31-12-2016	1H17 Transactions				Balance 31-12-2017
			Acquisitions *	Disposals	Unit Price *	Date	
Jorge Manuel de Brito Pereira	Chairman of the Board of Directors	0	-	-	-	-	0
Miguel Nuno Santos Almeida	Chairman of the Executive Committee	21,025	18,000	-	5.413 €	04-05-2017	39,025
José Pedro Faria Pereira da Costa	Executive Member	117,392	18,327 -	- 18,327	5.413 € 5.500 €	04-05-2017 04-05-2017	117,392
Manuel Ramalho Eanes	Executive Member	0	10,501 -	- 10,501	5.413 € **	04-05-2017 05-05-2017	0
Ana Paula Garrido de Pina Marques *Spouse*	Executive Member	7,709 11,206	10,501 6,435	- -	5.413 € 5.413 €	04-05-2017 04-05-2017	18,210 17,641
Luís Moutinho do Nascimento (1)	Executive Member	80	-	-	-	-	80
Jorge Filipe Pinto Sequeira dos Santos Graça	Executive Member	13,716	4,706 -	- 18,422	5.413 € **	04-05-2017 05-05-2017	0
Ângelo Gabriel Ribeirinho dos Santos Paupério (2) *ZOPT, SGPS, SA*	Non-executive Member	0 268,644,537	-	-	-	-	0 268,644,537
António Domingues	Non-executive Member	0	-	-	-	-	0
António Bernardo Aranha da Gama Lobo Xavier (3) *BPI, SA* *ZOPT, SGPS, SA*	Non-executive Member	0 14,275,509 268,644,537	-	-	-	-	0 14,275,509 268,644,537
Catarina Eufémia Amorim da Luz Tavira Van-Dúnem	Non-executive Member	0	-	-	-	-	0
João Pedro Magalhães da Silva Torres Dolores	Non-executive Member	0	-	-	-	-	0
Joaquim Francisco Alves Ferreira de Oliveira	Non-executive Member	0	-	-	-	-	0
Lorena Solange Fernandes da Silva Fernandes	Non-executive Member	0	-	-	-	-	0
Maria Cláudia Teixeira de Azevedo (4) *ZOPT, SGPS, SA*	Non-executive Member	0 268,644,537	-	-	-	-	0 268,644,537
Mário Filipe Moreira Leite da Silva (5) *ZOPT, SGPS, SA*	Non-executive Member	0 268,644,537	-	-	-	-	0 268,644,537
Paulo Cardoso Correia da Mota Pinto	Chairman of the Fiscal Board	0	-	-	-	-	0
Eugénio Luís Lopes Franco Ferreira	Member of the Fiscal Board	0	-	-	-	-	0
Patrícia Andrea Bastos Teixeira Lopes Couto Viana	Member of the Fiscal Board	0	-	-	-	-	0
Luís Filipe da Silva Ferreira	Substitute Member of Fiscal Board	0	-	-	-	-	0
Ernst & Young Audit & Associados, SROC, S.A.	Statutory Auditor	0	-	-	-	-	0
Sandra e Sousa Amorim	Statutory Auditor	0	-	-	-	-	0
Rui Abel Serra Martins	Statutory Auditor	0	-	-	-	-	0
Paulo Jorge Luís da Silva	Substitute Statutory Auditor	0	-	-	-	-	0

(1) Luís Moutinho do Nascimento was co-opted as Executive Member of the Board of Directors on 29 June 2017.
(2) Ângelo Gabriel Ribeirinho dos Santos Paupério is member of the Board of Directors of ZOPT, SGPS, 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 Sonaecom, SGPS, S.A..
(3) António Bernardo Aranha da Gama Lobo Xavier is member of the Board of Directors and Executive Committee of Sonaecom, SGPS, S.A. and also Vice-President of the Board of Directors of BPI, S.A.
(4) 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 Dircetors and Executive Committee of Sonaecom, SGPS, S.A..
(5) 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.

9. Special powers of the board of directors

The Company's Board of Directors shall exercise the powers conferred by the law and the Articles of Association.

According to article 16 of the Articles of Association, the Board of Directors is especially responsible for managing the Company business and namely:

a) The acquisition, divestment, leasing and encumbering movable and real estate assets, commercial establishments, investments in companies and vehicles;

b) Entering into financing and loan agreements, including medium and long-term, internal or external agreements;

c) Representing the Company in and out of court, actively and passively, with the right to withdraw, settle and make admissions in respect of any judicial proceeding. It may also enter into arbitration agreements;

d) Appointing attorneys-in-fact with whatever powers it deems appropriate, including powers of sub-delegation;

e) Approving the management plans and business investment and operating budgets;

f) Co-opting to replace directors who are definitively unavailable;

g) Preparing and submitting to the approval of the General Meeting a stock option plan for the members of the Board of Directors as well as for employees with positions of high responsibility in the Company;

h) Appointing any other individuals or legal entities to perform corporate roles in the Company's subsidiary or affiliate companies;

i) Passing resolutions for the Company to provide technical and/or financial support to its subsidiaries or affiliates;

j) Exercising any other powers attributed to it by the General Meeting.

The Company's Articles of Association do not set forth any special powers for the Board of Directors regarding resolutions on increasing the share capital.

Additionally, pursuant to the provisions of article 17(1) of the Articles of Association, the Board of Directors can delegate day-to-day management of the Company to an Executive Committee.

10. Relevant commercial relations with owners of qualified shareholdings.

NOS carried out no economically significant operations or business, for any of the parties involved, with members of the management or supervisory bodies or companies that are in a control or group relationship, that were not conducted under normal market conditions for similar operations and that were not part of the Company's current activity.

NOS has not conducted any business or operation with qualifying shareholders - or entities that are in any relationship with them pursuant to article 20 of the Portuguese Securities Code - outside normal market conditions. NOS has also implemented transaction control mechanisms with related parties, as detailed in item 89.

The Company regularly executed transactions and agreements with various entities within NOS Group. These operations were conducted under normal market terms for similar transactions and were part of the contracting companies' current activities.

The Company also regularly executes transactions and financing agreements with financial institutions, which are qualifying shareholders, conducted under normal market terms for similar transactions, and which are part of the contracting companies' current activities.

In this matter, the procedures and criteria that apply to the intervention of the Fiscal Board in taking resolutions as to the business dealings with qualifying shareholders are detailed in items 89, 90 and 91 in this report.

B. Corporate Bodies and Committees

I. General Meeting

11. Composition of the board of the general meeting

Pursuant to article 12(1) of NOS Articles of Association, the board of the General Meeting is composed by a chairman and a secretary.

The board of the General Meeting is composed of:

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

The term of office of the members of the board of the General Meeting is three years.

The current term of office began on 26 April 2016, with the election of the corporate bodies at the Annual General Meeting for the three-year period of 2016/2018.

The current members of the board of the General Meeting were elected for the second time.

The General Meeting, composed of shareholders with voting rights, meets at least once a year, pursuant to the provisions in article 376 of the CSC. Pursuant to articles 23-A of the Portuguese Securities Code and 375 of the CSC, a General Meeting is also held whenever convened by the Chairman of the board of the General Meeting, upon request from the Board of Directors or the Fiscal Board, or by shareholders who represent at least 2% of the share capital.

Pursuant to article 21-B of the Portuguese Securities Code, the notice to call a General Meeting is published with at least 21 days' prior notice on the portal of the Ministry of Justice (http://publicacoes.mj.pt). The notice is also published on the Company's website, on the information broadcasting system of the Portuguese Securities Market Commission ("CMVM" - http://www.cmvm.pt) and on the Euronext Lisbon website.

The board of the General Meeting is provided with all the resources needed to perform its duties, namely with the assistance from the Company's general secretariat.

In 2017, the Chairman and Secretary were respectively paid a total sum of € 18,000 and € 5,000 as fees, as explained in the item 82 below.

12. Voting right restrictions

Pursuant to the Company's Articles of Association, there are no restrictions on voting rights.

Pursuant to article 11 of the Company's Articles of Association, shareholders with voting rights can attend the General Meetings.

To every 100 shares corresponds one vote.

The law and Articles of Association state that shareholders with voting rights who, on the record date, which is at 0:00 (GMT) on the fifth trading day before the General Meeting, own shares that grant them at least one vote pursuant to the law and the Company's Articles of Association and who comply with the legal formalities as described in the corresponding notice, have the right to participate, discuss and vote at the General Meeting.

The shareholdings, as a whole, are not subject to limits on the respective voting power, as there are no cap limits on voting. Additionally, considering the relationship of proportionality there is no time lag between the right to receive dividends or to subscribe new securities and the voting right.

Legally, shareholders with fewer shares than they need for voting rights, can join together to reach the required number or more and be represented at the General Meeting by one of these shareholders.

The voting rights can be exercised by postal vote, under the terms set forth in the Company's Articles of Association and by the notice of meeting, and may cover all matters included in the respective notice, under the terms and conditions set forth therein.

The Company also has a system that allows, without limitations, the provision to shareholders of the possibility to use their voting rights in electronic form, being this information duly and promptly sent to shareholders and made available to the public through the publication of the corresponding notice on the Company's website.

13. Maximum number of votes for any shareholder

Pursuant to the Company's Articles of Association, there is no limit on the number of votes that can be held or exercised by each shareholder.

Notwithstanding, pursuant to article 9 of the Articles of Association, shareholders that directly or indirectly conduct any activity that competes with the companies owned by the Company, cannot own ordinary shares that represent more than 10% of the Company share capital without prior authorization from the General Meeting. For this purpose, competing activity is understood to be an activity that is actually provided on the same market with the same services as those provided by companies owned by the Company.

Indirect competing activity is deemed to be carried out by those who, directly or indirectly, own at least 10% of the capital in a Company that performs the activity pursuant to the previous paragraph or who is held by them in the same percentage.

14. Matters requiring a qualified quorum under the articles of association

Pursuant to article 13 of the Articles of Association, notwithstanding the qualified majority provided by law, the General Meeting takes its resolutions by the simple majority of votes cast.

The General Meeting can run at a first meeting so long as shareholders representing more than 50% of the share capital are present or represented.

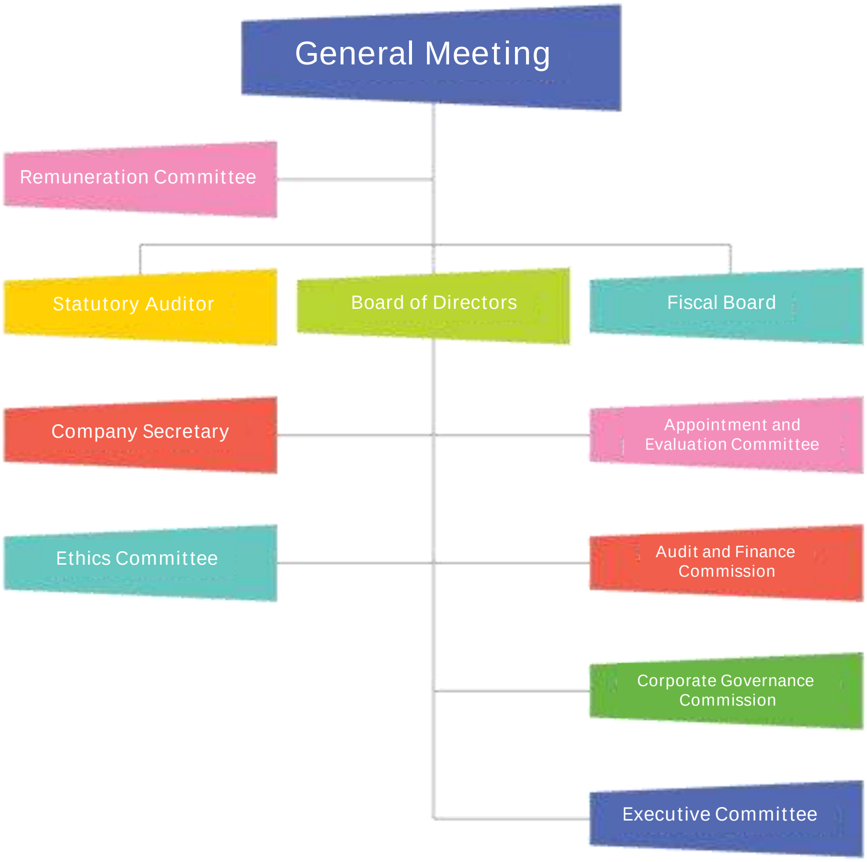
NOS Articles of Association do not, therefore, set any qualified quorum greater than that provided by law.

II. Administration and Oversight

15. Identification of the governance model

NOS adopts the reinforced one-tier governance model, set forth in article 278(1)(a) of the CSC.

Pursuant to article 278(1)(a) and (3) and article 413(1)(b), both from the CSC and article 10(1) of the Company's Articles of Association, the Company's governing bodies are the General Meeting, the Board of Directors (who manages the Company), the Fiscal Board and the Statutory Auditor (who supervises the Company).



NOS Board of Directors believes this model is fully and effectively implemented and there are no constraints on its operations.

In addition, the current governance model has proven to be balanced and open to the adoption of the best domestic and international practices in matters of corporate governance.

It is also believed that this governance structure allows the Company to work properly, enabling proper transparent dialogue between the different corporate bodies and between the Company, its shareholders and other stakeholders.

Pursuant and for the purposes of article 446-A of the CSC and article 10(2) of the Company's Articles of Association, the Company's secretary and the alternate Company's secretary are appointed by the Board of Directors and have the tasks established by law and cease their mandates with the termination of the Board of Directors that appointed them.

On 31 December 2017, the Company's secretary and alternate Company's secretary were:

- Company Secretary – Sandra Martins Esteves Aires

- Alternate Company Secretary – Francisco Xavier Luz Patrício Simas

The Company Secretary has the following powers to:

- Guarantee the formalities and conformity of the corporate acts;
- Ensure that several corporate documents are updated and disclosed;
- Provide assistance to the corporate bodies, the Company in general and the other companies of the Group in matters related with Corporate law, Securities law and Corporate Governance, enhancing compliance with laws, regulations and recommendations;
- Guarantee the necessary assistance to the meeting of the Board of Directors, of the Executive Committee and of the General Meeting of both NOS and subsidiaries;
- Manage the administrative support to the corporate bodies.

Furthermore, under the applicable law, the Company Secretary is also empowered to:

- Act in the capacity of secretary in the meeting of the corporate bodies;
- Prepare minutes and sign them jointly with the members of the relevant corporate bodies and with the Chairman of the Board of the General Meeting whenever applicable;
- Keep in good order the books and sheets of the minutes, the presence lists, the shares record book as well as any formality related thereto;
- Send notices of meetings of the corporate bodies as required by law;
- Certify signatures of the members of the corporate bodies included in the company's documents;
- Certify all copies or transcriptions from the books of the Company or other archived documents as true, updated and complete;
- Satisfy, in the scope of its powers, any shareholders' requests exercising their information rights and provide information to the members of the corporate bodies performing supervisory functions over resolutions of the Board of Directors or of the Executive Committee;
- Partially or wholly certify the content of the by-laws in force, as well as the identity of the members of the several corporate bodies and their corresponding powers;
- Certify updated copies of the Articles of Association, of the shareholders' resolutions and of the managements as well as of the entries in place as recorded in the Company's books, as well as ensure that they are delivered or sent to the shareholders that have required them and have paid the corresponding costs;
- Certify with the corresponding initials all the documentation submitted to the General Meeting and referred to in the corresponding minutes;
- Promote the registration of corporate acts whenever required.

16. Rules of the articles of association about the appointment and replacement of board of directors

Pursuant to article 15 of the Company's Articles of Association, the Board of Directors is composed of up to twenty-three members elected by the General Meeting, which appoints a chairman and if it so wishes, one or more vice-chairmen.

If the General Meeting does not appoint a Chairman of the Board of Directors, the Board will make the appointment.

One of the Company's directors can be elected by the General Meeting pursuant to article 392(1) of the CSC.

The replacement of a director, if they cease their office before the end of the term of office, shall comply with applicable legal requirements, namely under article 393 of the CSC.

Without prejudice to the above, article 16(2) and (3) of the Company's Articles of Association state that where the director who is definitively absent is the Chairman or Vice-Chairman, he/she shall be replaced through election at the General Meeting. For this purpose, a director is considered to be definitively absent if, during their term of office, they miss two meetings in a row or five in total, without a justification that is accepted by the Board of Directors.

17. Composition of the Board of Directors

Pursuant to article 15 of the Company's Articles of Association, the Board of Directors is composed of up to twenty-three members elected by the General Meeting, which appoints a Chairman as well and if so wishes, one or more Vice-Chairmen. The Articles of Association set out no express provision on minimum number of directors to be part of NOS Board of Directors, following that the statutory minimum corresponds to the minimum legal requirement for a collegial body, such as the Board of Directors in the one-tier model, as set out in of article 278(1)(a) of the CSC.The General Meeting shall also be responsible for designating the Chairman of the Board of Directors and, if it so wishes, one or more Vice-Presidents.

Article 10(3) of the Company's Articles of Association states that when the law or the Articles of Association do not set a specific number of members on a corporate body, this number shall be established, on a case by case basis, by the resolution to elect, corresponding to the number of members elected. This does not affect, pursuant to article 10(4), the possibility to change the number of the corporate body members during the term of office, up to the legal limit or up to the limit set out by the Articles of Association.

The members of NOS corporate bodies and other bodies keep their terms of office for renewable periods of three calendar years, and the calendar year of their appointment counts as a complete year.

The current Board of Directors was elected at the Annual General Meeting on 26 April 2016, for the three-year period of 2016/2018, and at the date of the election, it was composed of 17 Directors with Jorge Manuel de Brito Pereira appointed as Chairman.

Afterwards, following (i) the resignation of the Director Isabel dos Santos, disclosed to the market on 06 June, 2016, to the position of Member of the Board of Directors which, under the terms of article 404(2) of the CSC, was effective as from 30 July, 2016; (ii) the resignation of the Director António Domingues, disclosed to the market on 29 August, 2016, to the position of Member of the Board of Directors which, under the terms of article 404(2) of the CSC, was effective as from 30 September, 2016 and further co-optation for the position of Member of the Board of Directors for the current three-year period of 2016/2018, disclosed to the market on 7 March, 2017 and ratified on the General Meeting on 27, April 2017; (iii) co-optation of the Director Luís Moutinho Nascimento for the position of Member of the Board of Directors and Member of the Executive Comitee, for the current three-year period of 2016/2018, disclosed to the market on 29 June, 2017 and to be ratified on the General Meeting which will be held on 10 May 2018; and, (iv) the resignation of the Director André Nuno Malheiro dos Santos Almeida, disclosed to the market on 23 August, 2017, to the position of Member of the Board of Directors which, under the terms of article 404(2) of the CSC, was effective as from 30 September, 2017, the Board of Directors comprised 16 Directors, as follows:

	Board of Directors	Executive Committee	Non-executive Director	First appointed and end of term of office
Jorge de Brito Pereira	Chairman	---	X	01/10/2013 31/12/2018
Miguel Almeida	Member	Chairman	---	01/10/2013 31/12/2018
José Pedro Pereira da Costa	Member	Member	---	21/09/2007 31/12/2018
Ana Paula Marques	Member	Member	---	01/10/2013 31/12/2018
Manuel Ramalho Eanes	Member	Member	---	01/10/2013 31/12/2018
Jorge Graça	Member	Member	---	26/04/2016 31/12/2018
Luís Nascimento	Member	Member	---	29/06/2017 31/12/2018
Ângelo Paupério	Member	---	X	01/10/2013 31/12/2018
António Lobo Xavier	Member	---	X	01/10/2013 31/12/2018
António Domingues*	Member	Member	X	01/09/2004 31/12/2018
Catarina Tavira Van-Dúnem	Member	---	X	27/11/2012 31/12/2018
Joaquim Oliveira	Member	---	X	31/01/2008 31/12/2018
Lorena Fernandes	Member	---	X	01/10/2013 31/12/2018
Maria Cláudia Azevedo	Member	---	X	01/10/2013 31/12/2018
Mário Leite da Silva	Member	---	X	19/04/2010 31/12/2018
João Dolores	Member	---	X	26/04/2016 31/12/2018

*The Director António Domingues did not perform any functions during the period between his resignation to the position of Member of the Board of Directors, under the terms of article 404(2) of the CSC, on 29 August 2016, which was effective on 30 September 2016, and his further co-optation, disclosed to the market on 7 March, 2017 and ratified on the General Meeting on 27, April 2017;

18. Distinction between executive and non-executive (and independent) directors

Pursuant to article 17(1) of the Company's Articles of Association, NOS Board of Directors, among its 17 Members elected at the Annual General Meeting on 26 April 2016, approved on its meeting held on that same day, the incorporation of an Executive Committee currently composed by 6 members.

In order to maximise the pursuit of the Company's interests, the management body is composed of a number of non-executive members who ensure effective monitoring, oversight and assessment of the executive members of NOS.

Considering the above mentioned, and based on the Company's dimension, its shareholder structure and the respective free-float, in line with the definition of independence under the Recommendation II.1.7 of the CMVM's Corporate Governance Code of 2013, the Company has, among its non-executive Directors, one independent Director – Lorena Solange Fernandes da Silva Fernandes.

It shall be noted that the Non-Executive Directors of the Company have regularly and effectively developed their legal functions which generally consist in the supervision, oversight and evaluation of the executive members' activity. During the financial year of 2017, Non-Executive Directors did not encounter any kind of constraint in performing their jobs.

Pursuant to applicable legislation and regulations, particularly the provision in article 407(8) of the CSC, NOS Non-Executive Directors have performed their functions so as to comply with their duties of vigilance regarding the activity of the members of the Executive Committee. According to that provision, Non-Executive Directors shall proceed with the "*general oversight (...) of the Executive Committee*", and are liable "*for any losses caused or acts or omissions by it, when they are aware of such acts or omissions or the intent to practice them, and do not call on Board intervention to take the proper measures*".

Since the Chairman of the Board of Directors of NOS is a Non-Executive Director, the functions of the Non-Executive Directors are particularly easy, since the Chairman is empowered to coordinate the activities of the Non-Executive Directors and to act as a link, shortening and simplifying the dialogue with the Executive Committee.

One should also note the efforts by the Non-Executive Directors to keep up to date with different matters at all times, being studied and handled by the Board of Directors and their regular presence and participation in the meetings of that body, which largely contributes to the good performance of their jobs.

NOS Non-Executive Directors have also made important contributions to the Company by performing their duties on the specialised Board of Directors committees (see item 27).

In order to better guarantee the due and effective monitoring, oversight and assessment of the Executive Committee's activity, as determined by the Board of Directors the Executive Committee presents, on a quarterly basis, to the Board of Directors, a summary of the most important points of its activity in the relevant period.

In practice, the agenda of the Executive Committee activity is forwarded to the members of the Fiscal Board every month.

In addition, the members of the Executive Committee, when so requested by other members of the corporate bodies, also provide proper and timely information.

19. Board Directors' Qualifications

a. Jorge Brito Pereira: Chairman of the Board of Directors

Qualifications:

- Degree in Law from Universidade Católica Portuguesa, Faculdade de Direito;
- Master's in Legal Sciences from Universidade de Lisboa, Faculdade de Direito;
- MBA from IMD.

Professional Experience:

- Partner at Uría Menéndez – Proença de Carvalho, Sociedade de Advogados;
- Chairman of the Board of the Shareholders Meeting of Banco Bic Português S.A.
- Chairman of the Board of the Shareholders Meeting of Efacec Power Solutions S.A.;
- Chairman of the Board of the Shareholders Meeting of SAPEC, SGPS, S.A.;
- Chairman of the Board of the Shareholders Meeting of BFA - Banco de Fomento de Angola, S.A.;
- Chairman of the Board of the Shareholders Meeting of CIMINVEST – Sociedade de Investimentos e Participações S.A.;
- Chairman of the Board of the Shareholders Meeting of SANTORO FINANCE – Prestação de Serviços, S.A.;
- Chairman of the Board of the Shareholders Meeting of SANTORO FINANCIAL HOLDINGS, SGPS, S.A.;
- Chairman of the Board of the Shareholders Meeting of FIDEQUITY – SERVIÇOS DE GESTÃO S.A.;
- Member of the Board of Directors of De Grisogono S.A.;

b. Miguel Nuno Santos Almeida: Chairman of the Executive Committee

Qualifications:

- Degree in Mechanical Engineering from Universidade do Porto, Faculdade de Engenharia;
- MBA from INSEAD.

Professional Experience:

- Chairman of the Board of Directors of NOS Comunicações, S.A.
- Chairman of the Board of Directors of NOS Technology – Concepção, Construção e Gestão de Redes de Comunicações S.A.;

- Chairman of the Board of Directors of NOS Towering – Gestão de Torres de Telecomunicações S.A.;
- Chairman of the Board of Directors of NOS Sistemas - Serviços em Tecnologia de Informação S.A.;
- Chairman of the Board of Directors of NOS Inovação S.A.
- Chairman of the Board of Directors of NOS Açores Comunicações S.A.;
- Chairman of the Board of Directors of NOS Lusomundo Audiovisuais S.A.;
- Chairman of the Board of Directors of NOS Lusomundo Cinemas S.A.;
- Chairman of the Board of Directors of NOS Lusomundo TV S.A.;
- Chairman of the Board of Directors of NOS Madeira Comunicações S.A;
- Chairman of the Board of Directors of NOSPUB Publicidade e Conteúdos S.A.;
- Chairman of the Board of Directors of NOS Audiovisuais SGPS S.A.;
- Chairman of the Board of Directors of NOS Internacional SGPS S.A.;
- Former Chairman of the Executive Committee of OPTIMUS Comunicações, S.A.;
- Former Executive Director and Member of the Board of Directors of Sonaecom, SGPS, S.A..

c. José Pedro Faria Pereira da Costa: Vice-Chairman of the Executive Committe

Qualifications:

- Degree in Business Administration and Management from Universidade Católica Portuguesa;
- MBA from INSEAD.

Professional Experience:

- Chairman of the Board of Directors of Per-Mar, Sociedade de Construções S.A.;
- Chairman of the Board of Directors of Sontária – Empreendimentos Imobiliários S.A.;
- Vice-Chairman of the Board of Directors of Mstar S.A.;
- Vice-Chairman of the Board of Directors of NOS Lusomundo Audiovisuais S.A.;
- Vice-Chairman of the Board of Directors of NOS Lusomundo Cinemas S.A.;
- Vice-Chairman of the Board of Directors of NOS Lusomundo TV S.A.;
- Vice-Chairman of the Board of Directors of NOSPUB Publicidade e Conteúdos S.A.;
- Vice-Chairman of the Board of Directors of NOS Audiovisuais SGPS S.A.;
- Vice-Chairman of the Board of Directors of NOS Internacional SGPS S.A.;
- Vice- Chairman of Finstar – Sociedade de Investimentos e Participações, S.A.;
- Member of the Board of Directors of NOS Comunições S.A.;
- Member of the Board of Directors of NOS Technology – Concepção, Construção e Gestão de Redes de Comunicações, S.A.;
- Member of the Board of Directors of NOS Towering – Gestão de Torres de Telecomunicações, S.A.;
- Member of the Board of Directors of Dreamia Holding B.V.;
- Member of the Board of Directors of Dreamia Serviços de Televisão S.A.;
- Member of the Board of Directors of Lusomundo Imobiliária 2 S.A.;
- Member of the Board of Directors of Lusomundo Sociedade de Investimentos Imobiliários SGPS S.A.;
- Member of the Board of Directors of NOS Sistemas Serviços em Tecnologia de Informação S.A.;
- Member of the Board of Directors of NOS Sistemas España S.L.;
- Member of the Board of Directors of NOS Inovação S.A.
- Member of the Board of Directors of NOS Açores Comunicações S.A.;

- Member of the Board of Directors of NOS Communications S.à.r.l.;
- Member of the Board of Directors of NOS Madeira Comunicações S.A.;
- Member of the Board of Directors of Teliz Holding B.V.;
- Member of the Board of Directors of Upstar Comunicações S.A.;
- Member of the Board of Directors of Sport TV Portugal S.A.;
- Manager of Empracine Empresa Promotora de Atividades Cinematográficas, Lda.;
- Former Member of the Board of Directors of Group Portugal Telecom acting as CFO and responsible for PT Comunicações, PT.COM e PT Prime companies;
- Vice-Chairman of the Executive Committee of Telesp Celular Participações;
- Member of the Executive Committe of Banco Santander de Negócios Portugal, responsible for Corporate Finance;
- Started his career in McKinsey & Company in Portugal and Spain.

d. Ana Paula Garrido de Pina Marques: Executive Member

Qualifications:

- Degree in Economy from Universidade do Porto, Faculdade de Economia;
- MBA from INSEAD.

Professional experience:

- Member of the Board of Directors of NOS Comunicações S.A.;
- Member of the Board of Directors of NOS Technology – Concepção, Construção e Gestão de Redes de Comunicações S.A.;
- Member of the Board of Directors of NOS Towering – Gestão de Torres de Telecomunicações S.A.;
- Member of the Board of Directors of NOS - Sistemas Serviços em Tecnologia de Informação S.A.;
- Member of the Board of Directors of NOS Inovação S.A.
- Member of the Board of Directors of NOS Communications S.à.r.l.;
- Member of the Board of Directors of NOS Lusomundo Cinemas S.A.;
- Member of the Board of Directors of NOS Lusomundo Audiovisuais S.A.;
- Member of the Board of Directors of NOS Lusomundo TV S.A.;
- Member of the Board of Directors of NOS Açores Comunicações, S.A.;
- Member of the Board of Directors of NOS Madeira Comunicações, S.A.;
- Member of the Board of Directors of NOSPUB Publicidade e Conteúdos S.A.;
- Member of the Board of Directors of NOS Audiovisuais SGPS S.A.;
- Member of the Board of Directors of NOS Internacional SGPS, S.A.;
- Member of the Board of Directors of Per-Mar, Sociedade de Construções S.A.;
- Member of the Board of Directors of Sontária – Empreendimentos Imobiliários S.A.;
- Member of the Board of Directors of Lusomundo Imobiliária 2 S.A.;
- Member of the Board of Directors of Lusomundo Sociedade de Investimentos Imobiliários SGPS, S.A.;
- Member of the Board of Directors of Sport TV Portugal S.A.;
- Manager of Empracine Empresa Promotora de Atividades Cinematográficas, Lda.;
- Former Executive Director of OPTIMUS – Comunicações, responsible for Business Unit, Home Service, Costumer Service, Operations and Terminals Management;
- Former Chairman of APRITEL ("Associação dos Operadores de Comunicações Eletrónicas");
- Former Manager of Marketing and Sales Private Mobile Service Business Unit of Optimus.

- Former Manager of Branding and Communication, as well as Director of the Data Business Unit of Optimus;
- Started her career in the Marketing Department of Procter & Gamble.

e. Luís Moutinho do Nascimento: Executive Member

Qualifications:

- Degree in Management from Universidade Católica Portuguesa;
- MBA from INSEAD.

Professional experience:

- Member of the Board of Directors of NOS Comunicações S.A.;
- Member of the Board of Directors of NOS Technology – Concepção, Construção e Gestão de Redes de Comunicações S.A.;
- Member of the Board of Directors of NOS Towering – Gestão de Torres de Telecomunicações S.A.;
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- Member of the Board of Directors of NOS Sistemas Serviços em Tecnologia de Informação S.A.;
- Member of the Board of Directors of NOS Inovação S.A.
- Member of the Board of Directors of NOS Lusomundo Cinemas S.A.;
- Member of the Board of Directors of NOS Lusomundo Audiovisuais S.A.;
- Member of the Board of Directors of NOS Lusomundo TV S.A.;
- Member of the Board of Directors of NOSPUB Publicidade e Conteúdos S.A.;
- Member of the Board of Directors of NOS Audiovisuais SGPS S.A.;
- Member of the Board of Directors of NOS Internacional SGPS S.A.;
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- Member of the Board of Directors of Dreamia Holding B.V.;
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- Member of the Executive Committee of Portugal Telecom, responsible for B2C Sales and Marketing;
- Manager of the Home Segment & CRM of Portugal Telecom;
- Non-executive member of the Board of Directors of PT Contact;
- Former Manager of Strategic Marketing of PT Multimedia;
- Former Associate and Manager on Diamond Cluster;
- Started his career as analyst on McKinsey & Company;

f. Manuel António Neto Portugal Ramalho Eanes: Executive Member

Qualifications:

- Degree in Management from Universidade Católica Portuguesa;
- MBA from INSEAD.

Professional experience:

- Member of the Board of Directors of NOS Comunicações S.A.;

- Member of the Board of Directors of NOS Technology – Concepção, Construção e Gestão de Redes de Comunicações, S.A.;
- Member of the Board of Directors of NOS Towering – Gestão de Torres de Telecomunicações S.A.;
- Member of the Board of Directors of NOS - Sistemas Serviços em Tecnologia de Informação S.A.;
- Member of the Board of Directors of NOS Inovação S.A.
- Member of the Board of Directors of NOS Açores Comunicações S.A.;
- Member of the Board of Directors of NOS Lusomundo Cinemas S.A.;
- Member of the Board of Directors of NOS Lusomundo Audiovisuais S.A.;
- Member of the Board of Directors of NOS Lusomundo TV S.A.;
- Member of the Board of Directors of NOSPUB Publicidade e Conteúdos S.A.;
- Member of the Board of Directors of NOS Audiovisuais SGPS S.A.;
- Member of the Board of Directors of NOS Internacional SGPS, S.A.;
- Member of the Board of Directors of Finstar – Sociedade de Investimentos e Participações, S.A.;
- Member of the Board of Directors of NOS Sistemas España S.L.;
- Former Executive Director of Optimus – Comunicações, SA, responsible for Companies and Operators;
- Former Director at Optimus of Home Wireline, Central Marketing, Data Service, Particular Sales, SME's and Business Development;
- Started his career in McKinsey & Co.

g. Jorge Filipe Pinto Sequeira dos Santos Graça: Executive Member

Qualifications:

- Degree in Business Management and Administration from Universidade Católica Portuguesa;
- MBA from Kellogg School of Management at Northwestern University.

Profissional experience:

- Member of the Board of Directors of NOS Comunicações S.A.;
- Member of the Board of Directors of NOS Technology – Concepção, Construção e Gestão de Redes de Comunicações S.A.;
- Member of the Board of Directors of NOS Towering – Gestão de Torres de Telecomunicações S.A.;
- Member of the Board of Directors of NOS - Sistemas Serviços em Tecnologia de Informação S.A.;
- Member of the Board of Directors of NOS Inovação S.A.
- Member of the Board of Directors of NOS Açores Comunicações S.A.;
- Member of the Board of Directors of NOS Madeira Comunicações S.A.;
- Member of the Board of Directors of NOS Lusomundo Cinemas S.A.;
- Member of the Board of Directors of NOS Lusomundo Audiovisuais S.A.;
- Member of the Board of Directors of NOS Lusomundo TV S.A.;
- Member of the Board of Directors of NOSPUB Publicidade e Conteúdos S.A.;
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- Member of the Board of Directors of NOS Audiovisuais SGPS S.A.;
- Member of the Board of Directors of NOS Internacional SGPS, S.A.;
- Former Director of ZON TV Cabo responsible of Product and Marketing,
- Former Director of Product TV of ZON TV Cabo;
- Former Project Leader at The Boston Consulting Group.

h. Ângelo Gabriel Ribeirinho dos Santos Paupério: Non-Executive Member

Qualifications:

- Degree in Civil Engineering from Universidade do Porto, Faculdade de Engenharia;
- Master in Companies Management – MBA (Porto Business School).

Profissional experience:

- Executive Chairman of the Board of Directors of Sonaecom, SGPS, S.A.;
- Chairman of the Board of Directors of Sonae Investment Management – Software and Technology, SGPS,S.A.;
- Chairman of the Board of Directors of Público – Comunicação Social, S.A.;
- Chairman of the Board of Directors of Sonae Financial Services, S.A.;
- Chairman of the Board of Directors of MDS, SGPS, S.A.;
- Chairman of the Board of Directors of da SFS – Serviços de Gestão e Marketing S.A.;
- Chairman of the Board of Directors of APGEI;
- Vice Chairman of the Board of Directors of Sonae MC – Modelo Continente, SGPS, S.A.;
- Member of the Board of Directors and Co-CEO of Sonae, SGPS, S.A.;
- Member of the Board of Directors of Sonae Center Serviços II, S.A.;
- Member of the Board of Directors of Sonae Investimentos, SGPS, S.A.;
- Member of the Board of Directors of Sonae Sierra, SGPS, S.A.;
- Member of the Board of Directors of ZOPT, SGPS, S.A.;
- Member of the Board of Directors of Love Letters – Galeria de Arte, S.A.;
- Member of the Superior Board of Universidade Católica Portuguesa.

i. António Bernardo Aranha da Gama Lobo Xavier: Non-Executive Member

Qualifications:

- Degree in Law and Master's in Economic Law from Universidade de Coimbra.

Professional experience:

- Partner and Board Member of Morais Leitão, Galvão Teles, Soares da Silva & Associados;
- Vice-Chairman of the Board of Directors of Banco BPI, SGPS, S.A.;
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- Member of the Board of Directors of Sonaecom, SGPS, S.A.;
- Member of the Board of Directors of Riopele, S.A.;
- Member of the Board of Directors of Mota-Engil, SGPS, S.A.;
- Member of the Board of Directors of Fundação Casa da Música;
- Member of the Board of Directors of Fundação Francisco Manuel dos Santos;
- Member of the Curators Board of Fundação Belmiro de Azevedo;
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- Chairman of the General Meeting of AEM – Associação de Empresas Emitentes de Valores Cotados em Mercado;
- Chairman of the General Meeting of BERD – Bridge Engineering Research & Design;
- Chairman of General Meeting of Textil Manuel Gonçalves S.A.;
- Chairman of General Meeting of Ascendum, S.A.;

- Council of State (since 07.04.2016).

j. Catarina Eufémia Amorim da Luz Tavira Van-Dúnem: Non-Executive Member

Qualifications:

- Degree in Management and Company Organisation from Instituto Universitário de Lisboa, ISCTE – Instituto Superior de Ciências do Trabalho e da Empresa.

Professional experience:

- Executive Member of the Marketing and Product team which she created, launched and currently manages in ZAP, the company engaged with the distribution of TV channels via satellite in Angola and Mozambique;
- Led the Products and Services team of Unitel, the leading telecommunications operator in Angola;
- Created the client's new services area of Unitel, the leading telecommunications operator in Angola;
- Started her career in the USA as assistant manager in Sentis and Coral, partners of Shell Oil USA.

k. Joaquim Francisco Alves Ferreira de Oliveira: Non-Executive Member

Professional experience:

- Chairman of the Board of Directors of Controlinveste, SGPS, S.A.;
- Chairman of the Board of Directors of Controlinveste Media, SGPS, S.A.;
- Chairman of the Board of Directors of Olivedesportos, SGPS, S.A.;
- Chairman of the Board of Directors of Olivedesportos – Publicidade, Televisão e Media, S.A.;
- Chairman of the Board of Directors of Sport TV Portugal, S.A.;
- Chairman of the Board of Directors of Sportinveste Multimédia, SGPS, S.A.;
- Chairman of the Board of Directors of Sportinveste Multimédia, S.A.;
- Chairman of the Board of Directors of Gripcom, SGPS, S.A.;
- Since 1984, the year he founded the Olivedesportos (leader and pioneer in the area of television and advertising rights linked to sporting events), he has been Chairman Board of Directors of several companies that make up the respective business group (Controlinveste);
- In 1994, acquired the sports newspaper "O Jogo" and created, in 1996, PPTV (now incorporated in Olivedesportos), through which he founded jointly with RTP and PT Multimédia (now NOS) the first sports cable channel - Sport TV, chairing today to its Board of Directors.
- He also chairs, since its foundation in 2001, the Board of Directors of Sportinveste Multimedia SGPS, S.A. and Sportinveste Multimedia, S.A., joint venture, created to run multimedia content linked to sporting events;
- In 2005, he acquired Grupo Lusomundo Media (currently Global Media Group), which currently holds 19,25% of the capital following the shareholder restructuring of that business sector, with the entry of new shareholders.

l. Lorena Solange Fernandes da Silva Fernandes: Non-Executive Member

Qualifications:

- Degree in Business Management from the Economy and Management faculty at Universidade Lusíadas de Angola and Senior Executive Programme, London Business School;
- Post-graduate degree in Labour Law and Social Security from Lisbon Law School;
- MBA – Financial and Commercial Management from Brazilian Business School – Escola Internacional de Negócios.

Professional experience:

- Store manager at Unitel S.A.;
- Responsible for stores and agent departments at Unitel, S.A..

m. Maria Cláudia Teixeira de Azevedo: Non-Executive Member

Qualifications:

- Degree in Management from Universidade Católica Portuguesa;
- MBA from INSEAD.

Professional experience:

- Chairwoman of the Executive Committee of SONAE CAPITAL, SGPS, S.A.
- Chairwoman of the Board of Directors of SONAECOM – Serviços Partilhados, S.A.;
- Chairwoman of the Board of Directors of SONAECOM - CYBER SECURITY AND INTELLIGENCE, SGPS, S.A.;
- Chairwoman of the Board of Directors of S21SEC PORTUGAL - CYBERSECURITY SERVICES, S.A.;
- Chairwoman of the Board of Directors of WeDo Consulting, Sistemas de Informação, S.A.;
- Chairwoman of the Board of Directors of Saphety Level – Trusted Services, S.A.;
- Chairwoman of the Board of Directors of Digitmarket – Sistemas de Informação, S.A.;
- Chairwoman of the Board of Directors of PCJ – Público, Comunicação, e Jornalismo, S.A.;
- Chairwoman of the Board of Directors of BRIGHT DEVELOPMENT STUDIO, S.A.;
- Chairwoman of the Board of Directors of Inovretail S.A.;
- Chairwoman of the Board of Directors of TLANTIC PORTUGAL – Sistemas de Informação, S.A.;
- Chairwoman of the Board of Directors of GRUPO S 21 SEC GESTIÓN, S.A.;
- Chairwoman of the Board of Directors of WeDo Technologies Americas Inc.;
- Chairwoman of the Board of Directors of SC, SGPS, S.A.;
- Chairwoman of the Board of Directors of SC HOSPITALITY, SGPS, S.A.;
- Chairwoman of the Board of Directors of Troiaresort, SGPS, S.A.;
- Chairwoman of the Board of Directors of CAPWATT, SGPS, S.A.;
- Chairwoman of the Board of Directors of Race SGPS S.A. (former SISTAVAC, SGPS, S.A.);
- Chairwoman of the Board of Directors of EFANOR – SERVIÇOS DE APOIO À GESTÃO, S.A.;
- Chairwoman of the Board of Directors of LINHACOM, SGPS, S.A.
- Chairwoman of the Board of Directors of SC Industrials SGPS S.A.;
- Chairwoman of the Board of Directors of Praça Foz - Sociedade Imobiliária, S.A.;
- Member of the Board of Directors of WeDo Technologies España – Sistemas de Informacion, S.L. (former Sonaecom – Sistemas de Información España, S.L.);

- Member of the Board of Directors of Público – Comunicação Social, S.A.;
- Member of the Board of Directors of SONAECOM – SGPS, S.A.;
- Member of the Board of Directors of ZOPT, SGPS, S.A.;
- Member of the Board of Directors of SONAE INVESTMENT MANAGEMENT – SOFTWARE AND TECHNOLOGY, SGPS, S.A.;
- Member of the Board of Directors of Armilar Venture Partners – Sociedade de Capital de Risco, S.A.;
- Member of the Board of Directors of EFANOR –INVESTIMENTOS, SGPS, S.A.;
- Member of the Board of Directors of IMPARFIN, SGPS, S.A.;
- Member of the Board of Directors of SEKIWI, SGPS, S.A.;
- Member of the Board of Directors of Vistas da Foz – Sociedade Imobiliária, S.A.;
- Member of the Board of Directors of Setimanale SGPS S.A.;
- Member of the Board of Directors of BA – Business Angels SGPS S.A.;
- Member of the Board of Directors of BA – Capital SGPS S.A.;
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- General Manager of SAPHETY – TRANSACCIONES ELECTRONICAS, S.A.;
- General Manager of WeDo Technologies Egypt;
- General Manager of WeDo Technologies (UK) Limited;
- Manager of Praesidium Services Limited (UK);
- Diretor of WeDo Technologies Australia PTY Limited;
- Diretor of WeDo Technologies Mexico, S. De R.L. De C.V..

n. Mário Filipe Moreira Leite da Silva: Non-Executive Member

Qualifications:

- Degree in Economics from Universidade do Porto, Faculdade de Economia.

Professional experience:

- Chairman of the Board of Directors of Fidequity – Serviços de Gestão S.A.;
- Chairman of the Board of Directors of Santoro Finance – Prestação de Serviços, S.A.;
- Chairman of the Board of Directors of Santoro Financial Holding SGPS, S.A.;
- Chairman of the Board of Directors of BFA – Banco de Fomento de Angola, S.A.;
- Chairman of the Board of Directors of Efacec Power Solutions SGPS S.A.;
- Member of the Board of Directors of Nova Cimangola, S.A.;
- Member of the Board of Directors of ZOPT, SGPS, S.A.;
- Member of the Board of Directors of SOCIP – Sociedade de Investimentos e Participações, S.A.;
- Member of the Board of Directors of Finstar – Sociedade de Investimentos e Participações, S.A.;
- Member of the Board of Directors of Esperaza Holding B.V.;
- Member of the Board of Directors of Kento Holding Limited;
- Member of the Board of Directors of Victoria Holding Limited.

o. João Pedro Magalhães da Silva Torres Dolores: Non-Executive Member

Qualifications:

- Degree in Economics from Universidade do Porto, Faculdade de Economia;
- MBA from London Business School.

Professional experience:

- Manager of Strategic Planning and Management Control of Sonae, SGPS, S.A.;
- Former Manager of Cloud Business Unit of Portugal Telecom, SGPS, S.A.;
- Former Sub-Manager of Inovation Management of Portugal Telecom, SGPS, S.A.;
- Former Senior Associate at McKinsey & Company;
- Former Brand Manager of JW Burmester & Ca, S.A..

p. António Domingues: Non-Executive Member

Qualifications:

- Degree in Economics from Instituto Superior de Economia de Lisboa;

Professional experience:

- Vice-Chairman of the Board of Directors of Banco Fomento Angola;
- Non-executive Member of the Board of Directors Haitong Bank;
- Chairman of Efacec Risk and Finance Committee;
- Former Chairman of the Board of Directors and of the Executive Committee of the Board of Directors of Caixa Geral de Depósitos;
- Former Vice-Chairman of the Executive Committee of the Board of Directors of Banco BPI;
- Former Vice-Chairman of the Board of Directors of Banco Português de Investimentos and of BCI Moçambique;
- Former Member of the Board of Directors of UNICRE, SIBS and Allianz Portugal;
- Former Member of the Board of Directors of BPI Madeira, SGPS, S.A.;
- Former Member of the Management of BPI SGPS S.A.;
- Former Central Manager of the Financial and International Management of BPI-Banco Português de Investimento S.A.;
- Former Deputy Director-General of the French Branch of Banco Português do Atlântico;
- Former Technical Advisor of the Foreign Department of Banco de Portugal;
- Former Director of the Foreign Department of the Issuing Institute of Macau;
- Former Technical Economist of the Planning and Studies Office of the Ministry of Industry and Energy.

20. Relationship between Directors and Shareholders with a qualified shareholding over 2%

- Jorge Brito Pereira: Chairman of the Board of Directors

He is Partner of a law firm, that acts as council of Companies controlled by Isabel dos Santos (to whom a qualified holding of the share capital and voting rights of the Company is attributable to, as explained in depth in item 7 of this report) and companies controlled directly or indirectly by her.

- Ângelo Gabriel Ribeirinho dos Santos Paupério: Member of the Board of Directors

He is a Member of the Board of Directors of ZOPT, a company which shareholding, on 31 December 2017, corresponds to 52.15% of the share capital and voting rights of NOS (disregarding own shares). He is Executive Chairman of the Board of Directors of Sonaecom SGPS, S.A..

- António Bernardo Aranha da Gama Lobo Xavier: Member of the Board of Directors

He is a Member of the Board of Directors of Banco BPI, S.A., a company which shareholding, on 31 December 2017, corresponds to 2.77% of the share capital and voting rights of NOS (disregarding own shares). He is a Member of the Board of Directors of Sonaecom SGPS, S.A..

- Mário Leite da Silva: Member of the Board of Directors

He is a Member of the Board of Directors of ZOPT, a company which shareholding, on 31 December 2017, corresponds to 52.15% of the share capital and voting rights of NOS (disregarding own shares). He is a Member of the Board of Directors of Kento Holding Limited.

- Maria Cláudia Teixeira de Azevedo: Member of the Board of Directors

She is a Member of the Board of Directors of ZOPT, a company which shareholding, on 31 December 2017, corresponds to 52.15% of the share capital and voting rights of NOS (disregarding own shares). She is a Member of the Board of Directors of Sonaecom SGPS, S.A..

21. Organograms and competence maps

Under the Articles of Association, the General Meeting, the Board of Directors, the Fiscal Board and the Statutory Auditor are corporate bodies of the Company.

NOS General Meeting has, particularly, the following duties:

a) To elect the members of the board of the General Meeting, the members of the Board of Directors, the members of the Fiscal Board and the Statutory Auditor;
b) To pass resolutions on the management report, accounts for the financial year and the company's corporate governance report;
c) To pass resolutions on the application of profits for the financial year;
d) To pass resolutions on any amendments to the Articles of Association, including share capital increases;

e) To resolve on any other items to which it was convened.

NOS Board of Directors is responsible for managing the Company's activity and their responsibilities are defined in the law, the Company's Articles of Association and the corresponding Regulations.

Members of the Board of Directors which do not perform executive duties shall promote the adequate supervision and surveillance of the performance of the members of the Executive Committee.

The Board of Directors, pursuant to article 17(1) and (3) of the Company's Articles of Association, created and delegated the day-to-day management of the Company to an Executive Committee for the three-year period of 2016/2018, setting out the corresponding composition, functioning and delegation of management powers.

Therefore, the Board of Directors delegated to the Executive Committee the necessary powers to develop and execute the day-to-day management of the Company.

The following items were not delegated:

a) Election of the Chairman of the Board of Directors;
b) Co-optation and, where appropriate, election of members of the corporate bodies of the Company and its subsidiaries;
c) Convening General Meetings;
d) Approval of annual reports and financial statements, to be submitted to the General Meeting, as well as the half-yearly and quarterly reports and financial statements and the results to be disclosed to the market;
e) Approval of the activity plans, budgets and annual investment plans of the Company, as well as any substantial amendments and which cause relevant impacts on those plans:
f) Definition of the general goals and fundamental principles of the Company's policies, as well as the options that shall be deemed strategic due to their amount, risk or special characteristics;
g) Posting bonds or secured or personal guarantees;
h) Important extensions or reductions of the Company's activity or internal organization, as well as that of the other companies of the same group;
i) Changing the Company's head offices and capital increases;
j) Approval of merger, demerger and transformation projects of the Company or which envolve Group companies, except if, in these cases, such operations constitute mere internal restructures within the framework of the global goals and the fundamental principles that were approved;
k) Appointing the Secretary of the Company and its alternate;
l) Incorporating companies and subscribing, acquiring, encumbering and disposing of stakeholdings, when such transactions involve amounts higher than 2,500,000 Euros;
m) Acquisition, disposal and encumbrance of rights, movable and immovable property, including any kind of securities, financial instruments, shares and bonds, when involving amounts higher than 2,500,000 Euros;
n) Signing contracts to pursue the corporate object, when such contracts involve amounts higher than 50,000,000 Euros;
o) Enter into any transactions between the Company and the shareholders of qualifying holdings of 2% or more of the voting rights (Qualifying Holders) and/or related entities under article 20 of the Portuguese Securities Code (Related Party) when such transactions exceed the individual amount of 75,000 Euros or the annual aggregate amount by the service provider of 150,000 Euros

(regardless of the approval of such transactions, in general or structural terms, by the Board of Directors);

p) Resolving, pursuant to the law and the Articles of Association, on the issue of bonds and commercial paper as well as the obtaining loans on the national and international financial market, once or more, when it involves amounts higher than that of the net financial debt of the Company on the EBITDA of 2 and up until the limit of 25,000,000 Euros per contract or issue.

Alongside the day-to-day management of the Company, the Executive Committee is responsible, in particular, for:

a) Proposing to the Board of Directors the strategic guidelines of the Group and the fundamental policies of the Company and its subsidiaries;

b) Cooperating with the Board of Directors and its Committees regarding what is deemed necessary for the performance of the respective objectives;

c) Defining the internal rules regarding the organization and functioning of the Company and its subsidiaries, notably concerning hiring, definition of remuneration categories and conditions and other employee benefits;

d) Issuing instructions to companies of the same group under total control, and controlling the implementation of the guidelines and policies under the previous paragraphs;

e) Exercising disciplinary authority and deciding on the application of any sanctions regarding the employees of the Company.

The Board of Directors, when defining the functioning of the Executive Committee, especifically delegated to the Chairman of the Executive Committee, the following duties:

a) Coordenating the activity of the Executive Committee;
b) Convening and conducting the meetings of the Executive Committee;
c) Providing for the proper implementation of the resolutions of the Board of Directors;
d) Providing for the proper implementation of the resolutions of the Executive Committee;
e) Ensuring the compliance with the limitations on the delegation of duties, on the strategy of the Company and the duties of cooperation with the Chairman of the Board of Directors and other members of the Board of Directors as well as other company bodies;
f) Ensuring that the Board of Directors is informed of the actions and relevant decisions of the Executive Committee as well as guaranteeing that all the clarifications requested by the Board of Directors are provided in a timely and appropriate manner;
g) Ensuring that the Board of Directors is informed, on a quarterly basis, of the transactions that, within the duties delegated to the Executive Committee, have been entered into between the Company and shareholders owing a qualified shareholding equal or above 2% of the voting rights (Qualifying Shareholders) and/or any entities in a relationship of article 20 of the Portuguese Securities Code with them (Related Entities), when such transactions exceed the individual amount of 10,000 Euros.

The Board of Directors, upon a proposal from the Chairman of the Executive Committee, defined and attributed specific responsibilities to each member of the Executive Committee to oversee and coordinate the various areas of the Group activity.

Nowadays, the organizational and operational structure of the Company is the following:

Organizational and Operational Structure

As previously referred, the Company adopted a reforced one-tier governance model where the management of the Company is carried out by a board of directors and the Company's oversight is carried out by a Fiscal Board and a Statutory Auditor, as better detailed in items 30 to 47 below.

22. Regulation for the functioning of the Board of Directors

The Board of Directors, pursuant to article 18(1) of the Company's Articles of Association approved its internal Regulations on organisation and functioning on 26 April 2016, which is available on the Company's website.

The Board of Directors is responsible for managing the Company's business, and to exercise the powers provided for in article 16 of the Articles of Association, described in item 9 above, to which reference is made.

Pursuant to article 3 of the Regulations of the Company's Board of Directors, the Chairman of the Board of Directors is responsible for:

a) Representing the Board of Directors and the Company;

b) Co-ordinating the activity of the Board of Directors;

c) Convening and chairing meetings of the Board of Directors;

d) Ensuring, in conjunction with the Chief Executive Officer, proper implementation of the resolutions of the Board of Directors;

e) Ensuring together with the Chairman of the Executive Committee that the Board of Directors is informed of all relevant actions and resolutions of the Executive Committee as well as ensuring that all the clarifications requested by the Board of Directors are provided in a timely and proper manner;

f) Oversee the relation between the Company and the shareholders.

The Company Secretary or the corresponding alternate shall also attend Board of Directors' meetings, and they are responsible for organising the papers for the meetings, particularly ensuring that all members are notified, at least 5 days in advance, the agenda and supporting documents and for drawing up the minutes.

23. Meetings of the Board of Directors and attendance of each member

Under article 4 of the Regulation of the Board of Directors, the Board of Directors of NOS meets at least 6 times a year and whenever is convened on the initiative of the Chairman, or by two directors.

Under the terms of article 18(3) of the Company's Articles of Association, the meetings of the Board of Directors cannot be held without the attendance of the majority of its current members and the Chairman of the Board of Directors, in cases of noted urgency, may excuse the attendance of that majority if their participation is ensured by postal votes or by proxy.

The Directors may attend the meetings of the Board of Directors by electronic means. The Company shall ensure the authenticity of the statements and the security of communications, recording the contents thereof and identifying the participants.

Postal votes and proxy votes are permitted, although a Director may not represent more than one other Director.

Resolutions of the Board of Directors shall be taken by a majority of the votes cast, the Chairman having a casting vote.

Resolutions taken at the meetings of the Board of Directors, as well as explanations of vote, are recorded in the minutes drawn up by the Company Secretary or by their Alternate.

During 2017, the current Board of Directors met 8 times, 5 times in person and 3 by electronic means. The presence of the members on the in-person meetings was as follows:

	Board of Directors	Executive Committee	Non-executive Directors	Attendance of meetings of the Board of Directors
Jorge de Brito Pereira	Chairman	---	X	5 P
Miguel Almeida	Vice-Chairman	Chairman	---	5 P
José Pedro Pereira da Costa	Member	Vice-Chairman	---	5 P
Ana Paula Marques	Member	Member	---	5 P
André Almeida* [1]	Member	Member	---	1 P
Manuel Ramalho Eanes	Member	Member	---	5 P
Jorge Graça* [2]	Member	Member	---	5 P
Luís Nascimento	Member	Member	---	3 P
Ângelo Paupério	Member	---	X	5 P
António Lobo Xavier	Member	---	X	5 P
António Domingues * [3]	Member	---	X	4 P
Catarina Tavira Van-Dúnem	Member	---	X	1 P, 1 R and 3 A
Joaquim Oliveira	Member	---	X	4 P and 1 R
Lorena Fernandes	Member	---	X	5 P
Maria Cláudia Azevedo	Member	---	X	3 P and 2 R
Mário Leite da Silva	Member	---	X	2 P and 3 R

	Board of Directors	Executive Committee	Non-executive Directors	Attendance of meetings of the Board of Directors
João Dolores	Member	---	X	4 P and 1 R

P – Present R – Represented A - Absent

* [1] Term suspended by personal motives, with effect from 1 October 2016, lasting 6 months. Subsequently, under the terms of article 404 (2) of the CSC, and there was no appointment or alternate election, the resignation of Director André Almeida took effect on 30 September 2017.
* [2] Under article 393 (3)(b) of the CSC, the Company disclosed to the market on 29 July 2017 the co-optation of the Director Luís Moutinho Nascimento.
* [3] Under article 393 (3)(b) of the CSC, the Company disclosed to the market on 7 March 2017 the co-optation of the Director António Domingues.

Moreover, regarding the meetings of the Board of Directors held by electronic means, pursuant to article 410(8) of CSC, to article 18(6) of the Company's Articles of Association and article 5(3) of the Regulation of the Board of Directors, were present all the Directors, except for the meeting of 24 February 2017, in which the directors Cláudia Azevedo and Catarina Van-Dúnem did not attend for reasons accepted by the Board of Directors.

The absences of the Directors, consecutive or not, were always duly justified and accepted by the Board of Directors.

24. Bodies with the power to conduct evaluation of executive Directors

The Remuneration Committee is empowered to assess the achievement of objectives by the Directors, supported by an opinion issued by the Appointment and Evaluation Committee (AEC).

The Board of Directors, at the begining of the new term of office corresponding to the three-year period 2016/2018, from 26 April 2016 to 31 December 2018, in its pursuit of the best corporate governance practices and in compliance with the Recommendations of the CMVM concerning the need for the Board of Directors to create the committees revealed necessary, notably to ensure competent and independent evaluation of the performance of executive Directors and of their own overall performance, as well as of the several existing committees, created the AEC, made up of a Chairman and two Members, who are:

Chairman: Ângelo Paupério

Member: Mário Leite da Silva

Member: Jorge Brito Pereira

A description of the powers and functioning of the AEC is presented in item 29 below.

25. Executive Directors evaluation criteria

The evaluation criteria for the members of the Executive Committee are measurable and pre-defined, globally considering the Company's growth and wealth creation in a mid-long term perspective.

As an example, the aggregated items considered for the purposes mentioned above generally combine financial and operational indicators. In this scope and for further detail please refer to items 70 and 71 of this report.

26. Availability of the Directors

All the members of the Company's Board of Directors are able to perform their duties with utmost diligence, guaranteeing careful management in accordance with best practices, scrupulously fulfilling their general and fundamental duties, namely: i) the duty of care; ii) the duty of diligent management; and iii) the duty of loyalty.

For a better understanding of the effective availability of the members of the Board of Directors, reference is made to paragraph 19 of this report which contains not only the professional experience of the members of the Board of Directors, but also the positions currently performed by them.

27. Specialized committees

Considering the limits set out by law and the best corporate governance practices, the Board of Directors of NOS, at its meeting on 26 April 2016, created and delegated to an Executive Committee the day-to-day management of the Company, for the term of office corresponding to the three-year period 2016/2018.

In compliance with the applicable legal or regulatory requirements – always with merely ancillary duties and the resolutions to be taken only by the Board of Directors –NOS Board of Directors created, in addition to the Executive Committee:

a. A Corporate Governance Committee;

b. An Audit and Finance Committee;

c. An Appointment and Evaluation Committee;

d. An Ethics Committee.

The Corporate Governance, Audit and Finance and Appointment and Evaluation committees as well as the Ethics Committee have operating regulations, available for consultation on the Company's website.

28. Composition of the Executive Committee

The Board of Directors of NOS, at its meeting on 26 April 2016, created and delegated to an Executive Committee the day-to-day management of the Company, for the term of office corresponding to the three-year period 2016/2018.

The members of the Executive Committee are chosen by the Board of Directors and the Committee is made up of a minimum of three and a maximum of seven Directors, as provided for in article 17(1) of the Company’s Articles of Association.

Currently, the Executive Committee is composed by a Chairman, a Vice-Chairman and by four members, whose professional profiles ensure their recognised reputation and competence to perform their duties.

For more detailed information related with the professional experience and expertise to their positions by the Members of the Executive Committee, refer to paragraph 19 of this Report.

Additionally, the Board of Directors defined the functioning and delegation of management powers to the Executive Committee, which is available for consultation on the Company's website.

The Executive Committee sets the dates and frequency of its ordinary meetings and meets extraordinarily whenever called by the Chairman, the Vice-Chairman or by two of its Members.

The Executive Committee is not able to function without the presence of a majority of its effective members. However, the Chairman may, when notably urgent, waive the presence of such majority, provided it is represented.

Postal votes and proxy votes are allowed. However, any member of the Executive Committee may not represent more than one other member. The attendance by means of video or conference call is also allowed.

Resolutions are taken by a majority of votes cast, and the Chairman has a casting vote.

The resolutions taken at meetings of the Executive Committee, as well as explanations of vote are recorded in minutes drawn up by the Secretary of the Company or the Alternate.

The Board of Directors delegates to the Executive Committee the necessary powers to develop and implement the day-to-day management of the Company, as detailed in item 21 of this Report, where an informative table presents the composition of the Executive Committee as well as the respective allocation of powers.

The powers delegated to the Executive Committee may be subdelegated, in their entirety or in part, to one or more of its members, or to employees of the Company.

Considering the Company’s internal rules (notably, the Regulation of the Board of Directors and the Fiscal Board, as well as the delegation of powers to the Executive Committee) and the practices it follows, NOS has appropriate mechanisms to allow the flow of information among the executive members and the members of other corporate bodies.

The Directors who, jointly or separately, intend to access information included within the framework of the powers delegated to the Executive Committee may request it directly from the Chairman of that committee or through the Chairman of the Board of Directors.

Moreover, as follows from the internal regulations on the functioning of the Executive Committee, its Chairman is responsible, in particular, for “ensuring that the Board of Directors is informed of the relevant actions and resolutions of the Executive Committee and also ensuring that all explanations requested by the Board of Directors are provided in a timely and appropriate manner”.

In turn, under the terms of the Regulations of the Fiscal Board, whenever deemed necessary, this Board shall request from the Chairman of the Board of Directors:

a) The minutes of the meetings of the Executive Committee, as well as the quarterly reports on its activities that it has prepared; and

b) The notices of meetings, the minutes of the Board of Directors and the corresponding support documents.

29. Powers of Committees and of the Ethics Committee

Corporate Governance Committee

By resolution taken on 26 April 2016, the Board of Directors, in the pursuit of best corporate governance practices and in compliance with the CMVM Recommendations, concerning the need to create the committees deemed necessary, in particular, to reflect on the governance system, structure and practices adopted, verify their effectiveness and propose measures to the appropriate bodies with a view to their improvement, created, for the three-year period of 2016/2018, a Corporate Governance Committee (CGC), made up of a Chairman and three Members:

Chairman: António Lobo Xavier

Member: Jorge Brito Pereira

Member: Lorena Fernandes

Member: Joaquim Oliveira

The powers of the CGC are the following:

a) To study, propose and recommend the adoption by the Board of Directors of the policies, rules and procedures necessary for compliance with the applicable legal and regulatory provisions as well as those of the Articles of Association's, including recommendations, opinions and best practices, both national and international, in the matter of corporate governance, rules of conduct and social responsibility;

b) To strive for full compliance with legal and regulatory requirements, recommendations and best practices relating to the Company's governance model and for the adoption by the Company of corporate principles and practices in matters such as:

   (i) structure, competences and operation of the governing bodies and in-house committees and their internal articulation;

   (ii) requirements as to qualifications, experience, incompatibilities, and independence applicable to members of the management and supervisory bodies;

   (iii) efficient mechanisms for the performance of duties by non-executive members of the management body;

(iv) exercise of voting rights, representation and equal treatment of shareholders;

(v) prevention of conflicts of interest;

(vi) transparency of corporate governance, of information to be disclosed to the market and of the relationships with the investors and other Company's stakeholders;

c) To maintain and supervise the compliance with the Company's Code of Ethics by all its governing bodies, directors and employees and those of its subsidiaries and also to perfect and update the said Code, submitting to the Board of Directors such proposals as it may deem appropriate for the purpose, and proposing to the Board of Directors those measures it considers appropriate for the development of a corporate and professional ethics culture within the Company;

d) To receive, discuss, investigate and evaluate alleged irregularities reported to it, as provided for in the Company's irregularities reporting policy;

e) To support the Board of Directors in carrying out its supervisory role of the Company's activity in the matters of corporate governance, rules of conduct and social responsibility.

The CGC shall meet at least once a year and may additionally meet whenever convened by its Chairman, by any of its members or by the Chairman of the Executive Committee.

The resolutions taken are recorded in minutes signed by all the members of this committee taking part in each meeting.

The Regulations of the CGC are available for consultation on the Company's website, available at www.nos.pt.

Audit and Finance Committee

By resolution taken on 26 April 2016, the Board of Directors, in the pursuit of best corporate governance practices, created for the three-year period of 2016/2018, an Audit and Finance Committee (AFC), made up of a Chairman and five Members:

Chairman: António Domingues

Member: Ângelo Paupério

Member: Jorge Brito Pereira

Member: Catarina Tavira Van-Dúnem

Member: Mário Leite da Silva

Member: João Dolores

However, following the resignation of the Director António Domingues as member of the Board of Directors of NOS as well as Chairman of the Audit and Finance Committee which took effect from 30 September 2016, the Board of Directors on 7 November 2016 resolved to appoint the Director Mário Leite da Silva to fill in the vacant Chairman position. Subsequently, and because of the co-optation of the

Director António Domingues and of the resignation of the Director Mário Leite da Silva as Chairman of AFC, disclosed by letter dated 1 March 2017, the Board of Directors resolved to appoint António Domingues as Chairman of this committee.

The powers of the AFC are the following:

a) to follow the Executive Committee's activities;
b) to review and examine, at the end of the year, the NOS Group Budget for the following year;
c) to review and examine the NOS Group strategic plan for the relevant year;
d) to review the annual, half-yearly, quarterly, and similar financial statements to be published, and to report its findings to the Board of Directors;
e) to advise the Board of Directors on its reports for the market to be included in the publication of the annual, half-yearly and quarterly results;
f) to advise the Fiscal Board, on behalf of the Board of Directors, on the appointment, duties and remuneration of the External Auditor;
g) to advise the Board of Directors on the quality and independence of the Internal Audit function, and on the appointment and dismissal of the Internal Audit Manager;
h) to review the scope of the Internal Audit and Risk Management functions, as well as their relationship with the work of the External Auditor;
i) to review and discuss with the External Auditor and the person in charge of risk management the reports produced within the scope of their duties and, consequently, to advise the Board of Directors on matters deemed relevant;
j) to supervise the Company's risk management policy, in connection with the Fiscal Board, regarding, notably, the risk control policies, the identification of key risk indicators (KRI) and the assessment risk evaluation;
k) to suggest to the Executive Committee internal control system's improvement measures for the financial information, risk management systems and internal audit;
l) to review, discuss and advise the Board of Directors on the accounting policies, criteria and practices adopted by the Company;
m) to establish, execute and supervise the receipt and processing of the accounting complaints, the internal accounting and auditing controls;
n) to assess Company's comunication proceedings regarding shareholders and investors;
o) to acknowledge rating agencies reports concerning the Company's rating;
p) to issue a binding opinion on profits' advancing during the year;
q) to review and issue a prior opinion on transactions between the Company and Shareholders of qualifying holdings equal to or greater than 2% of the voting rights (Qualifying Shareholders) and/or entities with which they are in any relationship pursuant to article 20 of the Portuguese Securities Code (Related Parties).

The AFC shall meet at least four times a year and may additionally meet whenever convened by its Chairman or by any of its members.

The resolutions taken are recorded in minutes signed by all the members of this committee taking part in each meeting.

The Regulation of the AFC is available for consultation on the Company's website, available at www.nos.pt.

Appointment and Evaluation Committee

As in the aforementioned committees, by resolution taken on 26 April 20116, the Board of Directors, created for the three-year period of 2016/2018, the Appointment and Evaluation Committee (AEC), made up of a Chairman and three Members, appointed by the Board of Directors from among its members.

Currently, the AEC has the following composition:

Chairman: Ângelo Paupério

Member: Jorge Brito Pereira

Member: Mário Leite da Silva

The AEC is responsible in particular for the following:

a) Assist the Board of Directors when appointing Directors to be appointed by co-optation to join the Company's Board of Directors, under Article 393(3)(b) of the CSC;

b) In its duties of assisting the Board of Directors, in the event of a vacancy in the Board of Directors or in the Company's Executive Committee, to draft, when asked, a reasoned opinion, identifying the people with the most suited profile to fulfill such vacancy, regarding the set of skills, knowledge and professional experience required to perform such tasks;

c) Conducting the annual process of evaluation of the members of the Executive Committee, ensuring further harmonization with the Remuneration Committee;

d) Within the annual process of evaluation of the members of the Executive Committee, propose to the Remuneration Committee the criteria which will be regarded when establishing the floating remuneration, namely the individual performing goals;

e) Performing an overall evaluation of the Board of Directors and of its specialised committees existing within the Board of Directors.

f) Whenever requested by the Board of Directors or by the Remuneration Committee, issue an opinion on the Executive Committee's general remuneration policy, as well as on the floating remuneration programs based on the allocation of NOS' shares or stock options.

Within its scope of activity, AEC must uphold the long-term interests of shareholders, investors and general public's.

The AEC meets whenever it is convened by initiative of its Chairman or by any of its members.

The resolutions taken by the AEC are recorded in minutes signed by all the members of this committee taking part in each meeting.

The Regulations of AEC are available for consultation on the Company's website, available at www.nos.pt.

Ethics Committee

Through the resolution adopted on 26 April 2016, the Board of Directors resolved, for the three-year period of 2016/2018, the incorporation of an Ethics Committee composed by a Chairman (Non-executive Director) and two Members (Executive Director in charge of Human Resources and the Chairman of the Fiscal Board) as follows:

Chairman: António Lobo Xavier

Member: Ana Paula Marques

Member: Paulo Mota Pinto

The Ethics Committee is responsible in particular for the following:

- Receiving and responding to requests for clarification and expression of concerns related with the Code of Ethics and its observance, through an email created for this purpose;
- Analysing, discussing and appraising the requests for clarification of questions or concerns related with the content of the Ethics Code or its observance, that have been submitted to the hierarchical managers, to the Human Resources Department or by e-mail created for this purpose;
- Requesting the internal audit, within the framework of its powers, the investigations that may be deemed necessary at each moment;
- Issuing opinions about measures to be taken as a result of such investigation;
- Promoting and monitoring the implementation of the Ethics Code, in particular with regard to communication actions, awareness and training of employees, suppliers and partners, towards the strengthening of an ethical culture;
- Issuing, when requested to do so by any corporate body of the Company, opinions about ethics or conduct codes, or about professional practices which need to meet legal and / or regulatory requirements;
- Under sustainability area's proposal and whenever deemed suitable, making a review of the Code of Ethics and respective procedures concerning the needs of the Company and submit it for the approval of CGC;
- Suggesting to CGC policies, goals, instruments and indicators regarding the management system of corporate ethical performance;
- Ensuring the management system of corporate ethical performance is compatible with the requirements of NOS internal control system;
- Send to CGC, whenever relevant for the purposes of corporate governance, a report of the executed actions;
- Reporting and annually submit to the Board of Directors an activity report;
- Clarifying questions arising from the Ethics Code, including, without limitation, the clarification on the matters which are subject to the competence of the Fiscal Board under the Whistleblowing Regulation or other legal powers of this body as opposed to the matters that are under the Ethics Committee's competence under the Ethics Code;
- Preparing the annual report of activity in order to meet the Company's commitments concerning sustainability.

The resolutions of the Ethics Committee are taken by a majority or, in the event of a tie, by the casting vote of its Chairman.

The Ethics Committee is able to receive requests for clarification or concerns related with the Code of Ethics and its compliance, presented by employees, partners, suppliers, customers or third parties, in person or in writing, by the email comitedeetica@nos.pt. The Ethics Committee also analyses the requests for clarification and concerns relating with possible breaches of the Code of Ethics.

The Ethics Committee meets whenever it is convened by initiative of its Chairman, or by any of its members and is assisted by the Internal Audit Director.

III. Supervision

30. Identification of the Fiscal Board

Pursuant to article 278(1)(a) and (3) and article 413(1)(b), all of the CSC, and article 10(1) and article 21 both of the Articles of Association, the supervision of the Company is the responsibility of:

a) a Fiscal Board;

b) a Statutory Auditor or an Audit Firm;

Their duties correspond to those assigned by law.

31. Composition of the Fiscal Board

Fiscal Board

Pursuant to article 22(1) of the Company's Articles of Association, the Fiscal Board is made up of three members and an alternate member, elected by the General Meeting, which shall also elect its Chairman. It is made clear that, while there is no provision in the Articles of Association requiring a minimum or maximum number of members of the Fiscal Board, this Board should necessarily be made of three effective members and one alternate member per the terms of law.

Pursuant to article 10(6) of the Company's Articles of Association, the members of the corporate bodies perform their duties for renewable periods of three calendar years, the calendar year of their appointment is considered a full year.

At the General Meeting, on 26 April 2016, the following members were elected as members of the Fiscal Board, for the three-year period of 2016/2018:

Chairman: Paulo Cardoso Correia da Mota Pinto

Member: Eugénio Luís Lopes Franco Ferreira

Member: Patrícia Andrea Bastos Teixeira Lopes Couto Viana

Alternate: Luís Filipe da Silva Ferreira

The Fiscal Board members were elected for the three-year period of 2016/2018; hence, their term of office ends on 31 December, 2018 (nonetheless, being kept in office until new election).

Statutory Auditor

Pursuant to article 22(3) of the Company's Articles of Association, the Statutory Auditor, full and alternate, are elected by the General Meeting acting on a proposal from the Fiscal Board.

Pursuant to article 10(6) of the Company's Articles of Association, the members of the corporate bodies perform their duties for renewable periods of three calendar years, the calendar year of their appointment being considered a full year.

At the General Meeting, on 26 April 2016, the following were elected as full and alternate Statutory Auditors, to complete the current three-year period:

Full: Ernst & Young Audit & Associados, SROC, S.A., (ROC No. 178), represented by Ricardo Filipe de Frias Pinheiro (ROC No. 739).

Alternate: Paulo Jorge Luís da Silva (ROC No 1334)

Since 18 July 2017, the Statutory Auditor was represented by Sandra e Sousa Amorim (ROC no. 1213) and Rui Abel Serra Martins (ROC No. 1119), as disclosed to the market on 21 July 2017.

The Statutory Auditors were elected for the three-year period of 2016/2018; hence their term of office ends on 31 December 2018 (nonetheless, they may be kept in office until new election).

32. Identification of independent members

All the members of the Fiscal Board are independent in the light of the criteria laid down in article 414(5) of the CSC.

33. and 36. Professional qualifications, availability and other offices held by the members of the Fiscal Board

The members of the Fiscal Board are manifestly suitable and have academic and professional experience appropriate to the exercise of supervisory functions.

The members of the Company's Fiscal Board are appointed, replaced or dismissed in accordance with the law, notably and respectively, under the terms of articles 415 and 419 of the CSC.

In order to ensure a more assertive understanding of the availability of the Fiscal Board members, the functions performed by them, as well as their academic and professional qualifications and professional activities, are described below:

Paulo Cardoso Correia da Mota Pinto

Qualifications:

- Degree, Master's and Doctorate in Law at Universidade de Coimbra, Faculdade de Direito.

Professional Experience:

- He began his teaching career in 1990 and is a Professor at the Faculty of Law of the University of Coimbra. He has also taught and given lectures in the field of private law at other universities in Portugal and abroad (Brazil, Angola, Mozambique, Macau, Spain, Germany, etc.);
- Member of various Master's and Doctoral panels, particularly in the field of private law, sometimes as examiner. He has published studies (articles and books) mainly in the field of civil law and fundamental rights and has written preliminary drafts of laws (such as the legal rules governing the sale of consumer goods and direct-mail advertising);
- Constitutional Court Judge, elected by the Portuguese Parliament, from 11 March 1998 to 4 April 2007, having been rapporteur in that capacity for more than 550 judgments and more than 350 summary decisions on a variety of subjects (almost all available unabridged at www.tribunalconstitucional.pt);
- Since April 2007 he has worked as a legal adviser and arbitrator. In this latter capacity, he has chaired or been a member of ad hoc arbitral tribunals, set up by the Centres for Commercial Arbitration of the Associação Comercial do Porto and the Associação Comercial de Lisboa or for the International Court of Arbitration of the International Chamber of Commerce;
- Chairman of the General Meeting of Caixa Geral de Depósitos, S.A., since 2016;
- Legal Advisor of BPI - Banco Português de Investimento from 1991 to 1998;
- Former Member of Parliament, Chairman of the Parliamentary Budget and Finance Committee of the 11th Legislature, from November 2009 to April 2011, and Chairman of the European Affairs Committee, of the 12th Legislature, from June 2011 to October 2015;
- Former Chairman of the Intelligence Oversight Committee of the Portuguese Republic, elected by the Assembly of the Republic, from March 2013 to December 2017;
- Former Vice-Chairman of the National Political Committee of the PSD between 2008 and 2010.

Patrícia Andrea Bastos Teixeira Lopes Couto Viana

Qualifications:

- Ph.D. in Business Science from Universidade do Porto, Faculdade de Economia (FEP), 2007, Doctoral Thesis regarding "Accounting for Financial Instruments. Empirical evidence from Europe";
- Master's in Business Science, with an expertise in Financing (FEP), 1999;
- Degree in Management (FEP), 1994 ("Fundação Eng. António de Almeida Award" for the graduate in Management from the Universidade do Porto, Faculdade de Economia, with the higher rank in 1994).

Professional experience:

- Porto Business School Vice-Dean;

- Member of the Remuneration Committee of Caixa Geral de Depósitos;
- Auxiliar Professor at the Universidade do Porto, Faculdade de Economia;
- Chairman of the Fiscal Board of the Fundação Instituto Marques da Silva;
- Pro-Dean of Universidade do Porto, in charge of strategic planning and management (from April 2008 to April 2015);
- Former Member of the General Council INESC – TEC;
- Former Member of the Fiscal Board of the Fundação Ciência e Desenvolvimento;
- Former Member of the Board of UPTEC – Associação para o Desenvolvimento do Parque de Ciência e Tecnologia da Universidade do Porto;
- Former Director of the Instituto Mercado de Capitais da Euronext Lisboa from November 1999 to September 2002;
- Joined the Gabinete de Estudos e Desenvolvimento da BDP - Bolsa de Derivados do Porto, from September 1994 to November 1999;
- Former Member of INTACCT, european project on adoption of IAS/IFRS in the EU Member States;
- Author of several papers on national and international professional and academic magazines, regular speaker in conferences regarding IAS/IFRS adoption.

Eugénio Luís Lopes Franco Ferreira

Qualifications:

- Degree in Economics from the Universidade do Porto, Faculdade de Economia in 1976, where he taught as assistant Financial Mathematics on 1976/77. During his professional career, he had attended numerous training courses in several European countries and the United States.
- Member of the Portuguese Association of Economists and member of the Portuguese Institute of Corporate Governance. Em 2016 he voluntarily cancelled its membership on the Statutory Auditors Association and on the Certified Accountants Association.

Professional experience:

- Member of the Fiscal Board of Corticeira Amorim, SGPS, S.A.;
- Freelance consultant since 2009;
- 1977-2008: joined Price Waterhouse (PW), now PriceWaterhouseCoopers (PwC), on their Porto offices. Following a brief period on their Paris offices (1986), he became a Partner in 1991, and afterword was transferred to the Lisbon offices in 1996. Inicially he joined the Auditing Department, and afterwards Transaction Services, taking part in numerous audits of companies and other entities and consultancy projects, notably in the area of transactions and company restructuring. As an auditor, the scope of his responsibilities mostly included the performance of duties as member of the Fiscal Board or as Statutory Auditor;
- At different times played various internal functions in PW / PwC, notably (i) the head of the Oporto office (1989-1998); (ii) territorial responsibility for the technical audit function and risk management ("Technical Partner" and "Risk Management Partner"); (iii) responsibility for administrative functions, financial and internal computer ("Finance & Operations Partner"); (iv) responsible for the Audit Department; (v) member of the Executive Committee ("Territory Leadership Team");

- 1966-1976: he began his activity on a small car company, which was interrupted during 1971-1974 during the course of military service.

Luís Filipe da Silva Ferreira (Alternate)

Professional experience:

- He started his professional career on 1970 at Coopers & Lybrand (now PwC PricewaterhouseCoopers). On 1975, after carrying out obligatory military service (1973/75) started his career as an auditor. In January 1986 he was co-opted to Partner. On the same date, started the Consulting business line. As Partner kept responsibilities as Account Manager (Global Relationship Partner), including development projects of the three business lines - Assurance, Advisory and Tax, large clients of the Firm - EDP groups, REN, EDA, Generg, Portugal Águas, Cimpor, Tabaqueira, Vale de Lobo and public sector companies - ANA, REFER, Estradas de Portugal, Administração dos Portos de Lisboa and Sines. In some cases, the extent of responsibilities as auditor included the performance of functions in the Fiscal Board. (In accordance with the rules on reform of Partners, ceased connection PwC in 2012, and startedto act professionally as a consultant in free regime);
- Currently, he provides strategy and operations consulting services, in the areas in which he is specialized – Energy, Mobility, Utilities for both public and private sectors;
- He holds responsibilities on corporate bodies of Águas do Vouga, SA, Águas do Norte, S.A., Aguas do Centro, S.A., Aguas de Lisboa e Vale do Tejo, S,A., e Aguas do Algarve, S.A.;
- Pro-bono contributor to BLC3 – Plataforma para o Desenvolvimento da Beira Interior, assuming the functions related with the Financial Risk Management of the Association and Projects;
- Participation in the innovation and development of products arising of social and civic saving projects;
- Through partnerships, develops business activities regarding business development in Portugal and Mozambique;
- Certified as a Financial Advisor Autonomous (Certified Financial Adviser) by the CMVM / Euronext Lisbon (2002), Financial Controller recognized by OROC – Ordem dos Revisores Oficiais de Contas (2001), CISA - Certified Information Systems Auditor, by ISACA - Information Systems Audit and Control Association, Illinois, USA. (1994), TOC - Accountant by the Câmara dos Técnicos Oficiais de Contas (1979) and Certified as a professional trainer;
- Advisor to the Minister for Public Works, Transport and Communications from 2004 to 2011;
- He also held internal positions within the Firm, notably: he was responsible for the launch of operations in Algarve, he was the head of the Auditing and Accountancy Technical Department and of the internal administrative, financial and IT services and responsible for the Governance and Audit Committee;
- Internal and external instructor, teaching Information Systems, Computer Auditing, Systems and Consolidated Financial Processes on specialised, postgraduate and master degrees.

34. Regulations of the Fiscal Board

The Fiscal Board, under its duties pursuant to the Articles of Association, approved a new version of the Fiscal Board Regulation, on 22 September 2016, available for consultation on the Company's website.

Under the terms of the Company's Articles of Association and the Regulations of the Fiscal Board, this Committee carries out the functions and duties provided for in articles 420, 420-A and 422, all of the CSC.

In the performance of its duties assigned by law and the Articles of Association, the Fiscal Board is responsible, in particular, for the following:

a) Supervising the management of the Company;

b) Ensuring that the law and the Articles of Association are observed;

c) Verifying the regularity of all books, accounting registers and supporting documents;

d) Whenever it deems such action convenient and by the means it considers appropriate, verifying the extent of cash and the stock of any kind of assets or securities belonging to the Company or received by it by way of guarantee, as a deposit or in any other capacity;

e) Verifying the accuracy of the financial statements;

f) Verifying whether the accounting policies and valuing criteria adopted by the Company lead to the correct valuation of the assets and the results;

g) Drawing up an annual report on its supervision of the Company and issuing a statement of opinion on the annual report, accounts and proposals presented by the management, in which it must express its agreement or not with the annual management report, with the annual accounts and with the legal certification of accounts or declaration that it is impossible to certify the same accounts;

h) Convening the General Meeting whenever the Chairman of the board of the General Meeting fails to do so;

i) Supervising the process of preparation and disclosure of financial information and issue recommendations or proposals to assure its integrity;

j) Assist the supervision of the auditing of the Company's financial individual and consolidated statements, notably its execution, bearing in mind possible conclusions of CMVM;

k) Engaging the services of experts to assist one or more of its members in the exercise of their duties. The engagement and remuneration of experts must take into account the importance of the matters committed to their attention and the economic situation of the Company;

l) Assessing the functioning of the risk management system, the internal control system and the internal auditing system and supervise their efficiency, proposing any adjustments that may be deemed necessary, as well as receiving the corresponding reports;

m) Receiving notifications of irregularities ("whistleblowing") submitted by shareholders, Company employees or others, informing the Company entity responsible for handling the reported irregularity;

n) Being the main counterpart of the external auditor and the first recipient of the relevant reports, and being responsible, inter alia, for proposing the relevant remuneration and ensuring that the proper conditions for the provision of services are provided within the Company;

o) Assessing the external auditor on an annual basis and proposing to the competent body its dismissal or termination of the contract for services when there is a valid basis for said dismissal;

p) Appointing the statutory auditor or audit firm to propose to the General Meeting and reasonably recommend its preference, under article 16 of Regulation 537/2014 (EU), 16 April 2014;

q) Supervising and assessing the independence of the Statutory Auditor, including obtaining written formal confirmations under Articles 63 and 78 of the Statutory Auditors Bar Statute, in particular to assess the suitability and to approve the provision of other services besides audit services, under Article 5 of Regulation 537/2017 (EU), 16 April 2014;

r) Issuing a prior opinion on relevant business activities with qualifying shareholders, or entities with who they are in any relationship, according to article 20 of the Portuguese Securities Code;

s) Confirming whether the corporate governance report disclosed includes the information listed in article 245-A of the Portuguese Securities Code;

t) Carrying out any other duties required by law or by the Articles of Association.

The Fiscal Board shall also:

a) Supervise and issue its opinion on the Company's annual report and accounts, including, in particular, the scope, the process of preparation and disclosure as well as the accuracy and integrality of the accounting documents, and other financial information for which the law determines the involvement of the Fiscal Board;

b) Inform the Board of Directors on the legal audit results and explain the way it contributed to the integrity of the process of preparation and disclosure of the financial information, as well as the role the Fiscal Board played in such process;

c) Whenever it deems appropriate, make a decision, in advance and in good time, and give a prior opinion, on any reports, documentation or information of financial nature, that are assessed by the Board of Directors and are to be disclosed to the market, notably the preliminary anouncements of the quarterly accounts, or to be submitted by the Company to any competent supervisory authority.

For the exercise of their functions, any member of the Fiscal Board may, jointly or separately:

a) Obtain from the management the presentation of any books, records and documents belonging to the Company for examination and certification thereof, and verify the existence of any types of assets, notably cash, securities and merchandise;

b) Obtain from the management or from any of the Directors information or clarifications about the course of the operations or activities of the Company or about any of its businesses;

c) Obtain, under the terms of article 421(2) of the CSC, from third parties who have carried out operations on behalf of the Company, any information required for clarification of such operations;

d) Attend board meetings, whenever it sees fit.

In addition to general and particular duties emerging from their duty of supervision, the members of the Fiscal Board have the following:

a) The duty to exercise conscientious and impartial supervision, without taking any advantage of the information to which they have access in the course of their duties;

b) The duty to attend meetings of the Board of Directors to which its Chairman calls them, to attend meetings of the Board of Directors in which the annual accounts and the preliminary anouncements of the quarterly accounts are reviewed and to attend the General Meetings;

c) The duty to keep confidential any facts and information made known to them as a result of their supervisory activity, notwithstanding the duty to report any criminal activities to the competent authorities and to report at the first General Meeting that takes place, all irregularities and inaccuracies found and explanations asked for and received concerning them;

d) The duty to report to the Company reasonably in advance or, if unforeseeable, immediately, any circumstances that affect their independence and impartiality or that constitute a legal conflict of interest to carry out their duties;

e) The duty to report to the Company, within three days, any acquisition or sale of shares or bonds issued by the Company or any of its subsidiaries, made by themselves or by any person or entity as determined by law, in particular article 20 and article 248-B of the Portuguese Securities Code and article 447 of the CSC.

The coordination between the Fiscal Board and the Board of Directors should be assured by the Chairman of the Fiscal Board and by the Chairman of the Board of Directors or by the Director that the Board of Directors designates for that purpose.

The Fiscal Board obtains from the Board of Directors all the necessary information to carry out its duties, namely relating to the operational and financial progress of the Company, changes to its business portfolio, the terms of any transactions that have occurred and the details of the resolutions taken.

The Fiscal Board may, whenever deemed necessary, request from the heads of the different departments any information considered necessary to carry out its duties.

The Fiscal Board, whenever deemed necessary, shall request from the Chairman of the Board of Directors:

a) The minutes of the meetings of the Executive Committee, as well as the half-yearly reports on its activities that it has prepared; and

b) The notices of meetings, the minutes of the Board of Directors and the corresponding support documents.

Each year the Fiscal Board obtains from the internal auditor information on the internal audit plan and a periodical summary of the main conclusions of the internal audit, without prejudice to it also being a recipient of the internal audit report.

The Fiscal Board keeps a record of all irregularities that are reported, taking necessary measures with the Board of Directors and/or the internal and/or external auditors, and prepares a report thereon.

In its functions, the Fiscal Board will be assisted by the General Secretary, Audit and Internal Control, Financial and Administrative Department and may ask the Board of Directors, when deemed necessary, the occasional cooperation of one or more of its members within their expertises for information release and execution of tasks regarding the reasoning of its analysis and conclusions.

35. Meetings of the Fiscal Board and attendance of each member

The Fiscal Board meets at least quarterly and may meet extraordinarily on the initiative of its Chairman or at the request of any of its members, who must propose the date and agenda for such purpose.

Minutes shall be drawn up for each meeting, which are subject to formal approval at the following meeting and signed by all the members who attended the meeting.

The resolutions of the Fiscal Board are taken by a majority, the Chairman having a casting vote. Members who do not agree with the resolutions must state the reasons for their disagreement in the minutes.

During the year of 2017, the Fiscal Board met 10 times in person and all its members were present:

	Attendance at the meetings of the Audit Committee
Paulo Cardoso Correia da Mota Pinto	10/10 P
Eugénio Luís Lopes Franco Ferreira	10/10 P
Patrícia Teixeira Lopes	10/10 P

P – Present

37. Intervention in engaging additional services from the External Auditor

In order to ensure the independence of the External Auditor, the Fiscal Board, according to its Regulations, has the following powers and duties with regard to the external audit:

- It is the main counterpart of the external auditor and the first recipient of the relevant reports, and is responsible, inter alia, for proposing the relevant remuneration and ensuring that the proper conditions for the provision of services are provided within the company; and

- It evaluates the external auditor on an annual basis and proposes to the relevant corporate body its dismissal or termination of the contract of services where there is a valid basis for the said dismissal.

In addition, the Fiscal Board, on 20 June 2017 approved a new version of the Regulation for the provision of services by the External Auditors (“Regulation for the Provision of Services”), which defines the rules applicable to services other than audit services ("Non Audit Services") or related to audit ("Audit Related Services") provided by the external auditor to NOS and its subsidiaries, included on the appropriate scope of consolidation. This Regulation for the Provision of Services shall apply to services provided by the external auditor and related companies.

Under the mentioned Regulation for the Provision of Services, hiring non-audit or audit-related services should be deemed as exceptions or complements, respectively, and in accordance with the rules laid down in that Regulation.

The assessment of the eligibility of the service depends on the appreciation of the Fiscal Board, which considers the following principles: (i) an auditor cannot audit his own work; (ii) an auditor cannot perform any function or perform work that is the responsibility of management; and (iii) an auditor cannot directly or indirectly act on behalf of his client.

The annual fees for several audit services cannot exceed the amount corresponding to 70% of the total of the average of the legal auditing fees of the last 3 years, provided to the Company and its subsidiaries, included in the consolidation perimeter using the full consolidation method.

The provision of non-audit services by the full or alternate Statutory Auditor requires the prior approval and authorization of the Fiscal Board, which adequately assesses the threats to independence arising from the provision of these services and the safeguard measures applied in accordance with article 73 of Law no. 140/2015 of 7 September. For this purpose, the Fiscal Board should receive a proposal regarding the provision of services to be submitted for approval and authorization, as well as any additional information that may be deemed relevant, which shall comply with the following requirements:

a) Be clear about the services to be rendered and the fees that will be charged for them;

b) Include a declaration of conformity with the independence principles defined in article 2 of the Regulation for Provision of Services;

c) Include reasoning for the provision of the services;

d) Include the initial date for the provision of services and its respective fees.

As per the Regulation for the Provision of Services, if a member of the network of the full or alternate Statutory Auditor who performs the statutory audit of the accounts of NOS or its subsidiaries, provides any non-services prohibited pursuant article 77(8) of Law no. 140/2015 of 7 September, to an entity with offices in a third country that is controlled by NOS or its subsidiaries, the full or alternate Statutory Auditor shall assess whether its independence is compromised by such service provision by the member of the network, in accordance with Article 5(5) of Regulation (EU) no. 537/2014 of the European Parliament and of the Council of 16 April 2014.

38. Other functions

Under the terms of the Company's Articles of Association and the relevant Regulation, it is to be noted that the Fiscal Board:

- Evaluates the functioning of the risk management system, the internal control system and the internal auditing system and supervises their efficiency, proposing any adjustments that may be deemed necessary, as well as receiving the corresponding reports;

- Receives notifications of irregularities (whistleblowing) submitted by shareholders, Company employees or others, informing the Company's entity responsible for handling the irregularity reported;

- Issues a prior opinion on relevant business activities with qualifying shareholders, or entities with which they are in any relationship, according to article 20 of the Portuguese Securities Code;

- Supervises and issues its opinion on the Company's annual report and accounts, including, in particular, the scope, the process of preparation and disclosure as well as the accuracy and integrality of the accounting documents, and other financial information for which the law determines the involvement of the Fiscal Board;

- Informs the board of directors of the legal audit results and explains the way it helped to assess the integrity of the preparation and disclosure of the financial information process, as well as the role which the Fiscal Board played in such process; and

- Whenever it deems appropriate, makes a decision, in advance and in good time, and gives a prior opinion on any reports, documents or information of a financial nature that may be evaluated by the Board of Directors and is to be disclosed to the market, notably the preliminary announcements of the quarterly accounts, or submitted by the Company to any competent supervisory authority.

IV. Statutory Auditor

39. Identification of the Statutory Auditor

Pursuant to article 22(3) of the Company's Articles of Association, the Statutory Auditor, full and alternate, is elected by the General Meeting acting on a proposal from the Fiscal Board.

At the General Meeting, on 26 April 2016, the following were elected as full and alternate Statutory Auditors for the three-year period 2016/2018:

Full: Ernst & Young Audit & Associados, SROC, S.A., (ROC No. 178), represented by Ricardo Filipe de Frias Pinheiro (ROC No. 739);

and

Alternate: Paulo Jorge Luís da Silva (ROC no. 1334).

Since July 18, 2017, the Statutory Auditor was represented by Sandra e Sousa Amorim (ROC no. 1213) and Rui Abel Serra Martins (ROC No. 1119), as disclosed to the market on 21July, 2017.

40. Number of years working for the company

The Statutory Auditors, full and alternate, were elected for the first time on the 23 April 2014 General Meeting, to fullfil the term concerning the period 2013/2015.

Thus, new full and alternate Statutory Auditors began their functions in the Company in 2014, having consecutively served the Company for approximately 4 years.

41. Description of the services provided

On 31 December 2017, Ernst & Young Audit & Associados, SROC, SA, also played the functions of External Auditor of the Company.

V. External Auditor

42. Identification of the External Auditor and Partner

The External Auditors of NOS are independent entities with international reputation, being their actions closely monitored and supervised by the Company's Fiscal Board.

NOS does not grant its External Auditors any damages protection.

The External Auditor should, within the framework of its powers, verify the implementation of policies and systems concerning the remuneration of corporate bodies, the efficiency and the effectiveness of internal control mechanisms and report any disabilities to the Fiscal Board, in full compliance with the recommendation IV.1 of the CMVM Corporate Governance Code (2013).

On 31 December 2017, NOS External Auditor was Ernst & Young Audit & Associados, SROC, S.A., (ROC no. 178 and CMVM registration no. 20161480), represented by Sandra e Sousa Amorim (ROC no. 1213 and CMVM registration no. 20160824) and Rui Abel Serra Martins (ROC no. 1119 and CMVM registration no. 20160731).

43. Number of years working for the Company

Pursuant the favourable opinion of AFC and the proposal of the Fiscal Board, the appointment of Ernst & Young Audit & Associados, SROC, S.A. as new External Auditor of the Company was approved for the first time in the Board of Directors' meeting on 24 March 2014.

Thus, the current External Auditor and the respective partners started their functions at the Company in 2014, having consecutively served the Company for approximately 4 years.

44. Rotation of the external auditor and partner

Pursuant to the Regulations of the AFC, the Commission advises the Fiscal Board, on behalf of Board of Directors, regarding the appointment, duties and remuneration of the External Auditor.

As provided for in the Regulations of the Fiscal Board, this Committee evaluates the External Auditor on an annual basis and proposes to the competent body its dismissal or termination of the contract for services when there is a valid basis for said dismissal.

Neither the Articles of Association nor the internal regulations set out the periodic rotation of the External Auditor. However, the practices followed by the Company are aligned with the recommendation IV.3 of the CMVM Corporate Governance Code, with the new Statutory Audit Bar Statute (EOROC), approved by Law no. 140/2015, 7 September, and with the Audit Supervision Framework (RJSA), approved by Law no. 148/2015, 9 September.

45. Body responsible for assessement of the External Auditor and its periodicity

In light of the above, in compliance with Recommendation II.2.3. of the CMVM Corporate Governance Code (2013) and pursuant to article 3(1)(o) of the Regulations of the Fiscal Board, this Board annually evaluates the External Auditor, and proposes to the competent body its dismissal or the termination of the service agreement whenever there is a valid reason.

46. Identification of non-audit services

As mentioned in item 37, on 20 June 2017, the Fiscal Board, approved a new version of the

Regulation for the Provision of Services by External Auditors that defines the applicable regime to non-audit or audit related services provided by the External Auditor to NOS and its subsidiaries included in its scope of consolidation. This regulation is applicable to the services provided by the External Auditor and its related companies. Under the aforementioned regulation, the hiring of non-audit or audit-related services shall be considered, respectively, on an exceptional or complementary basis and in accordance with the rules established in the Regulation for the Provision of Services.

The non-audit services, which are defined by the negative, consist of all services in which the auditor does not issue an opinion on accounts in accordance with SAIs (excluding prohibited services), such as:

a) Review of financial statements with a limited level of assurance, which includes limited reviews of quarterly, half-yearly or other period accounts;

b) Advise on interpretation and counselling on implementation of new accounting and financial reporting rules;

c) Counselling related with the required financial reporting for the compliance with the accounting policies adopted.

d) Tax services related to the audit or mid-term review of the financial statements, including review of the compliance with Transfer Pricing rules;

e) Requirements of internal control reporting, whether audits or reviews of internal controls;

f) Review of financial information to be disclosed to the market;

g) Reviews and audits to Information Systems, when related to the auditing of the financial statements;

h) Comfort Letters and other reports of agreed procedures, within the scope of prospects and other procedures related to securities;

i) Audit to the Social Responsibility and Sustainability Reports;

j) Certification of the internal control report;

k) Other certifications not required by law or by the Company's Articles of Association;

l) Audit for the acquisition of new businesses (auditing of the opening balances), including advice on accounting restatement;

m) Training in technical matters;

n) Other services, namely the ones that may be provided by the External Auditors, due to their professional experience and/or knowledge of the company, and that are not described in the previous paragraphs, such as Due Diligences in potential acquisitions and/or sales.

In 2017 were hired by NOS or its Group companies the non-audit services described on the above paragraphs a), h) and n).

As per the Regulation for the Provision of Services, if a member of the network of the full or alternate Statutory Auditor who performs the statutory audit of the accounts of NOS or its subsidiaries, provides any non-services prohibited pursuant article 77(8) of Law no. 140/2015 of 7 September, to an entity with offices in a third country that is controlled by NOS or its subsidiaries, the full or alternate Statutory Auditor shall assess whether its independence is compromised by such service provision by the member of the network, in accordance with Article 5(5) of Regulation (EU) no. 537/2014 of the European Parliament and of the Council of 16 April 2014.

Non-audit services are as follows:

a) Tax advisory services relating to:

    i. Preparation of tax declarations;

    ii. Taxes on salaries;

    iii. Custom duties;

    iv. The identification of public subsidies and tax incentives, unless the assistance of the statutory auditor or audit firm in relation to such services is required by law;

    v. Assistance on inspections of tax authorities unless the assistance of the statutory auditor or the audit firm in relation to such inspections is required by law;

    vi. Calculation of direct and indirect taxes and deferred taxes;

    vii. Tax advisory;

b) Services involving any participation in the management or decision-making of the audited entity;

c) Preparation and issuance of accounts and accounting records;

d) Wage processing services;

e) The planning and implementation of internal control or risk management procedures related to the preparation and/or control of financial information or the planning and implementation of the computer systems used in the preparation of such information;

f) Evaluation services, including evaluations of actuarial services or litigation support services;

g) Legal services regarding:

    i. General advisory;

    ii. Negotiations on behalf of the audited entity; and

    iii. Representation of the audited entity in the context of dispute settlement;

h) Services relating to the internal audit of the audited entity:

i) Services relating to the financing, allocation and capital structure and the investment strategy of the audited entity, except for the provision of services relating to the accounts reliability assurance, such as the issuance of 'comfort letters' relating to prospectuses issued by the entity audited;

j) The promotion, negotiation, or underwriting of shares in the audited entity;

k) The human resources services regarding:

i. Management positions likely to exert significant influence over the preparation of accounting records or accounts subject to statutory audit when such services involve:

   i. The selection or search of candidates for such positions;

   ii. The carrying out of verifications of the references of the candidates for such positions;

ii. The configuration of the organization structure;

iii. The control of costs.

47. Remuneration paid to the auditor and its network

In 2017, NOS Group (the Company and companies controlled by or in a group relationship with the Company) paid, as fees to NOS Statutory Auditor and External Auditor, Ernst & Young, S.A. (E&Y), and to its network of companies, the following amounts:

	NOS		COMPANIES INCLUDED IN THE GROUP		TOTAL	
		%		%	%	
Audit services	35,439	72%	178,796	80%	214,235	79%
Non-audit Services	13,800	28%	44,700	20%	58,500	21%
NOS	49,239	100%	223,496	100%	272,735	100%

The risk management policy at NOS, supervised by the Fiscal Board in coordination with the AFC, monitors and controls the services requested from the External Auditor and their network of companies, in order for their independence not to be undermined. The fees paid by NOS Group to E&Y represent less than 1% of the total annual turnover of E&Y, in Portugal. In addition, every year a "Letter of independence" is prepared, in which E&Y guarantees the compliance with international guidelines on auditor independence.

In addition, pursuant to the Regulation approved by the Fiscal Board, the annual fees for non-audit or audit-related services in total may not exceed an amount corresponding to 70% of the total of the average of the statutory auditing fees of the last 3 years, provided to the Company and its subsidiaries, included in the consolidation perimeter using the full consolidation method. During the exercise of 2017, the non-auditing services represented 35% of the average of the statutory auditing fees of the last 3 years. The Fiscal Board quarterly receives and analyses the information concerning the fees and services provided by the External Auditor.

The Fiscal Board, in the course of its duties, carries out each year a global assessment of the performance of the External Auditor and also of its independence. In addition, whenever necessary or appropriate on the basis of developments in the Company's activity or configuration of the market in general, the Fiscal Board reflects on the suitability of the External Auditor to carry out its duties. The current External Auditor of the

Company started its work at NOS in 2014, ensuring the compliance with the Recommendation IV.3 of the CMVM Corporate Governance Code (2013), with the Articles of Association of the Association of Chartered Accountants (*Estatuto da Ordem dos Revisores Oficiais de Contas* - EOROC), approved by Law no. 140/2015, of 7 September.

C. Internal Organization

I. Articles of Association

48. Rules on changing the Articles of Association

By law and under the Company's Articles of Association (article 12(4)(d)), ammendments to the Articles of Association, including those concerning share capital increases, always depend of shareholder's resolutions, in which must be present or represented, in case of first call, at least fifty percent of the shareholders.

Such resolutions are taken by the majority provided for by law, which consists of two thirds of the votes cast, except on a second call if the shareholders holding at least half of the share capital are present or represented, in which case these resolutions can be taken by a majority of the votes cast (article 386(3) and (4) of the CSC).

II. Reporting of irregularities

49. Means and policy

NOS has a policy for reporting irregularities occurring within the Company, and has a Regulation on Procedures to be Adopted in respect of the Irregularities Report ("Whistleblowing"), approved on 12 February 2014.

In connection with this Regulation, "irregularities" are considered to be all intentional or negligent acts or omissions occurring in the course of the Group's activities, contrary to legal or regulatory provisions, which set out violations of ethic or legal nature, with material impact in the following domains:

a) Accounting;

b) Auditing;

c) Intern control and corruption combatting; and

d) Any kind of financial crimes.

The members of the corporate bodies or other managers, directors, collaborators and other employees of the Group, regardless of their hierarchical rank or professional relationship, participate in the implementation of the irregularities communication policy through internal communications in accordance with the rules and procedures provided for in the Whistleblowing Regulation.

This Regulation is available on NOS' intranet and on the Company's website.

Any communication covered by the Regulation shall be treated as confidential, unless the author expressly and unequivocally requests otherwise. Anonymous complaints will only be accepted and treated on an exceptional basis and, in any case, no reprisal or retaliation will be tolerated against those that make the mentioned communications.

The reporting of any signs of irregularities must be made in writing, with the indication "confidential", addressed to the Fiscal Board, by letter sent to the post box address Apartado 14026 EC, 5 de Outubro, 1064-001 Lisboa, or to the electronic mail address comunicar.irregularidades@nos.pt, choosing the author one of the above mentioned ways of communication.

The Fiscal Board is responsible for receiving, recording and processing the communications of irregularities that occur in NOS or in the companies within the respective group and for undertaking other acts which are necessarily related with those powers.

After being registered, the communications are subject to a preliminary analysis in order to ensure the degree of credibility of the communication, the irregular nature of the reported behaviour, the viability of research and the identification of the people involved or who have knowledge of the relevant facts and, in this regarding, must be confronted or surveyed.

The report of the preliminary analysis shall concludes by the continuation - or not - of the investigation.

If the Fiscal Board considers that the communication is consistent, plausible and likely, an investigation begins, conducted and supervised by the Fiscal Board, which will be made known to the CGS and the Ethics Committee. Once the investigation phase is concluded, the Fiscal Board shall prepare a report, duly substantiated on the facts found during the investigation, and will present its resolution, proposing to the Board of Directors or, as the respective delegation, to the Executive Committee, measures that are deemed appropriate in each case.

The Internal Audit must assist the Fiscal Board. The Fiscal Board may also hire external auditors or other experts to assist in the investigation, when the specialty of matters requires specialized services.

The Fiscal Board, within the limits of its powers, shall monitor the correct application of the procedure established by the aforementioned Regulation.

III. Internal control and risk management

50. Entities responsible for Internal Auditing and risk management

The internal control and risk management system at NOS consists of various key parties with the following responsibilities and goals:

- Executive Committee – The Executive Committee is responsible for the creation and functioning of the Company's internal control and risk management system, in exercise of the powers of day-to-day management conferred by the Board of Directors. It is also responsible for setting risk objectives, in order to ensure that the risks actually incurred are consistent with those objectives.

- Areas of business – Each functional department in NOS business units is, as part of its responsibility in corporate or functional processes, responsible for the implementation of internal controls and for the management of their specific risks. In addition, for the development of certain risk management programmes, specific risk management teams may be set up, such as risk committees or working teams. These normally include an executive coordinator, a committee of directors and a team of pivots (interlocutors) representing the business units.

- Risk Management – The risk management areas work to raise awareness, measure and manage business risks that interfere with the fulfilment of goals and with value creation within the organisation. They contribute with tools, methodologies, support and know-how to the business areas. They also promote and monitor the implementation of programmes, projects and actions aimed at bringing risk levels close to the acceptable limits laid down by the management.

- Internal Auditing – Assesses risk exposure and verifies the effectiveness of risk management and of internal control of both business processes and information and telecommunications systems. Proposes measures to improve internal controls, aimed at more effective management of business and technology risks. Monitors the evolution of risk exposure associated with the main findings and non-conformities identified in the audits.

- External Auditor – Verifies the effectiveness and functioning of internal control mechanisms and reports weaknesses identified to the Company's supervisory body. Whilst performing their duties, carried out in the public interest, the external auditor is responsible for verifying the accounts of the Company and for the respective issue of the legal certification of accounts and of an audit report, among other duties.

As a part of the Internal Control and Risk Management System, the Company has a corporate department specialising in risk – the Department of Internal Auditing and Risk Management – the mission of which is to contribute to effective management of NOS business risks. These Internal Auditing and Risk Management teams support the Company in the fulfilment of its objectives, adding value and improving the Company's operations, through a systematic and disciplined approach in order to assess and help to improve the effectiveness of risk management, internal control and corporate governance processes.

The area of Risk Management includes the teams from the Risk Management and Continuous Risk Monitoring Programmes. Within its scope is the maintenance of an integrated system that includes the following activities: the management of Enterprise Risk Management, the management of the Internal Control Manual, management of the Information Security Management programme and its certification to ISO 27001 – Information security management system, the implementation management of the certification to ISO20000 – Service management system, management of the Business Continuity Management programme. Within its scope is also the continuous monitoring of risks activities, through follow-up of improvement and corrective actions, as well as key indicators in some business processes.

These teams perform risk analysis, propose risk management policies for the Company and coordinate cross-cutting programmes or projects to endow the organization of adapted procedures and the respective internal controls which will allow for the risk management. They also ensure the review, assessment and adaptation of the internal control manuals implemented in the main NOS businesses. There are also risk management functions in some of the areas of business, particularly when the existence of specific pivots (interlocutors) is important for certain special aspects of risk management, such as Business Continuity Management, Information Security Management and Management of the Internal Control Manual.

The area of Internal Auditing covers the Business Process Auditing and Systems Auditing teams. The following activities fall within its scope: assurance audits of processes and systems, compliance audits of the Internal Control Manual and the ISO 27001 certification, incident and complaint audits, as well as independent and objective advisory work.

The activities of the Internal Auditing teams are defined under the Internal Audit Charter. The Internal Auditing activity is governed by the guidelines of the Institute of Internal Auditors (IIA), including the definition of internal audit, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (IIA Standards). The annual Internal Audit plan is developed based on the Company's annual Actions and Resources Plan and on a prioritisation of audit work, using a risk-based methodology that includes the results of Enterprise Risk Management and considers the roadmap for coverage of business procedures, telecommunications and information systems and legal obligations. The internal audit plan also considers the contributions of the Executive Committee, of other senior managers, of the Audit and Finance Committee and, separately, of the Fiscal Board which has a responsibility based on the law or on the Articles of Association to state its position on the working plan and the resources allocated to the Internal Auditing services.

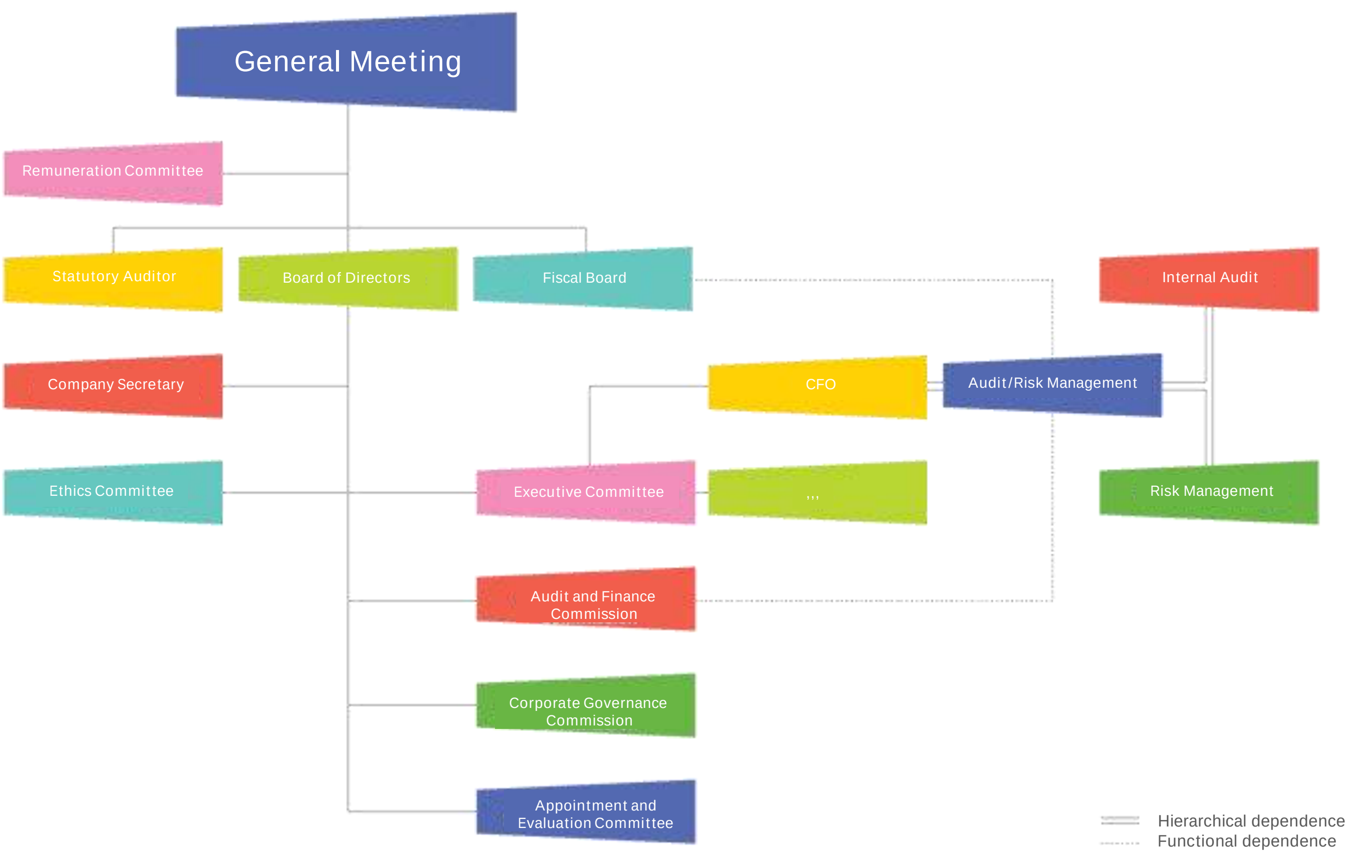
In accordance with good international practices, the Internal Auditing and Risk Management teams have the majority of their staff certified in audit norms and risk management methods, involving in total circa 25 certifications. These include the *Certified Internal Auditor* (CIA), the *Certified in Control Self Assessment* (CCSA), the *Certified Information System Auditor* (CISA), the *ISO 27001 ISMS Lead Auditor*, the ISO 31000 Lead Risk Manager, the *Certified Continuity Manager* (CCM), the *Associated Business Continuity Professional* (ABCP), the *Certified Information System Security Manager* (CISM), the *ISO 27001 ISMS Lead Implementer*, the *Certified in Risk and Information Systems Control* (CRISC), the Certified in the Governance of Enterprise IT (CGEIT), the *ITIL Foundation* (ITIL), the *Project Management Professional* (PMP) and the *Certified Project Management Associate* (CPMA).

51. Relationships with other bodies or committees

The hierarchical and functional relationships are those specified below:

- Internal Auditing reports hierarchically to NOS Executive Committee, namely to the CFO (*Chief Financial Officer*).
- The Internal Auditing reports functionally to NOS Fiscal Board, as the supervisory body with responsibility based on the law or on the Articles of Association for assessing the performance of internal control and risk management systems, receiving the corresponding reports, and giving its opinion on the working plan and the resources allocated to the Audit Internal services.
- Internal Auditing also reports functionally to NOS AFC, as the specialised commission that advises the Board of Directors on certain matters, including those concerning the Auditing and Risk Management functions, thus reinforcing, complementarily, the supervision of these matters already carried out by the Fiscal Board.
- Internal Auditing secretaries the NOS Ethics Committee, in its capacity as committee responsible for overseeing and maintaining the NOS Code of Ethics, for monitoring its implementation and for ensuring that all members of corporate bodies and all employees of the company comply with it.

The remaining responsibilities for the creation, operation and periodic assessment of the internal control and risk management system are defined in the Regulations of corresponding bodies or committees.



52. Other competent areas in risk control

In addition to the areas referred to in the preceding sections, the Company has other functional areas with competence in internal control and risk management that make a decisive contribution to maintaining and improving the control environment. Particularly notable in this context are the following business areas and processes:

- The areas of Planning and Control, in coordination with the corresponding *pivots* in the areas of business, are responsible for monitoring the implementation of annual action and resource plans, as well as budgets and forecasts, in the financial and operational components;

- The various areas of business and individual employees are required to comply with the procedures set out in the Internal Control Manual, ensuring that all acts or transactions engaged in are appropriate and properly evidenced;

- The different areas of business have processes and indicators to monitor operations and KPIs;

- There are areas dedicated to monitoring specific business risks and generating alerts, such as the Revenue Assurance, Fraud, Service Security, and Network and Services Supervision teams, in the communications business;

- The technical areas, including Networks and Information Systems, have indicators and alerts for interruptions in service and security incidents, on an operational level;

- The various areas of business have internal controls that ensure not only their commitment in the environment of risk management and internal control, but also the permanent monitoring of the pattern of effectiveness and adequacy of these controls.

53. Main types of risk

The Company is exposed to economic, financial and legal risks incidental to its business activities.

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 – During 2017, 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 in 2017, 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 that have been helping the increase of clients and counter the drop in revenue visible in the Portuguese telecomunications market until the end 2016 and beginning of 2017. NOS has also been paying attention to the identification of other opportunities, in conjunction with the competition and technological innovation risk response strategies that are described below.

- Competition – This risk is related to the potential reduction in the prices of products and services, reduction in market share, loss of customers, increasing difficulty in obtaining and retaining customers. The management of competition risk has involved a strategy of investing in constant improvement in quality, distinctiveness and innovation for the products and services provided, as well as in its protection from competition, diversification of supply, combination of offers related with different businesses of NOS and the strengthening of the portfolio of broadcasting rights and the respective provision of contents as well as the constant monitoring of customer preferences and/or needs. In addition, regarding the communications market, NOS has accelerated its growth in several costumer segments, particularly in the private costumers' segment, for the leadership in the market share of convergent offerings and, in the business segment, for the capture of a larger share of revenue in large accounts and the expansion of the sale of managed services and IT services. The operational integration processes that have taken place over the past 4 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 by the end of 2017 launched 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 tradiditional 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 sugest 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). Following on from previous years, in 2017 NOS conducted a safety risk assessment exercise, including in its scope the operational risks of safety 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 assessment referred to in the previous point has 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 prepare the company for compliance with the new General Regulation on Data Protection (which will be effective in May 2018). Currently, for specific issues related to the confidentiality and privacy of personal data, the Company has a Chief Personal Data Protection Officer (CPDPO) who is responsible for compliance with laws and regulations applicable to data processing, acts in the name of the Company in interaction with the national regulatory authority for data protection (CNPD - National Commission for Data Protection) and promotes the adoption of data protection principles, in line with international standards and best practices. Employees and partners assume obligations of confidentiality, secrecy and protection of personal data and must not transmit to any third parties the data to which they have access in the course of and as a result of their duties. The obligations are reinforced through the signature of terms of liability by its staff and partners, as well as through communication and sensibilization actions and holding of specialized training internal courses on security and privacy.

Service Fraud (Management of Telecommunications Fraud) - Customer or third party fraud is a common risk in the comunications 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 costumer 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 comunications businesses are subject to inherent operational risks associated with the assurance and monitoring of customer revenue and costs, from a viewpoint of revenue flows and platform integrity. Billing processes perform revenue controls, with regard to invoicing quality. NOS also has a Revenue Assurance area that applies processes to control revenue integrity (underinvoicing or overinvoicing) and cost control with the aim of presenting a consistent chain of revenue and costs, from the moment the customer enters our provisioning systems, involving the provision of the communications service, up to the time of invoicing and charging.

Financial risks

- Tax – The Company is exposed to changes in tax legislation and varied interpretations of the application of tax and tax related regulations in several ways. The Finance Department contributes to management of this risk, monitoring all tax regulations and seeking to guarantee maximum tax efficiency. This department may also be supported by external consultants whenever the questions being analysed are more critical and, for this reason, require interpretation by an independent entity.

- Credit and Collections – These risks are associated with a reduction in receipts from customers due to possible ineffective or deficient operation of collection procedures and/or changes in the legislation that regulates the provision of essential services and have an impact on the recovery of customer debts. The current adverse economic climate also significantly contributes to the worsening of these risks. They are mitigated through the definition of a monthly plan of collection actions, their follow-up and validation and the review of results. Where necessary, the procedure and the timings of these actions are adjusted to ensure the receipt of customer debts. The aim is to ensure that the amounts owed are effectively collected within the periods negotiated without affecting the financial health of the Company. In addition, NOS has 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 overviewing 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, in 2017, stands out the participation of the regulator, among other stakeholders, in the sector 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 sope 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,

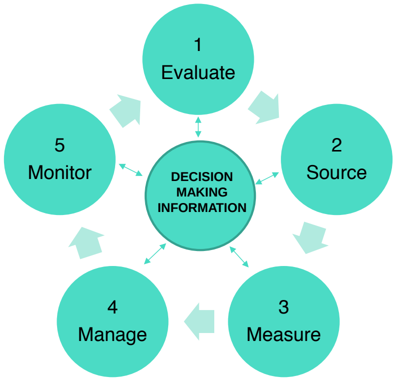
54. Risk management

The risk management and internal control processes at NOS, including the methodologies used to identify, assess and monitor risks, are described in this section.

The risk management and internal control processes are supported by a consistent and systematic methodology, based on the international standard Enterprise Risk Management - Integrated Framework, issued by COSO (Committee of Sponsoring Organisations of the Treadway Commission). In addition, for the management of risks related to Information Security and Business Continuity, specific methodologies were also considered in line with the standards from the ISO 2700x series - Information Security Management and with ISO 22301 - Business Continuity Management, as well as legal and regulatory requirements on network security and integrity (supervised by ANACOM) and on personal data privacy (supervised by CNPD).

The methodologies adopted for the internal control system also took into consideration the references provided by organisations responsible for promoting the existence of control mechanisms in markets, including recommendations from the CMVM Corporate Governance Code and from the IPCC (Portuguese Institute of Corporate Governance), as well as the CSC. In addition, for aspects of internal control related to ICT (Information and Communication Technologies), the COBIT (Control Objectives for Information and Related Technology) framework was also considered.

The diagram below illustrates the main stages of NOS general risk management methodology, which can be applied to entities or to the business processes of its main subsidiaries.



Risk Management Cycle
(*ERM - Enterprise Risk Management*)

In line with this general methodology, the management and control of risks are achieved using the main approaches and methods presented below:

Enterprise Risk Management (ERM)
Approach: This approach seeks to align the risk management cycle with NOS strategic planning cycle. It enables NOS businesses to assign priorities and identify critical risks that may compromise its performance and its objectives, and to adopt actions to manage these risks. This is achieved through constant monitoring of risks and the implementation of certain corrective measures.
Method: 1. Identify and assess business risks >> 2. Explore risks and Identify causes >> 3. Measure triggers >> 4. Manage risks >> 5. Monitor risks
Business Continuity Management *(BCM)*
Approach: It seeks to mitigate the risk of interruptions of critical business activities that may arise as a consequence of disasters, technical-operational failures or human failures. The scope of this process also includes the assessment and management of physical security risks at NOS' critical sites.
Method: 1. Understand the business >> 2. Define resilience strategies >> 3. Develop and implement continuity and crisis management plans >> 4. Test, maintain and audit the BCM plans and processes.
Information Security Management *(ISM)*
Approach: It seeks to manage risks associated with the availability, integrity, confidentiality and privacy of information. Its goals are to develop and maintain the Information Security Policy, to verify the compliance of procedures with the policy, to develop training and awareness

programmes, and to establish and monitor KPIs (Key Performance Indicators) for Information Security.
Method: 1. Identify critical information >> 2. Detail critical information support platforms/resources >> 3. Assess the security risk level >> 4. Define and implement indicators >> 5. Manage and monitor risk mitigation measures
Continuous Monitoring of Risks and Controls (*CM - Continuous Monitoring*)
Approach: It can be used to continuously review business procedures, ensuring preventive, pro-active and dynamic maintenance of an acceptable level of risk and control. The Internal Control Manual systematises and references the controls, facilitating their disclosure and encouraging compliance by the different people involved in the organisation.
Method: 1. Define processes, business cycles and data structure >> 2. Establish the design of controls >> 3. Implement, disclose and ensure the effective application of controls >> 4. Analyse and report status metrics for the implementation of controls >> 5. Follow up action plans and update controls.

55. Main features of the internal control and risk management systems related to the disclosure of financial information

NOS recognises that, as is the case with other listed companies with similar activities, it is potentially exposed to risks related to accounting processes and financial reporting. The Company is thus committed to maintaining an effective internal control environment, especially in these processes. It intends to ensure the quality and improvement of the most important processes for preparation and disclosure of financial statements, in accordance with the accounting principles adopted and bearing in mind its goals of transparency, consistency, simplicity and materiality. In this context, the Company's attitude to financial risk management has been conservative and prudent.

Functional responsibilities for financial statements on the corporate level of NOS and in the Group's subsidiary companies are distributed as follows:

- Entity Level Controls are defined in corporate terms, including NOS, being applicable to all the group companies, and aim to establish internal control guidelines for NOS subsidiaries;
- Process Level Controls and IS/IT Controls are defined in corporate terms, being applied to NOS subsidiaries, adapted to their specific characteristics, organisation and responsibility for processes.

In view of this division, the controls related to collection of the information that will be the basis for preparation of the financial statements can be found, usually, at the departments of each of the subsidiary companies; the controls related to processing, recording and filing this information in accounting books can be found at a corporate level in the Administrative and Finance Department.
The internal control and risk management system associated with financial statements includes the key controls specified below:

- The process of disclosure of financial information is institutionalised, the criteria for preparation and disclosure have been duly approved, are fully established and periodically reviewed;

- The use of accounting principles, explained in the Annexes of the financial statements notably on the section regarding Accountancy Policies, is one of the key pillars of the control system;
- The controls are aggregated by the business cycles that give rise to the financial statements, and by the corresponding classes and subclasses of transactions;
- Indexing is maintained between the controls defined in the Internal Control Manual and the four commonly accepted financial assertions:
    i. Completeness: to ensure that all transactions are recorded, that all valid transactions are submitted for processing and that there are no duplicate records;
    ii. Accuracy: to ensure that transactions are recorded correctly including recording in the accounts in the period in which they occurred, with appropriate accrual accounting;
    iii. Validity: which means that all transactions are valid, complying with two fundamental criteria: (i) they are properly approved in accordance with delegations of power and (ii) are related to the normal activities of the Company, in other words, they are legal;
    iv. Restricted Access: it seeks to ensure that there are appropriate restrictions on access to information in electronic format or any other means of protecting assets.

In order to guarantee the know-how of all the those involved in the financial reporting process with regard to the Company's operations, to applicable regulations and to the technical knowledge necessary to fulfil their responsibilities, the Administrative and Finance Department shall prepare, for the most significant situations, a set of documents on the implemented policies and preocedures and their relevance to the IFRS (International Financial Reporting Standards) and also addresses potential causes of risk that may materially affect accounting and financial reporting.

These potential causes of risk include the following:

- Accounting estimates – The most significant accounting estimates are described in the Annexes of the financial statements. The estimates were based on the best information available during the preparation of the financial statements, and on the best understanding and best experience of past and/or present events;
- Balances and transactions with related parties – The most significant balances and transactions with related parties are disclosed in the Annexes of the financial statements.

NOS adopts various measures to help manage risks and maintain a robust internal control environment, including initiatives of the following type:

- Conformity tests – These include periodical control self-assessment of the internal control system and the consequent revision of the Internal Control Manual, ensuring that it is always up-to-date. They also include corrective actions concerning control procedures considered non-compliant, as a result of conformity assessment by Internal Auditing and by the External Auditor;
- Review and improvement of design of controls – These include the review of the procedures of control and the strengthening of business cycles and financial flows with levels of relevant materiality, to improve the control environment and the control and perception of current risks (operational and financial). This reinforcement includes the creation of an aggregating vision of the life cycles of the assets or the associated financial flows, as well as the respective processes and systems that support them.

In addition to the financial risks referred to in the section on the main types of risks with an impact on the business, the Company is potentially exposed to other financial risks that may have an impact on the financial statements, such as credit risk (related to balances receivable), liquidity risk (related to sufficient assets to cover liabilities), market risk (related to exchange rate and interest rate variations) and capital risk (related to financial loans and the remuneration of shareholders).

In the Annexes of the financial statements, namely in the risk management policies section, more specific information can be found on financial risk management policies, as well as on how risks associated with the financial statements are managed and controlled.

IV. Investor information

56. and 57. Department responsible for investor information and Market Relations Representative

The Investor Relations Department aims at ensuring the proper relationships with shareholders, investors and analysts, under the principle of equal treatment, as well as with the financial markets in general and, in particular, with the regulated market where the shares representing the capital of NOS are admitted to trading - Euronext Lisbon - and with the regulator, the CMVM.

Each year the Investor Relations Department publishes the management report and accounts, also publishing annual, half-yearly and quarterly information, in accordance with national corporate law and the laws of Portuguese capital market. The Company discloses privileged information on its activity or the securities it has issued immediately and publicly and shareholders and remaining stakeholders can access this information on the Company's website (www.nos.pt/ir). All the information is made available on the Company's website in Portuguese and English.

The Investor Relations Department also provides up-to-date information on the activities of NOS to the financial community through regular press releases, presentations and announcements on the quarterly, half-yearly and annual results, as well as on any relevant facts that occur.

It also provides full explanations to the financial community in general – shareholders, investors (institutional and private) and analysts, also assisting and supporting shareholders in the exercise of their rights. The Investor Relations Department organises regular meetings between the executive management team and the financial community through the attendance in specialised conferences, roadshows both in Portugal and in the main international financial markets and frequently meets investors who are visiting Portugal. In 2017, the main Investor Relations events were:

DATE	FORMAT	LOCATION
12 January	**Haitong Iberian Conference**	London
02 February	**Santander Iberian Conference**	Madrid
09/10 March	**Roadshow**	London
16 March	**Roadshow**	Madrid
22 March	**Citigroup European and Emerging Telecoms Conference**	London
30/31 March	**Roadshow**	Paris
24/25 May	**Roadshow**	NY
01 June	**Berenberg TMT Conference**	Zurich
02 June	**Roadshow**	Dublin
26 June	**Roadshow**	London
31 August	**Credit Suisse Conference**	London
6 September	**Barclays TMT Forum**	London
7 September	**BPI Iberian Conference**	Cascais
13 September	**Goldman Sachs Communacopia**	NY
15 November	**Morgan Stanley TMT Conference**	Barcelona
21 November	**Roadshow**	London
27 November	**Roadshow**	Madrid
30 November	**Roadshow**	Bilbao

The composition of the Investor Relations Department is the following:

Maria João Carrapato – Head of the Investor Relations Department and Market Relations Representative

Tel.: +351 21 782 47 25

Henrique Rosado

Tel.: +351 21 791 66 63

Clara Teixeira

Tel.: +351 21 782 47 25

The functions, composition and contacts of the Investor Relations Department can also be found on the Company's website.

Any interested party may request information from the Investor Relations Department, through the following contacts:

Rua Ator António Silva, nº 9

1600 - 203 Lisboa (Portugal)

Tel. +(351) 21 782 47 25 Fax: +(351) 21 782 47 35 E-mail: ir@nos.pt

58. Enquiries

The Company has a record of all enquiries and their processing, all of which have been properly dealt with in good time.

It is to be noted that, as at 31 December 2017, there were no enquiries unanswered.

V. Website

59. Addresses

Through its website (http://www.nos.pt/institucional/PT/Paginas/default.aspx), NOS offers access to information in Portuguese and English on its evolution and its current economic, financial and governance situation.

60 to 65. Location for the provision of: (i) information on the Company; (ii) articles of association and regulations; (iii) information on members of company bodies and other structures; (iv) accounting documents and other financial documents; (v) notice of meeting and preparatory and subsequent information; and (vi) archive of resolutions

In line with Recommendation VI.1 of the CMVM Corporate Governance Code, the Company offers on its website (http://www.nos.pt/institucional/PT/investidores/governo-de-sociedade/Paginas/default.aspx) the following information and/or documentation, in Portuguese and English:

- Company name, its public company status, location of its headquarters and other elements referred to in article 171 of the CSC;

- Articles of Association and regulations governing the functioning of the internal bodies and committees (particularly the Executive Committee);

- Identity of the members of the Company bodies;

- Investor Relations Department, including, identity of the represetantive for the relationships with the market, duties and contacts;

- Financial statements from the last 10 years, as well as the half-yearly calendar of corporate events, disclosed at the beginning of each half-year, including, among other things, the General Meetings, and disclosure of annual, half-yearly and quarterly accounts.

- Notices convening the General Meeting, proposals presented and extracts from minutes;

- Archives with resolutions taken by the Company's General Meeting, the share capital represented and the results of votes for at least the last three years.

D. Remuneration

I. Power of decision

66. Identification

Under article 399 of the CSC and article 14 of the Company's Articles of Association, the General Meeting or a committee that it appoints is responsible for setting the remuneration of the members of the statutory boards and other corporate bodies, taking into account the duties performed and the financial situation of the Company.

When there is a Remuneration Committee, it shall be made up of two or more members, shareholders or not and elected by the General Meeting (article 14(2) of the Company's Articles of Association).

II. Remuneration Committee

67. Composition of the Remuneration Committee

At the Anual General Meeting, on 26 April 2016, a Remuneration Committee was appointed for the three-year period 2016/2018.

The Remuneration Committee is made up of two members with recognised experience, particularly in the field of business, who have the necessary knowledge to handle and decide on all the matters within the competence of the Remuneration Committee, including the remuneration policy.

In order to determine the remuneration policy, the Remuneration Committee accompanies and evaluates, constantly and with the support of the Appointment and Evaluation Committee, the performance of the Directors, verifying to what extent the objectives proposed have been achieved, and it shall meet whenever necessary.

The composition of the Remuneration Committee, on 31 December 2017, was the following:

Chairman: Ângelo Paupério

Member: Mário Leite da Silva

The Company provides members of the Remuneration Committee with permanent access, at the expense of the Company, to third party consultants specialised in various different fields, whenever needed by the committee. During 2017, the Remuneration Committee did not engage any services to support the performance of its duties.

The Remuneration Committee met 4 times in 2017, having decided on matters of assessment, remuneration and definition of the goals of the Executive Committee.

68. Knowledge and experience of members

The members of the Remunaration Committee hold a vast and recognized management experience, namely in listed companies as presented in item 19 of this report.

III. Remuneration structure

69. Description of the remuneration policy

A Remuneration Committee declaration on the remuneration policy for NOS management and supervisory board members was submitted to the Company's shareholders at NOS General Meeting on 27 April 2017, in compliance with article 2 of Law no. 28/2009, of 19 June a general outline of which is given below.

Rewarding systems have a strategic role in the organisation's ability to attract, to retain and to motivate the best professionals in the market.

Best practices in remuneration systems for listed companies suggest the use of models that incorporate different components: a fixed component that works as "basis" remuneration and a variable one that may be annual bonus, profit sharing and/or the implementation of share allocation plans.

The components of NOS compensation scheme for Executive Directors are in line with practices in other comparable companies.

The variable remuneration associated with the achievement of management goals is applied through the following components: Profit Sharing and Share Allocation Plan.

The Profit sharing can be proposed to shareholders by the Board of Directors. After assessment of the total amount to be distributed, the amount to be received by each member will also depend on alignment with the results.

The Share Plans, approved, over time, at the General Meeting aim to guarantee the alignment of individual interests with the corporate goals and interests of NOS shareholders, rewarding the achievement of objectives that imply sustained value creation.

The non-executive members of the Board of Directors, as they are not responsible for carrying out the defined strategies in a daily basis, have a compensation system that does not include any variable remuneration components, only a fixed amount.

Remuneration policy for members of the supervisory bodies

The members of the Fiscal Board, like other Non-Executive Directors, only receive a fixed component.

The Statutory Auditor is remunerated under the terms established in the contract, in accordance with the law.

In view of the above, NOS considers that its remuneration model for the Executive Directors is properly structured, since: i) it defines a potential maximum total remuneration; ii) it rewards performance, through a remuneration which is adequate if the mechanisms of defense of the stakeholders' interests; iii) it discourages excessive risk-taking, since fifty per cent of the variable components –Profit Sharing and Share Allocation Plan – are deferred in time, during three years; iv) it actively guarantees the adoption of policies that are sustainable over time, namely through the previous definition of business goals and because the effective payment of the deferred variable components depends on the achievement of objective conditions, associated with the economic soundness of the Company; v) it enables talent to be obtained and retained; and vi) it is in line with the comparable benchmarking.

70. Remuneration structure and alignment of interests

The aforementioned compensation system also has to ensure that the interests of the Board of Directors members (in particular, Executive Directors, who may benefit from a variable component of remuneration) are in line with the long-terms business objectives. The success of this strategy lies in ensuring that the alignment is conducted through clear objectives that are consistent with the strategy, strict metrics to assess individual performance, along with appropriate performance incentives that simultaneously encourage ethical principles, while discouraging excessive risk-taking.

Therefore, the creation of value needs not just excellent professionals, but also a framework of incentives that reflect both size and complexity of challenges.

Each year the Remuneration Committee, in coordination with the AEC, defines the large variables to be assessed and their corresponding objective amounts.

The variable component of the Executive Directors was calculated using the performance of NOS as measured by the previously defined business indicators. In 2017, have been considered the aggregates Revenues, EBITDA ("Earnings Before Interest, Taxes, Depreciation and Amortization"), Free Cash Flow after interest and taxes and before dividends, Financial Investments, Acquisition of Own Shares and Net Promoter Score.

On the other hand, the goal of the component associated with the Share Allocation Plan, apart from complying with the already mentioned objectives for the Profit Sharing, is also to ensure the alignment with the creation of shareholder value and the strengthening of loyalty mechanisms.

NOS has in operation a Share Allocation Plan, approved at the General Meeting on 23 April 2014 (named NOS Plan), applicable to collaborators that belongs to different organizational groups, including Executive Directors.

It shall be highlighted, however, that, due to the deferral of the delivery of shares, during the course of 2017, the plans of the companies prior to the merger were in force: one called "Standard" and another called "Mainroad". In other words, it was still possible, after the merger, to deliver these shares under these plans.

71. Variable component and performance

The variable remuneration, using the components referred to above, seeks to consolidate a correct policy for setting objectives with systems that properly reward the ability to execute and to obtain results and to achieve ambitious performances, discouraging short-term policies and instead fostering the development of sustainable medium and long-term policies.

The Share Allocation Plan defines the terms of the deffered shares vesting (deferral of 3 years), in compliance with the legal requirements in force regarding variable remuneration deferral.

It should also be noted that despite the current Share Plans being deferred in time *de facto* (the NOS Plan and the Standard and Mainroad Plans) the Remuneration Committee limited, regarding the executive members, the transformation of rights awarded under the current Plans to the confirmation of Company's positive results, which requires compliance with the following additional condition:

The consolidated net situation in the year n+3, excluding any extraordinary movements occurred after the end of year n, and discounting an amount for each financial year correspondent to a pay-out of 40% on the net profit in the consolidated accounts of each year of the deferral period (irrespectively of the effective pay out), must be higher than the one calculated found at the end of financial year n. Extraordinary movements, in the period between year n and n+3, include capital increases, purchase or sale of own shares, extraordinary dividends, annual pay-out other than 40% of the consolidated profit of the respective business year or other movements that affect the net situation but do not arise from the Company's operating profits. The net situation of year n+3, must be calculated based on the accounting rules used in financial year n, so that comparability is ensured.

The distribution of shares, under the approved plans, being totally dependent on Group and individual performance, primarily aims to ensure the maximum creation of value in a medium and long-term perspective, thus encouraging sustainable policies in the long term.

These plans are described in a more detailed way in item 86 of Chapter VI below.

The objectives that are assessed generally correspond to profitability and growth variables that ensure the development and the sustainability of the Company and, as an indirect result, of national economy and its stakeholders as a whole.

Maximum limits on variable remuneration

The value of the variable components (including the Share Plans), when the allocation is decided by the Remuneration Committee, is limited to a maximum amount of 120% with regard to the fixed remuneration, in compliance with the best corporate governance practices in force on this subject.

Guarantee of minimum variable remuneration

There are no contracts with guaranteed minimums for the variable remuneration, regardless of the Company's performance, nor are there any contracts to mitigate the inherent risk of the variable remuneration.

72. Deferral of variable remuneration

Half of the variable compensation allocated was deferred for three years and its payment is dependent on a positive future performance. The definition of this condition for future access to the variable remuneration was already explained in the previous item 71.

73. Allocation of the variable component in shares

The General Meeting approved on 23 April 2014 approved the Share Allocation Plan (NOS Plan).

In this context, it shall be noted that there are no hedging or risk transfer contracts concerning a predefined amount of the total annual remuneration of the Executive Directors. Consequently, the risk underlying the corresponding variability of the remuneration is not mitigated.

74. Allocation of the variable component in options

No remunerations in options are implemented for Directors, that is to say that the Share Allocation Plan only allows the allocation of shares.

75. Annual bonuses and other non-cash benefits

In 2017, no significant other non-cash benefits were given.

76. Supplementary pension or retirement schemes

There are neither supplementary pensions nor early retirement schemes for Directors.

IV. Disclosure of remunerations

77. Remuneration of Directors

During the course of 2017, the Directors' remuneration was as follows:

			2017
NAME	FIXED REMUNERATION	COMPANY'S PROFIT SHARING	TOTAL
EXECUTIVE DIRECTORS			
MIGUEL NUNO SANTOS ALMEIDA	575,000	315,794	890,794
JOSE PEDRO FARIA PEREIRA DA COSTA	425,000	233,556	658,556
ANA PAULA GARRIDO PINA MARQUES	325,000	178,731	503,731
ANDRE NUNO MALHEIRO DOS SANTOS ALMEIDA (1)	218,454	-	218,454
MANUEL ANTONIO PORTUGAL RAMALHO EANES	325,000	178,731	503,731
JORGE FILIPE PINTO SEQUEIRA DOS SANTOS GRACA	257,143	151,319	408,462
LUIS MOUTINHO DO NASCIMENTO (2)	179,579	72,414	251,993
NON-EXECUTIVE DIRECTORS			
JORGE MANUEL DE BRITO PEREIRA	140,000	-	140,000
ANGELO GABRIEL RIBEIRINHO SANTOS PAUPERIO	75,000	-	75,000
ANTONIO DOMINGUES (3)	53,988	-	53,988
ANTONIO BERNARDO ARANHA GAMA LOBO XAVIER	60,000	-	60,000
CATARINA EUFEMIA AMORIM DA LUZ TAVIRA	55,000	-	55,000
JOAQUIM FRANCISCO ALVES FERREIRA DE OLIVEIRA	55,000	-	55,000
JOAO PEDRO MAGALHAES DA SILVA TORRES DOLORES	55,000	-	55,000
LORENA SOLANGE FERNANDES DA SILVA FERNANDES	55,000	-	55,000
MARIA CLAUDIA TEIXEIRA AZEVEDO	55,000	-	55,000
MARIO FILIPE MOREIRA LEITE DA SILVA	75,000	-	75,000
	2,984,164	**1,130,546**	**4,114,710**

(1) Executive director whose term was suspended from 1 January 2017 to 31 March 2017, presented his resignation which, under the terms of article 404(2) of the CSC, without appointment or designation of a replacement, was effective as from 30 September, 2017;
(2) Executive director co-opted on 29June 2017;
(3) Executive diretor co-opted on 1 March 2017;

The amounts shown in the table above were calculated on an accruals basis.

Additionaly and regarding the performance during the financial year of 2017, rights will be allocated under NOS 2018-2021 share plan, with a vesting period for the shares of three years, subject to the Company's future positive performance under the terms referred in item 71. The estimated[1] number of shares to be given to each Director is detailed below:

NAME	NR OF SHARES
EXECUTIVE DIRECTORS	
MIGUEL NUNO SANTOS ALMEIDA	70,522
JOSE PEDRO FARIA PEREIRA DA COSTA	52,157
ANA PAULA GARRIDO PINA MARQUES	39,914
MANUEL ANTONIO PORTUGAL RAMALHO EANES	39,914
JORGE FILIPE PINTO SEQUEIRA DOS SANTOS GRACA	33,792
LUIS MOUTINHO DO NASCIMENTO	16,958
	253,257

[1] The final number of shares to be allocated will be calculated based on the average closing price in the 15 sessions prior to 31 March or before the resolution of the Remuneration Committee.

78. Amounts paid by other companies in the NOS Group

Executive Directors of NOS that also hold positions in other NOS Group companies do not receive any additional remuneration or other amounts in any ground whatsoever.

79. Profit sharing or payment of bonuses

The variable components to be paid based on the 2017 performance, including the Company's profit sharing or the payment of other components of the variable remuneration, are described in item 77.

80. Compensation to former Executive Directors

In 2017 no compensations were paid to former Directors for the termination of their duties.

81. Remuneration received by members of the supervisory body

The remuneration of members of the Fiscal Board, during 2017, was as follows:

NAME	FIXED REMUNERATION
FISCAL BOARD	
PAULO CARDOSO CORREIA DA MOTA PINTO	60,000
EUGENIO LUIZ LOPES FRANCO FERREIRA	30,000
PATRICIA ANDREA BASTOS TEIXEIRA LOPES COUTO VIANA	30,000
	120,000

The members of the Fiscal Board do not receive any variable component, nor benefit from NOS share plans.

82. Remuneration of the chairman of the General Meeting

The remuneration of members of the Board of General Meeting, during 2017, was as follows:

NAME	FIXED REMUNERATION
BOARD OF THE COMPANY'S GENERAL MEETING	
PEDRO CANASTRA DE AZEVEDO MAIA	18,000
TIAGO ANTUNES DA CUNHA FERREIRA DE LEMOS	5,000
	23,000

V. Agreements with remuneration implications

83. Limits on compensation for unfair dismissal

The Directors of NOS in the case of unfair dismissal are entitled to compensation for damages suffered in accordance with the applicable law and/or contract.

84. Compensation in case of dismissal, unfair dismissal or termination due to change of control (Directors and Senior Officers)

In the case of early termination of Directors' term of office, in general, there are no additional compensatory conditions to those legally established, except in the case of a management contract that stipulates specific conditions in this matter.

VI. Share plans and stock options

85. Plans and targets

The objectives of the Share Allocation Plan in force in NOS Group, mentioning all the details needed to be assessed (including the respective regulations) are:

• To ensure the loyalty of collaborators in the different companies of the Group;

• To stimulate their creative and productive capacity and foster business profits;

• To create favourable recruitment conditions for senior officers and high strategic value workers;

• To align the interests of the collaborators with the business objectives and the interests of NOS shareholders, rewarding their performance in relation to value creation for NOS shareholders, reflected in the value of its shares on the stock exchange.

This Plan, which applies to collaborators that belongs to some organizational groups (including Executive Directors), is one of the pillars that makes NOS a benchmark company in personal and professional development matters and stimulates the development and mobilisation of employees around a common project.

NOS Share Allocation Plan Regulation, which include all necessary elements for the correct evaluation of the Plan, can be found at the Company's website.

Through the Share Allocation Plan a number of shares will be allocated, which is exclusively dependent on the compliance with the objectives established for NOS and on individual performance assessments.

This compensation philosophy, through share programmes that help to align the collaborators, in particular Executive Directors, with the creation of shareholder value, is an important loyalty mechanism, apart from bolstering the performance culture of NOS Group, since their allocation depends on compliance with the corresponding objectives.

To make NOS a benchmark in terms of international remuneration practices, adopting the best models of market-leader companies, is the main goal of these Plans, which have three main objectives: alignment with sustainable and winning strategies, collaborators' motivation and sharing of created value.

Following the deferral of the delivery of shares, will remain in force the plan prior to the merger called "Standard".

86. Characterisation of plans

NOS Plan

A Share Allocation Plan which was approved at the General Meeting on 23 April 2014, for employees that belong to some organizational groups and are selected by the Executive Committee (or by the Remuneration Committee on proposal from the Chairman of the Board of Directors if the beneficiary is a member of NOS Executive Committee).

The share vesting period of this Plan is three years from the date they are allocated, in other words, shares are actually delivered and made available to the executive members, only three years after they are allocated, if the conditions the delivery is subject to are satisfied, notably the positive performance under the terms referred to in item 71.

"Standard" Share Plan

A share allocation plan for employees, regardless of their jobs, who are selected by the Executive Committee (or by the Remuneration Committee on proposal from the Chairman of the Board of Directors if the beneficiary is a member of NOS Executive Committee).

The vesting period for the shares in this plan is five years, the first vesting occurring twelve months after the period to which the allocation refers, at a rate of 20% a year.

87. Share plans and stock options for employees and collaborators

Conditions and Resolution on the number of shares to allocate to beneficiaries

Under the NOS Plan, the Executive Committee shall select the beneficiaries of each Plan and decide on a case by case basis on the allocation of shares to the eligible collaborators. The Remuneration Committee has this responsibility for Executive Committee members.

The allocation of shares to the respective beneficiaries depends entirely on performance criteria, of both the Group and the individual.

The number of shares to be allocated is established using the amounts that are set with reference to the percentages of the remuneration earned by the beneficiaries, taking into account the assessment of NOS annual objectives as well as the assessment of individual performance. The specific number of shares to be given will be, therefore, the result of the division of the value provided by the average closing price in the fifteen trading sessions prior to the Executive Committee resolution, except if the Executive Committee or Remuneration Committee, in the case of Executive Committee's members, considers at its sole discretion other criteria that are deemed to be more appropriate. Shares can be delivered for no consideration or through a right to buy with a discount up to 90%.

These shares, or the equivalent value in cash, are delivered after a deferral period of 3 years. The final amount depends on the overall success of the Company during this period. However, should dividends be distributed or if the nominal value of the shares or share capital is changed during the deferral period, the initial number of shares under the Plan will be altered to reflect the effects of these changes, so that the plan is aligned with the total return achieved.

On 31 December 2017, the plans that allow the delivery of shares are the following:

	NUMBER OF SHARES
STANDARD PLAN	
Plan 2013	60,378
NOS PLAN	
Plan 2015	639,674
Plan 2016	747,714
Plan 2017	848,472

During the financial year ended on 31 December 2017, the movements under the Plans are detailed as follows:

	PLANO STANDARD	PLANO MAINROAD	PLANO NOS
BALANCE AS AT 31 DECEMBER 2016:	**180,067**	**41,958**	**2,303,014**
MOVEMENTS IN THE PERIOD:			
Awarded	-	-	834,211
Vested	(117,296)	(41,958)	(772,217)
Cancelled / elapsed / corrected (1)	(2,393)	-	(129,148)
BALANCE AS AT 31 DECEMBER 2017:	**60,378**	**-**	**2,235,860**

(1) It mainly includes corrections introduced by virtue of the dividend paid, shares related to plans exceptionally settled in cash and shares related with termination of relationships with collaborators, not benefitting from the vesting of the shares.

Share plan costs are recognised in the accounts over the period between the allocation and the vesting date of those shares. Total responsibility for the plans is calculated taking into consideration the share price at the allocation date for the plans settled in shares, or at the close date for the plans cash settled. As at 31 December 2017, liabilities for these plans are 6,478 thousand euros and are recorded under Reserves, in the amount of 5,252 thousand euros, for the plans settled in shares, and in Accruals of Costs, in the amount of 1,226 thousand euros, for the plans settled in cash.

88. Control of employees' participation in the capital

Limits to the transfer of shares

The rights to the shares allocated can only be disposed of after the respective vesting period, the length of which varies according to the share plan, being three years for NOS Plan and five years for the Standard plan (with annual vesting of 20%), according to the conditions described above. In the case of executive members who are beneficiaries of Share Plans, the transfer of the shares also depends on an extra condition related to the existence of future positive Company profits, also described on item 71.

E. Transactions with related parties

I. Mechanisms and control procedures

89. Control mechanisms for related party transactions

NOS has established control mechanisms and procedures for the Company's transactions with qualifying shareholders, or with entities with which they are in any relationship, pursuant to article 20 of the Portuguese Securities Code.

Pursuant to article 3.1(o) of the delegation of management powers by the Board of Directors to Executive Committee, the delegation did not cover the entering into of any transactions, between the Company and shareholders with qualifying holdings representing 2% or more of the voting rights (Qualifying Shareholders) and/or entities related to them in any way pursuant to article 20 of the Portuguese Securities Code (Related Parties), in excess of the individual amount of € 75,000 or the aggregate annual amount per supplier of € 150,000 (without prejudice to the transactions having been approved in general terms or in terms of framework by the Board of Directors).

In turn, article 2(2.9)(g), also of the delegation of management powers by the Board of Directors to the Executive Committee, determines that the Chairman of the Executive Committee is responsible in particular for ensuring that the Board of Directors is informed, quarterly, of the transactions that, in connection with the delegation of powers of the Executive Committee, have been entered into by the Company and shareholders with qualifying holdings representing 2% or more of the voting rights (Qualifying Shareholders) and/or entities related to than in any way pursuant to article 20 of the Portuguese Securities Code (Related Parties), when in excess of the individual amount of € 10,000.

The AFC, as a specialised committee of the Board of Directors, scrutinises these matters. article 3(q) of its regulations determines that its powers include, in particular, the power to analyse and issue its prior opinion on the transactions between the Company and shareholders with qualifying holdings representing 2% or more of the voting rights (Qualifying Shareholders) and/or entities related to them in any way pursuant to article 20 of the Portuguese Securities Code (Related Parties).

In addition, pursuant to recommendation V.2 of the CMVM Corporate Governance Code (2013), under the terms of article 3(1)(r) of the Regulations of the Fiscal Board, this body is responsible, in particular, for issuing a prior opinion on relevant business activities with qualifying shareholders, or entities with which they are in any relationship, according to article 20 of the Portuguese Securities Code;

It is to be noted that, in 2014, the Company approved, through its supervisory body – the Fiscal Board – Regulations for Transactions with Qualified Shareholders and Related Parties (we refer to entities with which they are in any of the relationships described in article 20 of the Portuguese Securities Code), which laid down, in particular, procedures and criteria that are required to define the relevant level of significance of business with holders of qualifying holdings – or with related parties –, and thus business of significant importance is dependent upon the prior opinion of that supervisory body.

NOS did not carry out any deals and transactions that are economically material to any of the parties involved with members of the management or supervisory bodies or controlled or group companies, except for those business deals or transactions conducted under normal market conditions for similar transactions and are part of the Company's current business.

90. and 91. Transactions subject to control and intervention of the supervisory body for prior assessment of these transactions

The abovementioned Regulations on Transactions with shareholders of qualifying holdings and/or Related Parties lays down internal procedures for control of transactions with holders of qualified holdings, considered suited to the transparency of the decision-making process, defining the terms of intervention of the Fiscal Board in this process.

Thus, without prejudice to additional obligations, pursuant to these Regulations, by the end of the month following the end of each quarter, the Executive Committee shall inform the Fiscal Board of all the transactions made in the previous quarter with each qualifying shareholder and/or related party.

The list of transactions carried out during 2017 can be found in Note 40 of the Consolidated Annual Report.

Transactions with qualifying shareholders and/or related parties require a prior opinion from the Fiscal Board in the following cases: (i) transactions which value per transaction exceeds a particular level set forth in the Regulations and described in the table below; (ii) transactions with a significant impact on the activities of NOS and/or its subsidiaries due to their nature or strategic importance, regardless of their value; (iii) transactions made, exceptionally, outside normal market conditions, regardless of their value.

Types and values of the transactions to be considered for the purposes of item (i) above:

TYPE	VALUE
Transactions – Sales, services, purchases and services obtained, except in case of renovation of pending contracts	More than EUR 1,000,000
Loans and other funding received and granted, except day-to-day management/ operations up to 180 days	More than EUR 10,000,000
Financial investments	More than EUR 10,000,000

The prior opinion of the Fiscal Board required for the transactions referred to in items (i) and (ii) above will not be necessary in the case of: (i) interest and/or exchange rate hedging transactions through trading rooms or auctions and (ii) applications or financial investments through trading rooms or auctions.

Without prejudice to other transactions subject to the approval of the Board of Directors by law and under the Company's Articles of Association, this body is responsible for authorising transactions with qualifying shareholders and/or related parties when the opinion of the Fiscal Board referred to in the preceding paragraph is not favourable.

For the Fiscal Board to appraise the transaction in question and issue an opinion, the Executive Committee must provide that body with all necessary information and a reasoned justification.

The assessment to authorise and issue a prior opinion applicable to transactions with qualifying shareholders and/or related parties should take into account, among other relevant aspects, the principle of equal treatment of shareholders and other stakeholders, the interest of the Company and the impact, materiality, nature and justification for each transaction.

II. Elements relating to the businesses

92. Location for the provision of information on related party transactions

The accounting documents where information is available on business with related parties are available at the Company headquarters and on its website.

(http://www.nos.pt/institucional/PT/investidores/informacao-financeira/Paginas/default.aspx)

Part II – Evaluation of Corporate Governance

1. Identification of the Corporate Governance Code adopted

Pursuant to article 2(1) of CMVM Regulation No. 4/2013, on corporate governance, NOS adopts the Recommendations set out in the CMVM Corporate Governance Code, in the version published in July 2013 (available at: http://www.cmvm.pt/CMVM/Recomendacao/Recomendacoes/Documents/Código%20de%20Governo%20das%20Sociedades%202013.pdf).

2. Analysis of compliance with the adopted Corporate Governance Code

This report aims to fulfil the obligation for annual publication of a detailed report on corporate governance structure and practices, pursuant to article 245A of the Portuguese Securities Code, applicable to the issuers of shares admitted to trading on a regulated market situated or operating in Portugal.

In addition, this report describes the corporate governance structure and practices adopted by the Company in compliance with the CMVM Recommendations on corporate governance, in the version published on July 2013, as well as with best international corporate governance practices, having been drawn up in accordance with the provisions of article 7 of the Portuguese Securities Code and article 1 of CMVM Regulation No. 4/2013.

The following table presents: i) a summary of CMVM Recommendations on Corporate Governance, in the version published in 2013; ii) the corresponding level of observance by NOS, as at 31 December 2017; and, also iii) the Chapters of this Corporate Governance Report that describe the measures taken by the Company to comply with the aforementioned CMVM Recommendations.

Portuguese Securities Market Commission Recommendation	Details of the adoption of the recommendation	Notes	Report
I - General Meeting			
I. Voting and Control of the Company			
I.1. Companies shall encourage shareholders to attend and vote at general meetings and shall not set an excessively large number of shares required for the entitlement of one vote, and implement the means necessary to exercise the right to vote by mail and electronically.	Adopted		Number 12
I.2. Companies shall not adopt mechanisms that hinder the passing of resolutions by shareholders, including fixing a quorum for resolutions greater than that provided for by law.	Adopted		Number 14
I.3. Companies shall not establish mechanisms intended to cause mismatching between the right to receive dividends or the subscription of new securities and the voting right of each common share, unless duly justified in terms of long-term interests of shareholders.	Adopted		Number 12

I.4. The company's articles of association that provide for the restriction of the number of votes that may be held or exercised by a sole shareholder, either individually or in concert with other shareholders, shall also foresee for a resolution by the general assembly (five year intervals), on whether that provision of the articles of association is to be amended or prevails – without super quorum requirements as to the one legally in force – and that in said resolution, all votes issued be counted, without applying said restriction.	NA	NA
I.5. Measures that require payment or assumption of fees by the company in the event of change of control or change in the composition of the Board and that which appear likely to impair the free transfer of shares and free assessment by shareholders of the performance of Board members, shall not be adopted.	Adopted	Numbers 2, 4
II. Supervision, Management And Oversight		
II.1. Supervision And Management		
II.1.1. Within the limits established by law, and except for the small size of the company, the board of directors shall delegate the daily management of the company and said delegated powers shall be identified in the Annual Report on Corporate Governance.	Adopted	Numbers 21, 28
II.1.2. The Board of Directors shall ensure that the company acts in accordance with its objectives and shall not delegate its responsibilities as regards the following: i) define the strategy and general policies of the company; ii) define business structure of the group; iii) resolutions considered strategic due to the amount, risk and particular characteristics involved.	Adopted	Numbers 21, 22

II.1.3. The General and Audit Committee in addition to its supervisory duties, shall take full responsibility at corporate governance level, whereby through the provision of the articles of association or by equivalent means, shall enshrine the requirement for this body to decide on the strategy and major policies of the company, the definition of the corporate structure of the group and the decisions that shall be considered strategic due to the amount or risk involved. This body shall also assess compliance with the strategic plan and the implementation of key policies of the company.	NA	NA
II.1.4. Except for small-sized companies, the Board of Directors and the General and Audit Committee, depending on the model adopted, shall create the necessary committees in order to:	Adopted	Number 27
a) Ensure a competent and independent assessment of the performance of the executive directors and its own overall performance, as well as of other committees;	Adopted	Numbers 24, 27, 29
b) Reflect on the system structure and governance practices adopted, verify its efficiency and propose to the competent bodies, measures to be implemented with a view to their improvement.	Adopted	Numbers 27, 29
II.1.5. The Board of Directors or the General and Audit Committeed, depending on the applicable model, should set goals in terms of risk-taking and create systems for their control to ensure that the risks effectively incurred are consistent with those goals.	Adopted	Numbers 50, 55
II.1.6. The Board of Directors shall include a number of non-executive members ensuring effective monitoring, supervision and assessment of the activity of the remaining members of the board.	Adopted	Number 18

II.1.7. Non-executive members shall include an appropriate number of independent members, taking into account the adopted governance model, the size of the company, its shareholder structure and the relevant free float. The independence of the members of the General and Supervisory Board and members of the Audit Committee shall be assessed as per the law in force. The other members of the Board of Directors are considered independent if the member is not associated with any specific group of interests in the company nor is under any circumstance likely to affect an exempt analysis or decision, particularly due to:	Adopted	Number 18
a. Having been an employee at the company or at a controlled company holding or group relationship within the last three years;		
b. Having, in the past three years, provided services or established commercial relationship with the company or company with which it is in control or group relationship, either directly or as a partner, board member, manager or director of a legal person;		
c. Being paid by the company or by a company with which it is in a control or group relationship besides the remuneration arising from the exercise of the functions of a board member;		
d. Living with a partner or a spouse, relative or any first degree next of kin and up to and including the third degree of collateral affinity of board members or natural persons that are direct and indirectly holders of qualifying holdings;		
e. Being a qualifying shareholder or representative of a qualifying shareholder.		
II.1.8. When board members that carry out executive duties are requested by other board members, said shall provide the information requested, in a timely and appropriate manner to the request.	Adopted	Number 18

II.1.9. The Chairman of the Executive Board or of the Executive Committee shall submit, as applicable, to the Chairman of the Board of Directors, the Chairman of the Supervisory Board, the Chairman of the Audit Committee, the Chairman of the General and Supervisory Board and the Chairman of the Financial Matters Board, the convening notices and minutes of the relevant meetings.	Adopted	Numbers 18, 28
II.1.10. If the chairman of the board of directors carries out executive duties, said body shall appoint, from among its members, an independent member to ensure the coordination of the work of other non-executive members and the conditions so that these members can make independent and informed decisions or to ensure the existence of an equivalent mechanism for such coordination.	NA	NA
II.2. SUPERVISION		
II.2.1. Depending on the applicable model, the Chairman of the Supervisory Board, the Audit Committee or the Financial Matters Committee shall be independent in accordance with the applicable legal standard, and have the necessary skills to carry out their relevant duties.	Adopted	Numbers 18,31, 32
II.2.2. The supervisory body shall be the main representative of the external auditor and the first recipient of the relevant reports, and is responsible, inter alia, for proposing the relevant remuneration and ensuring that the proper conditions for the provision of services are provided within the company.	Adopted	Number 34
II.2.3. The Audit Committee shall evaluate the external auditor on an annual basis and propose to the competent body its dismissal or termination of the contract as to the provision of their services when there is a valid basis for said dismissal.	Adopted	Number 34, 45
II.2.4. The Audit Committee shall evaluate the functioning of the internal control systems and risk management and propose adjustments as may be deemed necessary.	Adopted	Number 34

II.2.5. The Audit Committee, the General and Supervisory Board and the Audit Committee decide on the work plans and resources concerning the internal audit services and services that ensure compliance with the rules applicable to the company (compliance services), and should be recipients of reports made by these services at least when it concerns matters related to accountability, identification or resolution of conflicts of interest and detection of potential improprieties.	Adopted	Number 34
II.3. REMUNERATION SETTING		
II.3.1. All members of the Remuneration Committee or equivalent should be independent from the executive board members and include at least one member with knowledge and experience in matters of remuneration policy.	Adopted	Number 67
II.3.2. Any natural or legal person that provides or has provided services in the past three years, to any structure under the board of directors, the board of directors of the company itself or who has a current relationship with the company or consultant of the company, shall not be hired to assist the Remuneration Committee in the performance of their duties. This recommendation also applies to any natural or legal person that is related by employment contract or provision of services with the above.	Adopted	Number 67
II.3.3. A statement on the remuneration policy of the management and supervisory bodies referred to in article 2 of Law No. 28/2009 of 19 June, shall also contain the following:	Adopted	Number 69
a) Identification and details of the criteria for determining the remuneration paid to the members of the governing bodies;		

b) Information regarding the maximum potential amount, in individual terms, and the maximum potential amount, in aggregate form, to be paid to members of corporate bodies, and identify the circumstances whereby these maximum amounts may be payable;		
c) Information regarding the enforceability or unenforceability of payments for the dismissal or termination of appointment of board members.		
II.3.4. Approval of plans for the allotment of shares and/or options to acquire shares or based on share price variation to board members shall be submitted to the general meeting. The proposal shall contain all the necessary information in order to correctly evaluate said plan.	Adopted	Number 69
II.3.5. Approval of any retirement benefit scheme established for members of corporate members shall be submitted to the general meeting. The proposal shall contain all the necessary information in order to correctly evaluate said system.	NA	
III. Remuneration		
III.1. The remuneration of the executive members of the board shall be based on actual performance and shall discourage taking on excessive risk-taking.	Adopted	Number 69 et seq.
III.2. The remuneration of non-executive board members and the remuneration of the members of the Audit Committee shall not include any component which value depends on the performance of the company or of its value.	Adopted	Number 69 et seq.
III.3. The variable component of remuneration shall be reasonable overall in relation to the fixed component of the remuneration and maximum limits should be set for all components.	Adopted	Number 69 et seq.

III.4. A significant part of the variable remuneration should be deferred for a period not less than three years, and the right of way payment shall depend on the continued positive performance of the company during that period.	Adopted	Number 69 et seq.
III.5. Members of the Board of Directors shall not enter into contracts with the company or with third parties which intend to mitigate the risk inherent to remuneration variability set by the company.	Adopted	Number 69 et seq.
III.6. Executive board members shall maintain the company's shares that were allotted by virtue of variable remuneration schemes, up to twice the value of the total annual remuneration, except for those that need to be sold for paying taxes on the gains of said shares, until the end of their mandate.	Adopted	Number 69 et seq.
III.7. When the variable remuneration includes the allocation of options, the beginning of the exercise period shall be deferred for a period not less than three years.	Adopted	Number 69 et seq.
III.8. When the removal of board member is not due to serious breach of their duties nor to their unfitness for the normal exercise of their functions but is yet due on inadequate performance, the company shall be endowed with the adequate and necessary legal instruments so that any damages or compensation, beyond that which is legally due, is unenforceable.	Adopted	Number 84
IV. Auditing		
IV.1. The external auditor shall, within the scope of its duties, verify the implementation of remuneration policies and systems of the corporate bodies as well as the efficiency and effectiveness of the internal control mechanisms and report any shortcomings to the supervisory body of the company.	Adopted	Number 42

IV.2. The company or any entity with which it maintains a control relationship shall not engage the external auditor or any entity with which it finds itself in a group relationship or that incorporates the same network, for services other than audit services. If there are reasons for hiring such services - which must be approved by the Audit Committee and explained in its Annual Report on Corporate Governance - said should not exceed more than 30% of the total value of services rendered to the company.	Adopted	Numbers 37, 47
IV.3. Companies shall support auditor rotation after two or three terms whether four or three years, respectively. Its continuance beyond this period must be based on a specific opinion of the Audit Committee that explicitly considers the conditions of auditor's independence and the benefits and costs of its replacement.	Adopted	Number 47
V. Conflicts Of Interest And Related Party Transactions		
V.1. The company's business with holders of qualifying holdings or entities with which they are in any type of relationship pursuant to article 20 of the Portuguese Securities Code, shall be conducted during normal market conditions.	Adopted	Numbers 10, 89, 90, 91
V.2. The supervisory or oversight board shall lay down procedures and criteria that are required to define the relevant level of significance of business with holders of qualifying holdings - or entities with which they are in any of the relationships described in article 20(1) of the Portuguese Securities Code – thus significant relevant business is dependent upon prior opinion of that body.	Adopted	Numbers 89, 90, 91
VI. Information		

VI.1. Companies shall provide, via their websites in both the Portuguese and English languages, access to information on their progress as regards the economic, financial and governance state of play.	Adopted	Number 27, 59, 60 to 65
VI.2. Companies shall ensure the existence of an investor support and market liaison office, which responds to requests from investors in a timely fashion and a record of the submitted requests and their processing, shall be kept.	Adopted	Number 56, 57, 58

Global assessment of the level of adoption of Recommendations from the Corporate Governance Code

NOS adopts all the applicable recommendations set out in the Corporate Governance Code, with the exception of Recommendations I.4; II.1.3; II.1.10; II.3.5 of the aforementioned code, which it deems not to be applicable.

3. Other informations

Regarding article 245-A(r) of the Portuguese Securities Code, NOS has in place a set of principles and rules governing the internal and external relations of NOS Group companies, applicable to all members of the corporate bodies and employees of the Group. Indeed, NOS bases its human resources management policy on respect for diversity, individual rights and non-discrimination (depending on age, gender, sexual orientation, race, disability, religion or creed), in particular in the context of recruitment, promotion or termination of labour relationship. These principles and regulations are available through the consultation of the Code of Ethics of the Company, available at http://docs-institucional.nos.pt/Code-of-Ethics/.

Notwithstanding the above, NOS is analysing the need to develop these principles in an autonomous diversity policy, in order to ensure Company's compliance with recent legislation on the subject, including Law 62/2017 of 1 August and Decree-Law no. 89/2017 of 28July.

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