

## PHAROL, SGPS S.A.

### 2016 RESULTS

- PHAROL presented a Net loss for the period of Eur. 75.1M, mainly explained by: (a) loss of Eur. 48.7M with the reduction in the expected value of the Rio Forte debt instrument, (b) net loss on investment in Oi of Eur. 13.2M which is presented at market value, (c) operating expenses amounting to some Eur. 7.0M, and (d) losses of Eur. 5.1M due to the decrease in value of the Call option.
- PHAROL reduced its Operational Costs by 57% comparing with 2015 (Eur. 7.0M against Eur. 16.2M).
- As at December 31, 2016, the estimated recovery of the Rio Forte debt instruments is 9.56% of their face value.

### Highlights of Oi's 2016 progress

- Recurring EBITDA amounted to 6,697 million Reals in 2016, a decrease of 12% comparing with 2015.
- Despite the less favourable environment of the Brazilian economy, Oi has presented a very positive set of operational performance indicators, reflecting improvements in 4Q16 in the quality of service, operating margin and cash availability. The management team has reconciled its efforts to resolve the unbalanced financial situation, which led to the judicial recovery process, with launching initiatives that will allow Oi to affirm its position in the ultra competitive Brazilian telecommunications market.

#### MESSAGE FROM THE CEO

Luís Palha da Silva

"Oi is at a crucial phase in its Judicial Recovery process, there being an apparent will of all its stakeholders to reach an understanding as quickly as possible; on its side, PHAROL, as the Company's largest shareholder, will do all in its power so that, according with the proposed timeline, the creditor's assembly occur in the third quarter of this year.

In respect of Rio Forte, PHAROL cannot prevent from being dissatisfied with the rhythm of the bankruptcy proceeding and will make supplementary efforts to obtain concrete results in a reasonable period of time.

During 2017, PHAROL will continue to reduce its costs, seeking, once again, a significant decrease.

### Highlights

#### PHAROL

(Euro million)	2016	2015
<b>EBITDA</b>	(7.0)	(16.2)
<b>Losses/(gains) in joint ventures and associates</b>	13.2	600.2
<b>Net profit/(loss)</b>	(75.1)	(693.9)

#### OI

(Reals million)	2016	2015
<b>Net revenue</b>	25,996	27,354
<b>Routine EBITDA</b>	6,697	7,605
<b>Routine EBITDA Margin %</b>	25.76%	27.80%
<b>Net earnings</b>	(7,121.1)	(5,347.6)
<b>Net Debt</b>	40,342	38,155
<b>Capex</b>	4,901	4,164

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# ANNUAL REPORT

2016

# **PHAROL, SGPS S.A.**

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**CONSOLIDATED ANNUAL REPORT**

**2016**

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**“PHAROL”, “Group PHAROL”, “Group” and “Company” is a reference to the companies that are part of PHAROL, SGPS S.A. or to one of them, depending on the context.**

# 01. MACROECONOMIC ENVIRONMENT

## INTERNATIONAL ECONOMIC CONTEXT

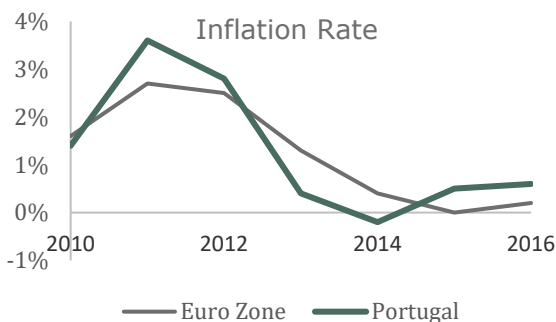
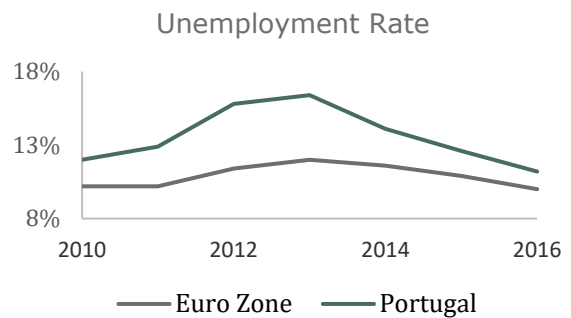
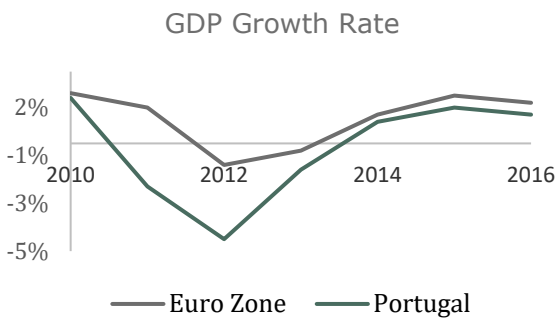
In 2016, the global economy growth was 3%, according to OECD. The developed economies reached growth rates higher than was expected mostly as of industrial production picked up. However, global growth did not reach 2%, with United States at 4.6%, Euro Zone at 1.7% and Japan at 1%.

In developing countries, there are two distinct scenarios. On the one hand, China and India presented growths of 6.7% and 7%, respectively. On the other hand, countries such as Brazil and Russia have not recovery from the recession.

To 2017, projections for the global economy growth are 3.3% according to OECD and 3.4% for the International Monetary Fund.

Regarding the Euro Zone, it has maintained a moderated upward trend in the last two years. It is important to notice that the employment rate has decreased but is still much higher than before the economic crisis, as the increase investment but has not enough. Private consumption is the main cause for the growth of the Zone GDP. Inflation remains at low levels.

European Commission projections indicate to a growth of 1.6% for 2017 in the Euro Zone.



## PORTUGAL

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In Portugal, in 2016, the growth was 1.2%, slightly below 2015, 1.5%.

According to Banco de Portugal, the difference between Portugal and European Union average growth levels is related to the very high level of debt in public and private sectors, adverse demographic evolution and inefficiency in the labour market.

As in Europe, unemployment rate still high and inflation remains at low levels in our country.

The main reasons for growth are the increase in exports and in private consumption.

For 2017, o Banco de Portugal anticipates a growth of 1.4%.

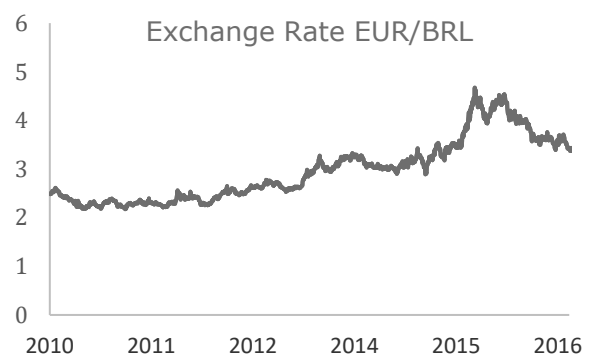
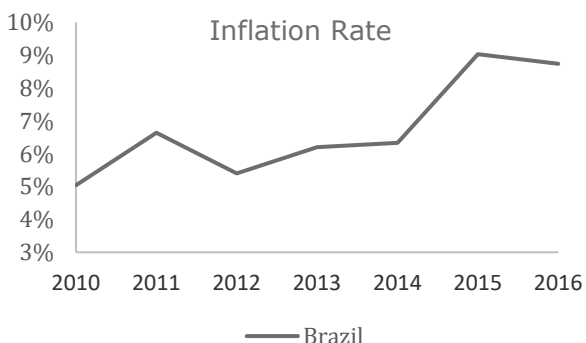
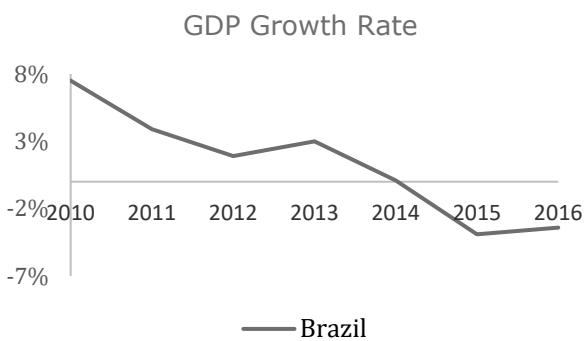
## BRAZIL

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In Brazil, in 2016, GDP decreased for a second consecutive year, by 3,4%, according to OECD.

This decrease occurred in all industries and even the investment level dropped. Also, the consumption, private and public, decreased. Exports increased slightly by 1.9% and imports decreased 10.3%. Inflation is still high, at 8.74% and the unemployment rate for the years of 2015 and 2016 still unknown.

Projections from Instituto Brasileiro de Geografia e Estatística indicate that in 2017 growth will be 0.5%.



## 02. FINANCIAL REVIEW

### FINANCIAL REVIEW

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As at December 31, 2016, PHAROL had as its main assets (1) 183,662,204 common shares of Oi, S.A. ("Oi"), representing 27.2% of the total share capital of Oi (excluding treasury shares), (2) debt securities of Rio Forte Investments S.A. ("Rio Forte") with a nominal value of Euro 897 million, and (3) the Call Option on 42,691,385 common shares and 85,382,770 preferred shares of Oi with an exercise price of R\$20.104 per common share and R\$18.529 per preferred share, adjusted by the Brazilian rate CDI plus 1.5% per annum, and with a 6-year maturity. The Call Option has partial expiration dates throughout the period so the option volume is reduced by 10% at the end of the first year and by 18% per year thereafter. On March 30, 2016, as part of the option has reached its maturity, PHAROL's call option is from that date onwards on 42,691,385 common shares and 85,382,770 preferred shares of Oi.

As of December 31, 2014, after the capital increase of Oi, concluded on May 5, 2014 (the "Oi Capital Increase"), PHAROL held a 39.7% direct and indirect stake in Oi. This included a portion classified as a non-current asset held for sale, following the Exchange agreement ("Exchange") entered into on September 8, 2014 and completed on March 8, 2015, and the remaining stake of 22.8% classified as investment in joint ventures and associates and therefore accounted for using the equity method.

On March 30, 2015, the Exchange was completed, whereby PHAROL (1) transferred to Portugal Telecom International Finance, B.V. ("PT Finance"), a subsidiary of Oi, an aggregate amount of 47,434,872 common shares and 94,869,744 preferred shares of Oi, and (2) received from PT Finance debt securities of Rio Forte with a nominal value of Euro 897 million and a call option on the transferred shares ("Call Option"). After the completion of the Exchange, PHAROL held an effective stake of 27.5% in Oi corresponding to the 22.8% stake referred above plus 4.7% due to the decrease in the number of outstanding shares of Oi.

The relevant agreements for the implementation of the New Structure of Oi were signed on July 22, 2015. On September 1, 2015, a General Meeting of Shareholders of Oi was held where the New Structure was approved.

As of September 30, 2015, after the implementation of the New Structure, but prior to the voluntary conversion of preferred shares to ordinary shares of Oi, PHAROL held, directly or indirectly through wholly owned subsidiaries, 84,167,978 common shares and 108,016,749 preferred shares of Oi.

As of October 8, 2015, following the voluntary conversion of preferred shares into common shares of Oi, PHAROL now holds, directly and indirectly through wholly owned subsidiaries, 183,662,204 common shares of Oi, representing 27.2% of total share capital of Oi (excluding treasury shares), that represents the present situation. PHAROL's voting rights in Oi are limited to 15% of the total common shares of Oi.

With the implementation of the New Structure on July 30, 2015, the shareholders' agreements, through which joint control of Oi was exercised, were terminated. Up to that date, PHAROL accounted for its stake in Oi as an Investment in Joint Ventures. Currently, PHAROL considers it has significant influence over Oi and classifies it as an associate company. As a result, from July 30, 2015 the investment in Oi continues to be accounted for according to the equity method, based on PHAROL's economic stake in Oi's results (27.18% as at December 31, 2016).

On April 29 and May 19, 2016, PHAROL, due to a corporate reorganization, transferred direct ownership of 128,213,478 common shares issued by Oi S.A., to its 100% owned subsidiary BRATEL B.V.. Due to the Corporate Reorganization, BRATEL B.V. now directly holds (and PHAROL indirectly holds) 183,662,204 common shares of Oi S.A., which represent 22.24% of Oi S.A.'s entire share capital (27.18% excluding treasury shares).

In 2016, the consolidated net loss amounting to Euro 75.1 million, mainly reflects (1) the loss of Euro 48.7 resulting from the impairment charge in respect of the debt instruments issued by Rio Forte (2) a Euro 4.9 million loss relating to the decrease of the Call Option (3) the Euro 7 million consolidated operational costs, and (4) a Euro 13.2 million net loss regarding the impairment charge in respect of investments in Oi and from the appropriation of its portion in Oi's results, including their adjustments.

## CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT		
	Euro million	
	2016	2015
Wages and salaries	2.1	3.6
Supplies, external services and other expenses	4.4	9.4
Indirect taxes	0.6	3.2
<b>Loss before financial results and taxes</b>	<b>(7.0)</b>	<b>(16.2)</b>
Depreciations	0.1	0.1
<b>Earnings before interest and taxes</b>	<b>(7.1)</b>	<b>(16.3)</b>
Net other gains	0.0	(0.2)
<b>Loss before financial results and taxes</b>	<b>(7.1)</b>	<b>(16.1)</b>
Net interest income	(0.2)	(0.5)
Losses (gains) in losses of joint ventures and associates	13.2	600.2
Net losses on financial assets and other investments	54.4	63.0
Net other financial losses (gains)	0.4	15.1
<b>Loss before taxes</b>	<b>(75.1)</b>	<b>(693.8)</b>
Income taxes	0.0	0.1
<b>Attributable to equity holders of PHAROL, SGPS S.A.</b>	<b>(75.1)</b>	<b>(693.9)</b>

Consolidated operating costs amounted to Euro 7 million in 2016 compared to Euro 16.2 million in 2015. This decrease is explained by (1) significant reduction of third party expenses mainly related to financial and legal services (2) lower costs in wages and salaries and (3) lower indirect taxes.

Losses in joint ventures and associates amounted to Euro 13.2 million in 2016, which compares to a loss of Euro 600 million in 2015, corresponding mainly to the investment in Oi adjusted to the market value, as well as, the appropriation of Oi's results.

Losses on financial assets and other investments in 2016 totalled Euro 54.4 million, mainly reflecting (1) the impairment of the debt instruments issued by Rio Forte amounting to Euro 48.7 million and (2) the decrease of Euro 4.9 million in value of the Call Option.

Net losses attributable to equity holders of PHAROL amounted to Euro 75.1 million in 2016, compared to Euro 693.9 million loss of 2015. The net loss in 2016 reflects the decrease of the value of the Rio Forte debt, the net loss in the Oi investments, the decrease of the Call Option and operating costs. The net loss in 2015 reflects the effective stake of PHAROL in Oi's net losses and operating costs.



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<b>Consolidated Statement of Financial Position</b>		
	<b>Euro million</b>	
	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
Cash and cash equivalents	28.9	64.9
Accounts receivable	0.4	0.5
Investments in joint ventures and associates	140.8	102.2
Tangible assets	0.3	0.4
Other assets	87.3	141.0
<b>Total assets</b>	<b>257.8</b>	<b>309.1</b>
<b>LIABILITIES</b>		
Short-term debt	0.1	0.1
Accounts payable	2.3	1.7
Accrued expenses	5.7	6.5
Taxes payable	0.1	0.4
Provisions	0.1	0.1
Other liabilities	0.9	0.9
<b>Total liabilities</b>	<b>9.3</b>	<b>9.8</b>
<b>Total equity</b>	<b>248.6</b>	<b>299.3</b>
<b>Total liabilities and shareholders' equity</b>	<b>257.8</b>	<b>309.1</b>

The cash position net of gross debt, accounts payable, accrued expenses, and taxes payable was Euro 20.6 million and Euro 52.2 million as at December 31, 2016 and December 31, 2015, respectively.

Investments in joint ventures and associates mainly correspond to PHAROL's effective stake in Oi of 27.2% on December 31, 2016 and December 31, 2015. On December 31, 2016 and December 31, 2015, the investments in joint ventures and associates of PHAROL amounted to Euro 140 million and Euro 102 million, respectively, an increase of Euro 38 million mainly explained by (1) effective participation of PHAROL in Oi's results in 2016, (2) the impairment of Oi investments, and (3) the appreciation of the Brazilian real in 2016 with a positive net impact.

Other assets at December 31, 2016, amounting to Euro 87.3 million, mainly include the fair value of assets received on March 30, 2015 in connection with the Exchange: (1) Euro 85.7 million related to the estimated fair value of debt instruments issued by Rio Forte, the nominal value of which amounts to Euro 897 million, and (2) Euro 1.6 million related to the fair value of the Call Option.

Shareholders' equity amounted to Euro 248.6 million on December 31, 2016 compared to Euro 299.3 million on December 31, 2015, a decrease of Euro 50.7 million, mainly reflecting (1) the loss of Euro 75.1 million recorded in 2016, (2) dividend payment to the shareholders amounting to Euro 25.9 million, (3) the negative Euro 51.2 million impact in Oi investments recognized in equity, (4) the positive Euro 102 million impact in Oi investment from the appreciation of the Brazilian real in 2016, and (5) the acquisition of own shares amounting to Euro 1.6 million.

### OI RESULTS KEY HIGHLIGHTS

**The information within this section arise from the 2016 Report of Oi.**

In 4Q16, Oi recorded a R\$ 708 million cash increase, closing 2016 with R\$ 7.8 billion in cash position. This performance demonstrates Oi's continuous operational improvement.

Even in a year of economic slowdown, with lower investments in the industry, Oi increased its Brazilian investments by 17.6% in 2016 and 26.6% in 4Q16, compared to the same periods of the year before. In this way, higher investments confirm the company's commitment to the judicial reorganization plan.

The focus on operations promotes quality improvements. Increase in investments reinforces Oi's commitment to improving network quality and managing field operations more closely and implementing a new customer service model to promote operational efficiency, consequently improving customer experience. Better operational indicators contribute to a consistent improvement in quality indicators of ANATEL, PROCON and Special Civil Court (JEC).

Also, operational efficiency, productivity gains and strict cost control are reflected in margin growth. Routine Opex of Brazilian operations fell 7.3% y.o.y. and 4.8% q.o.q. Considering inflation of 6.3% in 2016, real reduction reached almost 13% in 4Q16 versus 4Q15. Sequential reduction in costs helped to improve routine EBITDA margin: +0.7 p.p over 4Q15 and +2.6 p.p. over 3Q16, coming to 27.4% in the quarter.

With a reduction of 47% y.o.y., net loss before tax and social contribution amounted to R\$ 3.2 billion in 2016. Net loss, after taxes and social contribution, amounted to R\$ 7.1 billion in 2016, mainly impacted by a write-off of R\$ 2.8 billion of tax credits on tax loss carry-forwards, reflecting the forecasts at tax results included in the judicial reorganization plan.

Judicial reorganization is progressing as expected and despite the complexity of the judicial reorganization process, Oi has been complying with the procedures required by law. The Company has been generating cash, increasing investments and improving service quality and customer experience, confirming its focus on operations during the judicial reorganization process.

	in R\$ million*			
	2016	2015	4T16	4T15
<b>Oi S.A. Pro-forma</b>				
Total Net Revenues	25,996	27,354	6,323	6,703
EBITDA	6,377	7,794	1,531	1,706
EBITDA Margin (%)	24.5%	28.5%	24.2%	25.5%
Routine EBITDA	6,697	7,605	1,756	1,795
Routine EBITDA Margin (%)	25.8%	27.8%	27.8%	26.8%
Consolidated Net Earnings (Loss)	(7,121)	(5,348)	(3,306)	(4,551)
Net Debt	40,342	38,155	40,342	38,155
Available Cash	7,849	16,826	7,849	16,826
CAPEX	4,901	4,164	1,393	1,086

\*Or otherwise stated

	in R\$ million*			
	2016	2015	4T16	4T15
<b>BRAZIL</b>				
Revenue Generating Unit ('000)	63,554	70,048	63,554	70,048
Residential	16,425	16,297	16,425	16,297
Personal Mobility	39,870	45,860	39,870	45,860
Corporate / PMEs	6,617	7,241	6,617	7,241
Public Telephones	642	651	642	651
Total Net Revenues	25,164	26,441	6,110	6,531
Net Services Revenues (1)	24,937	26,062	6,052	6,474
Residential	9,376	9,779	2,315	2,392
Personal Mobility	7,623	8,055	1,886	2,050
Clients (2)	6,996	7,166	1,730	1,830
Corporate / SMEs	7,606	7,970	1,790	1,984
Net Clients Revenues (2)	23,925	24,478	5,824	6,078
Routine EBITDA	6,340	7,230	1,676	1,745
Routine EBITDA Margin (%)	25.2%	27.3%	27.4%	26.7%
CAPEX	4,759	4,048	1,358	1,072
Routine EBITDA - CAPEX	1,581	3,182	318	673

\*Or otherwise stated

\*Or otherwise stated

- (1) Excludes handset revenues.
- (2) Excludes handset and network usage revenues.

### **03. BUSINESS PERFORMANCE**

#### **LIABILITY CLAIM FOR DAMAGES CAUSED BY THE INVESTMENT IN DEBT INSTRUMENTS ISSUED BY ENTITIES OF ESPÍRITO SANTO GROUP**

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On January 7, 2016, in accordance with the resolution taken by the Board of Directors held on May 27, 2015, the Company filed the judicial liability claim before the Lisbon's District Court, against Deloitte & Associados, SROC, S.A. and other entities of the Deloitte Network for breach of its contractual duties, namely as PHAROL's External Auditor, which are legal cause for the losses suffered with the investment in debt instruments issued by entities of Espírito Santo Group.

PHAROL claims an indemnity corresponding to the difference between Euro 897,000,000 and any amount that PHAROL eventually recovers in the context of the insolvency proceeding of Rio Forte, as well as other damages that may be evidenced during proceedings, plus interest counted from the date of service until effective and full payment.

On January 25, 2016, the Company filed a judicial liability claim before the Lisbon's District Court against its former directors Zeinal Bava, Henrique Granadeiro and Luís Pacheco de Melo, for breach of their respective legal and contractual duties, namely the duty to submit to the Board of Directors for approval any investments in debt instruments issued by entities of Espírito Santo Group, as well as the duty to implement an internal control system suitable for these forms of investment. Breach of the abovementioned duties caused several damages to PHAROL, such as Euro 54,900,000, as over time the amounts invested could not be used in the activities of PHAROL and other losses in amounts yet to be determined in execution of sentence.

The Board of Directors thereby complied with the resolution of PHAROL's General Meeting of Shareholders of July 31, 2015, within the six months' deadline.

#### **CHANGE IN THE RATIO OF THE NUMBER OF COMMON SHARES OF OI REPRESENTED BY THE DEPOSITARY RECEIPTS**

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On January 22, 2016, Oi informed its shareholders and the Market in general of the change in the ratio of the number of common shares of Oi represented by the Depositary Receipts ("Common DRs") issued under its Level II Sponsored Depositary Receipts Program. Until that time, each Common DR represented one (1) common share issued by the Company. After the change in the ratio, each Common DR represented five (5) common shares.

Oi also informed that the other terms and conditions of its Common DR program will remain unchanged. Therefore, the Common DRs issued following the ratio change will be of the same type and will grant their holders the same rights as the Common DRs held prior to the ratio change.

## **UPDATE OF LETTERONE TECHNOLOGY REGARDING THE NEGOTIATIONS OF THE PROPOSAL TO MERGE OI WITH TIM IN BRAZIL**

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On February 25, 2016, and in furtherance with the Material Facts disclosed on October 26 and 30, 2015, Oi informed its shareholders and the market in general that LetterOne Technology (UK)LLP (“L1 Technology”) had issued a press release stating that it has been informed by TIM that TIM does not wish to enter into further discussions about a business combination with Oi in Brazil. L1 Technology’s press release stated that, without TIM’s participation, L1 Technology cannot proceed with the proposed transaction as previously envisaged.

## **CHANGE IN OI DISCLOSURE POLICY**

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On March 24, 2016, Oi informed its shareholders and the market in general, that at a meeting held on March 23, 2016, the Board of Directors approved an amendment to the Company’s Material Act or Fact Disclosure Policy, in order to include the possibility conferred by CVM Instruction No. 547/14, which allows the disclosure of material facts or acts at a newswire website on the world wide web that provides the entire disclosed information in a free-access section.

In this regard, Oi announced that it will hold its publications via the Portal NEO1 (<http://www.portalneo1.net>). Additionally, Oi notes that its material facts or acts, as well as other corporate information, will also continue to be disclosed through the CVM website (<http://www.cvm.gov.br/>), and Oi’s Investor Relations website (<http://www.oi.com.br/ir>). Finally, Oi noted that it would update its Registration Form at the CVM website, in order to reflect the changes.

## **DISCONTINUANCE OF DISCLOSURE OF OI PROJECTIONS**

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On March 24, 2016, Oi informed its shareholders and the market in general, that it had decided to not disclose projections regarding future performance (“guidance”) for 2016, to allow flexibility for Oi in light of the current macroeconomic instability, following the volatility in the past months, especially regarding benchmarks/assumptions that sustained the disclosed projections, such as, for example, the inflation rate and the national product growth rate.

## **ACQUISITION OF OWN SHARES**

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Pursuant to the terms and for the purposes of article 11, paragraph 2, item b) and of article 13 of the Regulation 5/2008 of the Portuguese Securities Code, and in accordance with the resolution of the General Shareholder’s Meeting held on November 4, 2015, PHAROL has acquired 10,225,000 treasury shares for a total amount of Euro 1,603,908 (Euro 1,416,308 until March 31, 2015 and 187,600 thereafter). These transactions occurred between February 1 and April 11, 2016, in the Euronext Lisbon.

Following these transactions, PHAROL SGPS S.A. holds 30,865,000 own shares, corresponding to 3.4428% of the Company’s share capital.

## **DEREGISTRATION**

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On March 28, 2016, PHAROL approved the termination of registration of its ordinary shares registered at SEC as *foreign private issuer*. On April 25, 2016, PHAROL filed a Form 15F with the U.S. Securities and Exchange Commission to voluntarily terminate the registration of its ordinary shares and its reporting obligations under the Exchange Act. From July 26, 2016, PHAROL is no longer obliged to file reports with the SEC, including its obligations to file annual reports on Form 20-F and reports on Form 6-K.

## **CORPORATE REORGANIZATION OF PHAROL**

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On April 29, 2016, PHAROL, SGPS S.A. and Bratel B.V., informed, due to the corporate reorganization, the 57,145,521 common shares issued by Oi S.A., representing 6.92% of Oi S.A.'s capital stock, and held by PHAROL SGPS S.A. had been passed on to BRATEL B.V. with PHAROL reducing its direct shareholding in Oi S.A. to 71,067,957 common shares, representing 8.61% of Oi S.A.'s entire share capital (including treasury shares).

Bratel, due to the Corporate Reorganization, at that date held 112,594,247 common shares of Oi S.A., which represented 13.63% of Oi S.A.'s entire share capital (including treasury shares).

On May 19, 2016, PHAROL, SGPS S.A. and Bratel B.V., informed, due to the corporate reorganization, that 71,067,957 common shares issued by Oi S.A., representing 8.61% of Oi S.A.'s capital stock, and held by PHAROL SGPS S.A. had been passed on to BRATEL B.V. with PHAROL no longer holding a direct shareholding position in Oi.

Bratel, due to the Corporate Reorganization, now holds 183,662,204 common shares of Oi S.A., which represent 22.24% of Oi S.A.'s entire share capital. Therefore, as PHAROL holds 100% of Bratel, PHAROL now indirectly holds 183,662,204 common shares of Oi S.A., representing 22.24% of the Oi S.A.'s entire share capital. Finally, Bratel holds Oi S.A. shares for investment purposes, without any intent to change Oi S.A.'s control.

## **OI BOARD APPROVAL FOR NEGOTIATIONS WITH CERTAIN FINANCIAL CREDITORS**

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On May 16, Oi announced that its Board of Directors approved the start of negotiations by Oi's management in relation to the financial indebtedness of Oi and of its affiliated companies. Oi and its advisors have scheduled meetings that week in New York to begin formal discussions with Moelis & Company, who acts as advisor for a diverse Ad Hoc Committee of holders of bonds issued by Oi and its subsidiaries, Portugal Telecom International Finance B.V. and Oi Brasil Holdings Coöperatief U.A. Oi requests holders of these bonds that are not currently members of the Ad Hoc Committee to contact Moelis & Company and to join the Ad Hoc Committee.

## PHAROL'S ANNUAL GENERAL MEETING OF SHAREHOLDERS

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On May 24, 2016, following its Annual General Meeting of Shareholders, PHAROL informed its shareholders and the market in general that the following resolutions were adopted by the Shareholders

> Approval of the management reports, balance sheets and accounts, individual and consolidated, for the 2015 financial year.

> Approval of the proposal for application of results and an extraordinary dividends distribution as follows:

- Transfer of the 2015 net losses amounting to Eur. 693,892,303 to the retained earnings account.
- Payment to the Shareholders of the overall amount of Euro 25,969,425, corresponding to Euro 0.03 per share in respect of the total number of issued shares.
- The above-mentioned amount of Euro 0.03 per share shall be paid to the Shareholders on June 9, 2016 (ex-dividend date: June 7, 2016).

> General appraisal of the Company's management and supervisory bodies, as well as a special praise to the Board of Directors, Fiscal Council and Statutory Auditor, and of each of their members, for the outstanding way in which the Company was led throughout the 2015 financial year.

> Non-approval of the amendment of the statutory provisions that provide for the limitation of the number of votes that may be held or exercised by each shareholder;

> Approval of the statement of the Compensation Committee on the remuneration policy of the members of the Company's management and supervisory bodies.

At the General Meeting, Shareholders holding 42.51% of the share capital were present or represented.

## DIVIDEND PAYMENT

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On May 24, 2016, PHAROL, SGPS S.A. announced that the following amounts per share would be paid on June 9, 2016, as set out below:

Gross Amount - Euro 0.03

Withholding Tax IRS/IRC (28%/25%) - Euro 0.0084 / Euro 0.0075

Net Amount - Euro 0.0216 / Euro 0.0225

## ECONOMIC POSITION OF RENAISSANCE TECHNOLOGIES LLC

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On June 2, 2016, PHAROL informed that an economic position of 2% of the share capital of PHAROL is attributable to Renaissance Technologies LLC, without voting rights, through derivative financial instruments with cash settlement, held by the funds GF Trading LLC and RIDGE Master Trading LP, that are managed by the entity above.

This occurred as a result of equity swaps contracted by those funds, reported on June 1, which establishes the right to acquire 18,003,736 shares of PHAROL.

## **RESIGNATION OF OI CHIEF EXECUTIVE OFFICER**

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On 10 June 2016, Oi informed that Bayard De Paoli Gontijo resigned as Chief Executive Officer of the Company. The Board of Directors, on that date, elected, as Bayard De Paoli Gontijo's replacement, Marco Norci Schroeder as Chief Executive Officer of Oi, who will also continue in the role of Financial Administrative Officer, which he already exercised.

## **TERMINATION OF THE ARBITRATION PROCEEDINGS INITIATED AGAINST AFRICATEL KG**

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On June 16, 2016, Oi informed that it had entered, via its wholly owned subsidiaries, PT Participações, SGPS, S.A ("PT Participações") and Africatel GmbH & Co. KG ("Africatel KG"), and 75%-owned subsidiary Africatel Holdings B.V. ("Africatel BV"), into a series of agreements with Samba Luxco S.à r. l. ("Samba" or "Helios"), an affiliate of Helios Investors LP and owner of the remaining 25% of Africatel BV, with the primary purpose of settling the arbitral proceedings commenced against Africatel KG in November 2014.

Pursuant to the Settlement and Share Exchange Agreement ("SSEA") executed that day, Samba will, upon completion: (i) withdraw the pending arbitral proceedings and release Oi's subsidiaries from all past and present claims relating to alleged breaches of the Africatel BV shareholders' agreement dated August 13, 2007 (as amended from time to time in accordance with its terms) (the "Africatel SHA") asserted in the arbitration, (ii) waive certain approval rights it has under the Africatel SHA, and (iii) transfer to Oi's subsidiary, Africatel BV, 11,000 shares with a nominal value of € 1 each in the share capital of Africatel BV, reducing Samba's stake in Africatel BV from 25% to 14%.

In exchange, Africatel BV will transfer to Samba its approximately 34% stake in the Namibian telecoms operator, Mobile Telecommunications Limited.

Completion is subject to necessary regulatory and antitrust approvals being obtained.

To give effect to the SSEA, the parties have also executed related amendments to the shareholders' agreement of Africatel BV dated 13 August 2007 and further amendment to this agreement will be executed upon completion.

## **OI DEBT RENEGOTIATION**

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On June 17, 2016, Oi informed that it has been involved in negotiations with members of an ad hoc group (the "Ad Hoc Group") made up of holders of, or managers of entities holding beneficial interests in, (i) the Notes 9.750% due 2016 issued by Oi S.A., (ii) the Notes 5.125% due 2017 issued by Oi S.A. and guaranteed by Telemar Norte Leste S.A. ("Telemar"), (iii) the Notes 9.500% due 2019 issued by Oi S.A. and guaranteed by Telemar, (iv) the Notes 5.500% due 2020 issued by Oi S.A. and guaranteed by Telemar, (v) the Notes 5.625% due 2021 issued by Oi Brasil Holdings Coöperatief U.A. ("Oi Netherlands") and guaranteed by Oi S.A., (vi) the Notes 5.750% due 2022 issued by Oi Netherlands and guaranteed by Oi S.A., (vii) the Notes 6.250% due 2016 issued by Portugal Telecom International Finance B.V. ("PTIF") and guaranteed by Oi



S.A., (viii) the Notes 4.375% due 2017 issued by PTIF and guaranteed by Oi S.A., (ix) the Notes 5.875% due 2018 issued by PTIF and guaranteed by Oi S.A., (x) the Notes 5.000% due 2019 issued by PTIF and guaranteed by Oi S.A., (xi) the Notes 4.625% due 2020 issued by PTIF and guaranteed by Oi S.A., (xii) the Notes 4.500% due 2025 issued by PTIF and guaranteed by Oi S.A., and (xiii) the Notes 5.242% due 2017 issued by PTIF and guaranteed by Oi S.A. (collectively, the "Notes," and such holders of the Notes, together with the managers of entities holding beneficial interests in the Notes, the "Noteholders").

Prior to the date hereof, the Company executed a confidentiality agreement (the "Confidentiality Agreement") with certain Ad Hoc Group members (the "Steering Committee") to facilitate discussions concerning the Company's capital structure and potential alternatives for a proposed restructuring of the Company. Pursuant to the Confidentiality Agreement, the Company agreed to disclose publicly, after the expiration of a period set forth in the Confidentiality Agreement, certain information regarding the discussions and/or negotiations that have taken place between the Company and the Steering Committee concerning a restructuring of the Company, as well as all material nonpublic information concerning the Company that the Company has provided to the Steering Committee (the "Confidential Information"). The information included in this press release and certain documents posted on the Company's website referenced herein are being furnished to satisfy the Company's public disclosure obligations under the Confidentiality Agreement. The Confidentiality Agreement has terminated in accordance with its terms, except as otherwise provided therein.

The information contained in the Documents, the Receivables Statement, the Company Term Sheet and the Noteholder Term Sheet is for discussion purposes only and shall not constitute a commitment to vote for or consummate any transaction described therein. Furthermore, the contents of the Documents, the Receivables Statement, the Company Term Sheet and the Noteholder Term Sheet shall not be construed as guidance by the Company in relation to its future results, and the Company waives any responsibility to update such contents or information at any time. The Company has published the Documents, the Company Term Sheet and the Noteholder Term Sheet, and will publish translations of such materials in Portuguese as soon as possible, on its website, available at <http://ir.oi.com.br> (English) and <http://oi.com.br/ri> (Portuguese).

## **MATERIAL FACT DISCLOSED BY OI - REQUEST FOR JUDICIAL REORGANIZATION**

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On June 20, 2016, Oi informed that in conjunction with its wholly owned direct and indirect subsidiaries, Oi Móvel S.A., Telemar Norte Leste S.A., Copart 4 Participações S.A., Copart 5 Participações S.A., Portugal Telecom International Finance BV and Oi Brasil Holdings Coöperatief U.A. (the "Oi Companies"), it had filed a request for judicial reorganization of the Oi Companies with the Court of the State of Rio de Janeiro.

As previously announced, the Oi Companies, together with their financial and legal advisors, are conducting efforts and studies to optimize their liquidity and indebtedness profile. The Company, together with its legal and financial advisors, also negotiated with its creditors and with Moelis & Company, a financial advisor to a group of bond holders, seeking mutual agreement as to the consensual restructuring of the Oi Companies' indebtedness and to strengthen their capital structure.

However, considering the challenges of the Oi Companies' economic and financial situation in connection with the maturity schedule of their financial debts, the threats to the assets of the Oi Companies represented by imminent attachments or freezings in judicial lawsuits and the urgent need to adopt measures that protect the Oi Companies, the Company decided that filing for judicial reorganization would be the most appropriate course of action at this time to (i) preserve the continuity of its offering of quality services to its customers, within the rules and commitments undertaken with the Brazilian National Telecommunications Agency - ANATEL, (ii) preserve the value of the Oi Companies, (iii) maintain the continuity of operations and corporate activities in an organized manner that protects the interests of the Oi Companies and their subsidiaries, their customers, shareholders and other stakeholders, and (iv) protect the Oi Companies' cash and cash equivalents.

The request for judicial reorganization was filed due to challenges confronted by the Company's management in finding a viable alternative with its creditors that enables the Company to achieve the abovementioned purposes, and to adequately protect the Oi Companies against creditors while preserving the continuity of the Oi Companies' operations. The total claims of persons not controlled by Oi listed in documents filed with the request for judicial reorganization total, on this date, approximately R\$65.4 billion. The Management of the Oi Companies intends to take all necessary measures and take the necessary actions in all appropriate jurisdictions to guarantee the effectiveness of this request for judicial reorganization.

#### **FITCH'S REVIEW OF OI'S CREDIT RATING**

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On June 21, 2016, Oi informed that Fitch had announced its review of the credit rating attributed to Oi, downgrading the long-term global and domestic scale credit rating from C to D.

#### **MOODY'S REVIEW OF OI'S CREDIT RATING**

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On June 21, 2016, Oi informed that Moody's had announced its review of the credit rating attributed to Oi, downgrading the long-term global scale credit rating from Caa1 to C.

#### **MATERIAL FACT DISCLOSED BY OI - GRANTING OF INJUNCTIVE RELIEF IN JUDICIAL RECOVERY**

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On June 22, 2016, Oi in line with the Material Fact dated June 20, 2016, informed that, on this date, the 7th Corporate Court of the State of Rio de Janeiro granted, in the judicial recovery proceeding requested by Oi and certain subsidiaries (the "Oi Companies"), a request for injunctive relief to determine the following:

- a) The suspension of all lawsuits and execution actions against the Oi Companies, for a period of 180 days, in order to avoid the imposition of judicial constraints during the period between the filing of the request for judicial recovery and the granting of its processing;
- b) An exemption from the requirement to present clearance certificates under any circumstance related to the Oi Companies, including for the exercise of their activities (including any debt clearance certificate

regarding revenues managed by ANATEL and clearance certificate of distribution of bankruptcy and judicial claims).

## **PROVISIONAL RELIEF ORDER TO OI FROM THE US BANKRUPTCY COURT FOR THE SOUTHERN DISTRICT OF NEW YORK**

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On June 22, 2016, Oi informed that on this date, the United States Bankruptcy Court for the Southern District of New York entered an order granting the provisional relief (the "Provisional Relief Order") requested by Oi, Telemar Norte Leste S.A., Oi Brasil Holdings Coöperatief U.A. and Oi Móvel S.A. (together, the "Debtors") in accordance with chapter 15 quests of US Bankruptcy code were decided on June 21, 2016.

Under the Provisional Relief Order, an injunction under 11 U.S.C. § 362 has been entered on a preliminary basis, which prevents creditors from initiating actions against the Debtors or their property located within the territorial jurisdiction of the United States and parties from terminating their existing U.S. contracts with the Debtors. This preliminary injunctive relief will remain in place until the Debtors obtain full recognition of their chapter 15 petitions from the U.S. Court. Upon recognition, a stay under 11 U.S.C. § 362 protecting the Debtors and their U.S. property will be imposed automatically by operation of law.

The hearing to consider the Debtors' petitions is scheduled for July 21, 2016. A copy of the Provisional Relief Order can be obtained at <https://ecf.nysb.uscourts.gov>.

## **JUDICIAL REORGANIZATION OF OI RECOGNIZED AS A FOREIGN MAIN PROCEEDING IN ENGLAND AND WALES**

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On June 23, 2016, Oi informed that, on that date, the High Court of Justice of England and Wales granted orders recognizing, in respect of the Company, Telemar Norte Leste S.A. and Oi Móvel S.A. (together, the "Debtors"), the commencement of judicial recovery proceedings (pursuant to Law No. 11,101/05 and the Brazilian Corporations Law) as a foreign main proceeding in accordance with the UNCITRAL Model Law on Cross-Border Insolvency (as set out in Schedule 1 to the Cross-Border Insolvency Regulations 2006 (S.I. 2006 No 1030)) (the "Recognition Orders").

The Recognition Orders provide that the commencement or continuation of proceedings (including any enforcement actions) in England and Wales relating to the Debtors' assets, rights, obligations or liabilities are stayed from June 23, 2016.

## **MANAGEMENT TRANSACTIONS**

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On June 27, 2016, PHAROL informed that it was notified of the following transaction on the regulated market representing PHAROL shares, carried out on June 24, 2016, by the Chairman of the Board of Directors, Mr. Luís Maria Viana Palha da Silva:

DATE	QUANTITY	BUY/SELL	INSIDE	PRICE EUR
24-06-2016	100,000	Buy	Inside	0.085

Luís Maria Viana Palha da Silva is a member of PHAROL's Board of Directors, and therefore he is a Director of PHAROL pursuant to paragraph 3 of article 248-B of the Portuguese Securities Code, thus having the obligation to notify the transaction above.

According to the information received by PHAROL, after these transaction Mr. Luís Maria Viana Palha da Silva held a total of 200,000 PHAROL shares, corresponding to 0.022% of PHAROL's share capital and corresponding voting rights.

### **INSOLVENCY PROCEEDING AGAINST OI BRASIL HOLDINGS COOPERATIEF U.A.**

On June 27, 2016, Oi informed that on this date, Syzygy Capital Management Ltd filed an insolvency proceeding in The Netherlands Court against Oi Brasil Holdings Cooperatief U.A. ("Oi Brasil Holdings"), one of Oi's financial vehicles in The Netherlands, based on the default by Oi Brasil Holdings of bonds that it had issued in the aggregate principal amount of U.S.\$800,000. This aggressive action by a minority holder was not unexpected, and Oi is fully prepared to take all available measures, including in The Netherlands, to protect against such actions and does not expect any impacts to the judicial reorganization process in Brazil.

In accordance with the Notice to the Market dated June 22, 2016, Oi and certain subsidiaries of Oi ("Oi Companies"), including Oi Brasil Holdings, obtained from the Brazilian Court overseeing Oi's judicial reorganization a preliminary decision granting broad protection against creditor actions in connection with the judicial reorganization request. Moreover, courts in the U.K. and the U.S. have also granted recognition and provisional relief protecting certain Oi Companies from creditor action in those jurisdictions.

Notwithstanding this recent action taken in The Netherlands, Oi looks forward to continuing to engage in constructive reorganization discussions with a majority of creditors in connection with the Oi Companies' judicial reorganization proceedings in Brazil. Oi intends to undertake all appropriate efforts in order to secure the protection of the interests of the Oi Companies and all of their stakeholders.

### **GRANT OF PROCESSING OF THE JUDICIAL REORGANIZATION OF OI**

On June 30, 2016, Oi informed that on June 29, 2016, the Judgment of the 7th Corporate Court of the Judicial District of the State Capital of Rio de Janeiro granted the processing of the request for the judicial reorganization of the Company and its direct and indirect wholly owned subsidiaries, Oi Móvel S.A., Telemar Norte Leste S.A., Copart 4 Participações S.A, Copart 5 Participações S.A., Portugal Telecom International Finance B.V. and Oi Brasil Holdings Coöperatief U.A. (the "Oi Companies"), determining, among other measures, in particular:

a) To request that ANATEL present, within five days, up to 5 names of legal entities with competence and expertise on the subject to be evaluated for appointment as trustee;

- b) The ratification of the decision to grant an emergency measure to exempt the Oi Companies from the requirement to present clearance certificates for the exercise of their activities;
- c) The ratification of the decision to grant an emergency measure in regards to the suspension of all lawsuit and execution actions for 180 business days;
- d) the suspension of the effectiveness of clauses inserted in contracts signed by the Oi Companies that cause the termination of such agreements due to the request for judicial reorganization;
- e) permission for the Oi Companies to participate in all forms of bidding processes;
- f) that the Oi Companies add "in judicial reorganization" after their respective business names, pursuant to Law No. 11,101 / 05;
- g) the suspension of publicity surrounding protests and enrollment in the credit protection agencies, with respect to the Oi Companies, for a period of 180 business days;
- h) the presentation by the Oi Companies of monthly statements of accounts throughout the judicial reorganization process, under penalty of dismissal of its officers;
- i) that all Presidencies and General Internal Affairs of Justice of Brazil (Superior, State and Federal Courts), and Internal Affairs of the Regional Courts and Superior Labor Court are officiated, and inform of the suspension of lawsuits, in accordance with the terms described in the decision, and requesting notice from the lower courts, in the sense that: i) the eligibility of loans subject to judicial reorganization shall be formalized in accordance with Law No. 11,101 / 05, not through an Official Letter, but rather by formal request of the creditor itself, as instructed in the appropriate debt clearance certificate, and ii) the ongoing lawsuits, as plaintiffs or defendants, that demand a gross amount, as provided in Art.6, paragraph 1 of Law No. 11,101 / 05, shall continue the judgment in which they are being processed until execution; and the jurisdictional provisions reflecting asset constriction or in connection with a decision to block or pledge gross amounts that involve any kind of asset loss of the applicants or that interferes with the ownership of goods related to their business activity shall also be suspended, with the court processing the judicial reorganization being response for analyzing the specific case; and
- j) the creditors may at any time request the convening of a General Shareholders' Meeting to establish a creditors committee or replace its members, subject to the provisions of Law No. 11,101 / 05.

The Court also ruled that the Oi Companies shall present their recovery plan within 60 business days of publication of the decision, which shall comply with the requirements of Law No. 11,101/05.

#### **QUALIFIED HOLDING – HESTIA INVESTMENTS DAC**

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On July 5, 2016, PHAROL informed that Hestia Investments DAC, held 4.70% of the share capital of PHAROL.

On June 30, Hestia Investments DAC acquired 26,895,375 ordinary shares, representing approximately 3.0% of the share capital of PHAROL. As a result, Hestia Investments DAC now held 42,112,574 ordinary shares, representing 4.7% of the share capital of PHAROL and of the voting rights of PHAROL.

## QUALIFIED HOLDING – NOVO BANCO

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On July 5, 2016, PHAROL informed that NOVO BANCO S.A. ("NOVO BANCO"), now held 9.56% of the share capital of PHAROL.

On June 30, 2016 NOVO BANCO sold 26,895,375 ordinary shares representing approximately 3.0% of the share capital and voting rights of PHAROL, SGPS S.A. in an over-the-counter transaction and at an unit price of EUR 0.17 with financial settlement on July 5, 2016.

As a result of the above-mentioned sale, NOVO BANCO held 85,665,125 ordinary shares, representing approximately 9.56% of the share capital and voting rights of PHAROL.

## MATERIAL FACT DISCLOSURE BY OI - EXTRAORDINARY GENERAL SHAREHOLDERS' MEETING REQUEST

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On July 7, 2016, Oi informed that, on this date, the shareholder Société Mondiale Fundo de Investimento em Ações, represented by its manager Bridge Administradora de Recursos Ltda., shareholder of 6.64% of the Company's capital stock, requested that the Board of Directors convene an Extraordinary General Meeting of the Company within a period of eight days, based on art. 123, sole paragraph, subparagraph c of the Brazilian Corporations Law, to discuss the following matters:

(i) Discuss and assess the Company's current economic-financial position, as well as the challenges to be faced henceforth, contemplating any suggestions from shareholders, to be considered by the Company's management in the process of economic-financial uplift currently underway.

(ii) Decide on the dismissal, in individual polls, of the Board Members listed below:

a) Rafael Luis Mora Funes (member) and João do Passo Vicente Ribeiro (alternate);

b) João Manuel Pisco de Castro (member) and Pedro Guimarães e Melo de Oliveira Guterres (alternate);

c) Luís Maria Viana Palha da Silva (member) and Maria do Rosário Amado Pinto Correia (alternate);

d) André Cardoso de Menezes Navarro (member) and Nuno Rocha dos Santos de Almeida e Vasconcellos (alternate);

e) Pedro Zañartu Gubert Morais Leitão (member without alternate);

(iii) Decide on the dismissal of Board Member Marcos Grodetzky (member without alternate);

(iv) Decide on the election of members and alternate members of the Board of Directors, to replace those removed, and also for the vacant Board of Directors positions, as well as the vacant positions of Directors Sergio Franklin Quintella and Joaquim Dias de Castro, who recently submitted their resignations to the Board, to fulfill their respective remaining terms, in accordance with the provisions of art. 69 of the Company's Bylaws. The Board of Directors is evaluating the Request to convene the Meeting and will express its opinion on the matter within the period specified in the Brazilian Corporations Law.

## **DISCLOSED INFORMATION BY PHAROL REGARDING THE MATERIAL FACT DISCLOSURE BY OI – REQUEST FOR CALL OF GENERAL MEETING OF SHAREHOLDERS**

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Regarding the material fact disclosure by Oi - Request For Call Of General Meeting Of Shareholders, PHAROL informed that has been acting in accordance with the interests of Oi and is of the opinion that the board of directors of the Company has been implementing the necessary actions to protect the assets of Oi and to overcome the economic and financial crisis that the Company is facing. The recent judicial recovery request by Oi is part of this strategy: the search for an organized process of restructuring its debt and the legal protection of all stakeholders of the Company.

PHAROL is persuaded that all members of the board of directors of Oi are compliant and will comply with their fiduciary duties and will act in the best interests of the Company, will resort to the governance measures set out in Oi's by-laws and the voting rights of shareholders, as legally established, in order to proceed with the existing strategy and plans, with the sole purpose of enabling its financial recovery.

In addition, PHAROL expects that the members of the board of directors of Oi remain alert to the possible appearance of investors – on the side of equity or on the side of the creditors – focused on the opportunistic return of their investments and who may act in order to obtain an advantageous negotiating position at the expense of the interests of companies going through financial difficulties. As a consequence, any measures that create unsteadiness, in breach of Oi's by-laws and interests may cause major material damage to Oi and to its image and should therefore be avoided by all shareholders.

## **RESIGNATION OF THE MEMBERS OF THE BOARD OF THE SHAREHOLDERS GENERAL MEETING**

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On July 11, 2016, PHAROL informed that the members of the Board of Shareholders General Meeting of PHAROL have presented the resignation to their positions to the Chairman of the Supervisory Board.

The Chairman of the Shareholders General Meeting, Mr. João Vieira de Almeida, sent his resignation for professional reasons and, following this decision, the Secretary of the Shareholders General Meeting also resigned.

## **MATERIAL FACT DISCLOSED BY OI - CLARIFICATION ON SHAREHOLDER INTEREST**

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On July 15, 2016, Oi informed that on July 14, 2016, the shareholder Société Mondiale Fundo de Investimento em Ações, that on July 7, 2016 required a call for an Extraordinary General Shareholders' Meeting of the Company, based on art. 123, sole paragraph, subparagraph c of the Brazilian Corporations Law and, as disclosed in a Material Fact on that same date, sent to the Company's Board of Directors correspondence with the following content: "SOCIÉTÉ MONDIALE FUNDO DE INVESTIMENTO EM AÇÕES, registered under corporate taxpayers' registry (CNPJ/MF) No. 20.588.268/0001-01, represented by its manager Bridge Administradora de Recursos Ltda., registered under corporate taxpayers' registry No. 11.010.779/0001-42 ("Shareholder"), informs that it extends the deadline to July 22, 2016 call notice for the Extraordinary General Shareholders' Meeting, as required on July 7, 2016. The Shareholder, however,

reserves the right to convene said Meeting directly as allowed by law (Brazilian Corporations Law, art. 123, sole paragraph, subparagraph "c")."

## **OI SHAREHOLDERS' LETTER REGARDING THE REQUIRED EXTRAORDINARY GENERAL SHAREHOLDERS' MEETING CALL**

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On July 15, 2016, Oi, pursuant to Article 12 of CVM Instruction 358/02, informed that it received correspondence from Société Mondiale Investment Fund Shares, with the information that follows below transcribed:

"01. SOCIÉTÉ MONDIALE FUNDO DE INVESTIMENTO EM AÇÕES, registered under corporate taxpayers' registry No. 20.588.268/0001-01 (the "Shareholder"), represented by its manager BRIDGE ADMINISTRADORA DE RECURSOS LTDA., registered under corporate taxpayers' registry No. 11.010.779/001-42, in response to the clarification request dated July 12, 2016 (the "Clarification Request"), hereby, informs the following:

02. The Clarification Request demanded (i) confirmation of the common and preferred shareholdings of shares issued by Oi S.A. ("Oi" or the "Company") held to-date by the Shareholder and (ii) clarification regarding the lack of notice to the Company regarding the change in shareholdings held by the Shareholder within the period between the notice dated June 14, 2016 and the notice of July 7, 2016.

03. Firstly, the Shareholder clarifies that, to-date, it holds 46,820,800 common shares and 7,934,624 preferred shares issued by Oi, representing 7.01% of the Company's common shares and 5.03% of the Company's preferred shares, respectively, representing an aggregate total of 6.63% of the Company's capital stock.

04. On June 14 and July 7, 2016, the Shareholder notified the Company of the acquisition of a relevant shareholding, pursuant to the governing law, and informed that there was no significant change in the shareholdings of the Shareholder between the aforementioned notices.

05. Furthermore, the Shareholder clarifies that the events that occurred after the notice to the market dated June 14, 2016 do not represent, together or in isolation, relevant variations to justify a need for the communication established in Article 12, paragraph 1 of CVM Instruction No. 358.

06. However, if the Company believes there is a need to disclose information on all milestones of share interest, represented by percentages and absolute numbers, the Shareholder will begin to observe the Company's interpretation of the legal rule.

07. Finally, the Shareholder takes this opportunity to clarify that the request to convene the Extraordinary General Meeting, submitted on July 7, 2016, was on an individual basis. The choice for the appointed names to integrate the Company's Board of Directors was made by the Shareholder, without the interference or participation of other Company investors.

08. The Shareholder does not have or represent the common interest of any other shareholder or group of the Company's shareholders, nor has it signed any type of shareholders' agreement, including voting rights agreement, which discusses shareholdings of Oi's capital stock or the decisions to be resolved at the Company's upcoming General Meetings.



09. For the reasons set forth above, the Shareholder hopes to have clarified the points raised by you and is available for any other necessary clarifications.”

## **JUDICIAL REORGANIZATION OF OI RECOGNIZED AS A FOREIGN MAIN PROCEEDING IN THE UNITED STATES**

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On July 21, 2016, Oi, further to the Notice to the Market dated June 22, 2016, informed that the hearing to consider the chapter 15 petitions of the Company, Telemar Norte Leste S.A. - In Judicial Reorganization, Oi Brasil Holdings Coöperatief U.A. - In Judicial Reorganization and Oi Móvel S.A. - In Judicial Reorganization (the "Debtors") was held on that date before United States Bankruptcy Court for the Southern District of New York (the "U.S. Bankruptcy Court"). The Debtors sought recognition of their jointly administered judicial reorganization (recuperação judicial) proceeding presently ongoing in the 7th Corporate Court of the Judicial District of the State of Rio de Janeiro (the "RJ Proceeding") as a "foreign main proceeding," as that term is defined in 11 U.S.C. § 1502(4), with respect to each of the Debtors.

No objections to recognition were made, and the U.S. Bankruptcy Court concluded the hearing by issuing an oral ruling granting recognition of the RJ Proceeding as a foreign main proceeding with respect to each of the Debtors. As a consequence of recognition, a stay under 11 U.S.C. § 362 is imposed automatically by operation of law, extending the provisional stay obtained on June 22, 2016 and barring actions in the United States against the Debtors and their U.S. assets, including actions to terminate or otherwise interfere with the Debtors' U.S. telecom operating contracts.

## **RATIFICATION OF THE REQUEST FOR JUDICIAL REORGANIZATION OF OI**

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On July 22, 2016, Oi in furtherance of the Material Facts dated June 20 and June 30, 2016, informed its shareholders and the market that the Company's shareholders, in an Extraordinary General Shareholders' Meeting held on that date, ratified the request for judicial reorganization of the Company, submitted together with its wholly owned direct and indirect subsidiaries Oi Móvel S.A. - In Judicial Reorganization, Telemar Norte Leste S.A.- In Judicial Reorganization, Copart 4 Participações S.A.- In Judicial Reorganization, Copart 5 Participações S.A.- In Judicial Reorganization, Portugal Telecom International Finance BV - In Judicial Reorganization and Oi Brasil Holdings Coöperatief U.A.- In Judicial Reorganization (together with the Company, the "Oi Companies") as an urgent measure, as approved by the Company's Board of Directors and the relevant corporate bodies of the other Oi Companies on June 20, 2016.

The shareholders also authorized the Company's management to make arrangements and perform all acts necessary in relation to the judicial reorganization of the Oi Companies, as well as ratified all actions taken to date.

## **OI MEETING OF THE BOARD OF DIRECTORS**

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On July 22, 2016, Oi communicated that the Company's Board of Directors met on that date to assess the

requirement for a call of an extraordinary general shareholders' meeting requested by Société Mondiale Fundo de Investimento em Ações.

In light mainly of the Judgment of the 7th Corporate Court of the District of the Capital of the State of Rio de Janeiro (where the Company's judicial reorganization is pending) which granted the request made by the Brazilian National Telecommunications Agency - ANATEL to determine that prior approval from ANATEL is required for, among others, the possible transfer of Oi's corporate control, including the replacement of the Company's Board of Directors, the Board of Directors of Oi believes that, before it resolves upon the possible call of an extraordinary general shareholders' meeting, the 7th Corporate Court of the District of the Capital of the State of Rio de Janeiro should be heard on the timeliness and propriety of the requested call, in order to fully comply with the abovementioned Judgment.

## **NOMINATION OF OI JUDICIAL ADMINISTRATOR**

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On July 25, 2016, Oi informed that, on July 22, 2016, the 7th Corporate Court of the Judicial District of Rio de Janeiro, which is processing the Company's judicial reorganization, nominated PricewaterhouseCoopers Assessoria Empresarial Ltda. and the law firm Arnaldo Wald to exercise the function of the judicial administrator of the Company, Telemar Norte Leste S.A. - In Judicial Reorganization, Oi Móvel S.A. - In Judicial Reorganization, Copart 4 Participações S.A. - In Judicial Reorganization, Copart 5 Participações S.A. - In Judicial Reorganization, Portugal Telecom International Finance BV - In Judicial Reorganization and Oi Brasil Holdings Coöperatief UA - In Judicial Reorganization. A copy of the decision by which the Judge made the nomination is available to shareholders of the Company at its headquarters, on its website ([www.oi.com.br/ri](http://www.oi.com.br/ri)), on the Brazilian Securities Commission's IPE System Empresas.Net ([www.cvm.gov.br](http://www.cvm.gov.br)), as well as on the website of the BM&FBovespa ([www.bmfbovespa.com.br](http://www.bmfbovespa.com.br)). A copy of the translated decision will also be sent, as soon as possible, to the U.S. Securities and Exchange Commission on a Form 6-K.

## **CHANGES ON THE COMPOSITION OF THE BOARD OF DIRECTORS**

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On July 25, 2016, PHAROL announced that Francisco Ravara Cary resigned, on that date, from the respective office as non-executive member of PHAROL's Board of Directors.

The Board of Directors has approved to appoint by co-optation, as member of the Board of Directors, to complete the current term of office (2015-2017), José Manuel Melo da Silva, to replace Francisco Ravara Cary. Such co-optation will be submitted to ratification at the next General Meeting of Shareholders of PHAROL.

## **OFFICIAL LETTER FROM ANATEL TO OI REGARDING "CORPORATE CHANGES"**

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On July 28, 2016, Oi informed that it gained access to Official Letter No. 324/2016/SEI/CPOE/SCP-ANATEL ("Official Letter") of the National Telecommunications Agency (Agência Nacional de Telecomunicações - ANATEL), titled "Corporate Changes - need to observe applicable regulations," with the following text:

"1. We make reference to the correspondence filed with Anatel's Electronic Information System (Sistema Eletrônico de Informações - SEI) No. 0679542, for the proceeding referenced above, in which Société Mondiale Fundo de Investimento em Ações, represented by its manager Bridge Administradora de Recursos Ltda., in its capacity as shareholder of Oi S.A., requested that this National Telecommunications Agency provide additional clarifications on its position expressed in Official Letter No. 320/2016/SEI/CPOE/SCP-ANATEL, dated July 18, 2016, SEI No. 0663608.

2. First, we reiterate the need for compliance with the provisions of the Rules of Assessment and Transfer of Control in Telecommunications Service Providers, approved by Resolution No. 101, dated February 4, 1999, especially with respect to the submission of the request for prior consent for an analysis of a transfer of corporate control.

3. In this context, it must be clarified, once again, that the aforementioned rule, and even the current regulatory framework, does not establish any prohibition with respect to the call for, occurrence of, and participation in the elective process for selecting members of the decision-making bodies of telecommunications service providers. As such, the exercise of political rights by any new controlling shareholders of Oi S.A. and its subsidiaries or affiliated providers, especially voting rights and veto power over the decisions of the Board of Directors, Management or similar organs, shall be conditioned on the agency's acknowledgement through the relevant procedure for prior consent.

4. In other words, the corporate acts necessary to the elective process at issue, governed by the Brazilian Corporations Law, can be performed up until the new members take office without the need for prior acknowledgement by this Agency. However, after taking office, the new members of the Boards of Directors, Management or similar bodies, elected by the potential new controlling shareholders of the Oi Group, shall excuse themselves from their duties pending the effective acknowledgement of the Agency pursuant to the Rules approved by Resolution No. 101 of 1999."

## **MATERIAL FACT DISCLOSED BY OI - REQUEST FOR EXTRAORDINARY GENERAL SHAREHOLDERS' MEETING**

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On August 1, 2016, Oi communicated that, on July 29, 2016 at 6.57 p.m., shareholder Société Mondiale Fundo de Investimento em Ações, represented by its manager Bridge Administradora de Recursos Ltda., holder of 6.32% of the Company's capital stock, sent an e-mail requesting, on the basis of line "c" of the sole paragraph of Art. 123 of the Brazilian Corporation Law, that the Board of Directors call an Extraordinary General Shareholders' Meeting of the Company, within 8 days, to decide on the following matters:

(i) Annulment of the Extraordinary General Meeting of March 26, 2015. Decide on the annulment of Oi's extraordinary general shareholders' meeting that took place on March 26, 2015, in which the terms and conditions of the Exchange Agreement and the Call Option Agreement, both concluded between the Company, Portugal Telecom SGPS S.A. (currently PHAROL SGPS S.A. - "PHAROL") and others (the "Agreements"), were approved;

(ii) Liability lawsuit for illicit acts conducted against the Company. Decide on the filing of a lawsuit and demand for arbitration against PHAROL, the principal shareholders of PHAROL that may have participated in injurious acts towards Oi, and its wholly owned subsidiary, Bratel B.V. ("Bratel"), for the reparation of all

the damage caused to the Company due to the illicit acts perpetrated by PHAROL during the payment of the shares subscribed under the Public Offering closed on May 6, 2014 ("Public Offering"), notably due to the transfer of overvalued and/or unsubstantiated assets in this payment of capital, as well as, if necessary, request the cancellation of the Agreements;

(iii) Liability lawsuit against the appraiser of the assets contributed to capital. Decide upon the filing of a lawsuit and possible correlated measures against Banco Santander (Brasil) S.A. ("Santander") for having contributed, significantly and decisively, through action or inaction, to the damage suffered by Oi during the subscription by PHAROL of the shares issued during the Public Offering, by preparing an incorrect appraisal report on the economic reality of the assets contributed to the capital of the Company;

(iv) Lawsuit against the current and former management of Oi. To decide upon the filing of a lawsuit, with a basis in Art. 159 of the Brazilian Corporation Law and other applicable legal devices, whether judicial or arbitral, against, at least, without prejudice to other current or former members of the management that may be identified in the future: (a) Zeinal Abedin Mahomed Bava; (b) Shakhaf Wine; (c) Henrique Manuel Fusco Granadeiro; (d) Nuno Rocha dos Santos de Almeida e Vasconcellos; (e) Rafael Luis Mora Funes; (f) Luis Maria Viana Palha da Silva; (g) João Manuel Pisco de Castro; (h) Pedro Zañartu Gubert Moraes Leitão; (i) Francisco Ravara Cary; (j) Jorge Telmo Maria Freire Cardoso, due to the contribution, by commission or omission of each one to the consummation of damages caused to Oi, due to the subscription by PHAROL of shares issued in the Public Offering with unsubstantiated assets, adopting all the means necessary for the success of this lawsuit, including the possible claims for the annulment of general shareholders' meetings.

(v) To decide upon the authorization for the management of Oi to adopt measures necessary for the implementation of what is to be decided in relation to items "i" through "iv," above, including the hiring of an independent top-tier auditor and other service providers to quantify accurately the damage suffered by the Company, and to identify any other stakeholders (management, former management and service providers in general) responsible for the commission of fraud against the Company.

## **OI MEETING OF THE BOARD OF DIRECTORS**

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On August 3, 2016, Oi communicated that the Company's Board of Directors met on this date to assess the new request for a call of an extraordinary general shareholders' meeting sent by Société Mondiale Fundo de Investimento em Ações, as disclosed in the Material Fact dated August 1, 2016. In assessing this request, the Board of Directors considered the following:

(i) there are doubts of legal nature regarding the authority of the general shareholders' meeting to decide upon certain matters in the request; and

(ii) with respect to any action for liability against its management, since it would imply a potential change of the Board of Directors, such matter would produce the same effects as those contained in the request to call a shareholders' meeting previously submitted by the same shareholder, which request is the subject of a consultation with the 7th Corporate Court of the District of the Capital of the State of Rio de Janeiro, where the Company's judicial reorganization is pending.

Regarding the possible lawsuit against its management, the Company's Board of Directors reiterates its view that, before it resolves upon the possible call of an extraordinary general shareholders' meeting, the 7th Corporate Court of the District of the Capital of the State of Rio de Janeiro should be heard on the timeliness and propriety of the requested call, in order to fully comply with the Court's decision mentioned in the Notice to the Market disclosed by the Company on July 22, 2016. With respect to the other items proposed in the request for the call of the meeting, in order to be able to assess the legality of such matters and resolve on the call in due course, the Board of Directors authorized the management to request a legal opinion of a legal professional with notable expertise in the matter.

## **SUSPENSION OF PAYMENTS - OI BRASIL HOLDINGS COÖPERATIEF U.A.**

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On August 9, 2016, Oi informed its shareholders and the market in general that, on that date, the Court of Amsterdam granted the request of Oi Brasil Holdings Coöperatief U.A. - Under Judicial Reorganization ("Oi Brasil Holdings"), one of the Company's financial vehicles in the Netherlands, for a suspension of payments proceeding, initiated in order to ensure compatibility in that jurisdiction with the Oi Companies' judicial reorganization proceeding in Brazil. Among other matters addressed, a judicial administrator was nominated to oversee Oi Brasil Holdings' suspension of payments in the Netherlands.

## **PRESS RELEASE**

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On August 10, 2016, PHAROL regarding the notices published on Tuesday (09.08.2016) by a shareholder of Oi, PHAROL, SGPS SA ("PHAROL") stated that:

The Board of Directors of Oi was legitimately elected in September 2015 with over 80% of votes until the approval of 2017 financial statements as article 69 of the Oi's bylaws.

On 22.07.2016, Oi's extraordinary general meeting was held in which there was the ratification by more than 80% of the votes of all acts taken by the management to date, including the Request For Judicial Reorganization. Within the meeting, Societe Mondiale voted in favor.

The judge of the Judicial Reorganization already issued a decision determining that any change of control or board members depends on prior approval, which was not subject to any appeal.

The requests for meeting from Societe Mondiale are under evaluation of the Judge of the 7th Corporate Court of the Judicial District of Rio de Janeiro. This Court is responsible for the the Judicial Reorganization of the Company by the request of the Board of Directors of Oi. Was determined the prior approval of the Public Prosecutor and the Judicial Administrator. Even so, Societe Mondiale promoted the publication of notices disrespecting the decisions already handed down, and PHAROL already expressed in the official records of the Judicial Reorganization process.

The requests for meeting for the purpose of deliberating on matters that are under consideration of the Judiciary is a clear attempt to disrupt the process underway.

The recent proliferation of legal and administrative maneuvers promoted by a specific group of shareholders, is bringing instability to the company during its recovery plan.

As Oi is PHAROL's largest investment, PHAROL is completely committed to the success of the rehabilitation proceedings of Oi. There may be other shareholders at Oi, but none of them have a greater desire for the recovery of the Company than PHAROL.

#### **CALL FOR A OI GENERAL SHAREHOLDERS' MEETINGS**

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On August 10, 2016, Oi informed in light of the questions received by the Company with respect to the publications of call notices for Extraordinary General Shareholders' Meetings of the Company, to be held on September 8, 2016 ("Meetings"), put forth by shareholder Société Mondiale Fundo de Investimento em Ações, pursuant to Art. 123, sole paragraph, line "c" of Law No. 6,404/76, that the possibility of calling a general meeting to resolve upon matters that result in the possible replacement of board members is subject to prior judicial authorization, in accordance with the findings of the Judgment of the 7th Corporate Court of the Judicial District of the State of Rio de Janeiro dated July 14, July 26, July 28 and August 3, 2016, as stated in the Notices to the Market dated July 22 and August 3, 2016.

#### **EXTRAORDINARY GENERAL MEETINGS OF OI**

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On August 10, Oi informed that the material on the extraordinary general meetings and the information contained therein were supplied by the shareholder Société Mondiale Investment Fund Shares, through its Bridge management Administradora de Recursos Ltda., and that, pursuant to CVM Instruction 481/09, such shareholder is liable to the CVM for the information provided by the Company. The Company points out that it is not responsible for the accuracy, completeness or consistency of such information, nor corroborates the terms of the Assembly convened.

## **QUALIFIED HOLDING – HESTIA INVESTMENTS DAC**

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On August 11, 2016, PHAROL informed that Hestia Investments DAC, held 5.01% of the share capital of PHAROL and of the voting rights of PHAROL since August 11, corresponding to 44,884,411 ordinary shares.

## **NOMINATION OF MEMBERS FOR THE BOARD OF DIRECTOR OF OI**

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On August 12, 2016, Oi informed that the Company's Board of Directors, in a meeting held on that date, unanimously nominated Messrs. Marcos Duarte Santos and Ricardo Reisen de Pinho to fill the vacancies of members of the Board of Directors for the remainder of their respective terms until the 2018 Ordinary General Shareholders' Meeting. Both are considered to be Independent Members under the terms of Novo Mercado Listing Regulation adopted by the Company's Bylaws.

## **MATERIAL FACT DISCLOSED BY OI - SUSPENSION OF THE EXTRAORDINARY GENERAL SHAREHOLDERS' MEETINGS OF SEPTEMBER 8, 2016**

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On September 2, 2016, Oi ("Company") pursuant to Article 157, paragraph 4 of Law 6,404/76 ("Brazilian Corporations Law"), informed that, on that date, the 7th Corporate Court of the Judicial District of the City and State of Rio de Janeiro, where the Oi Companies' judicial reorganization proceedings are pending, accepted the opinion of the Public Prosecutor of the State of Rio de Janeiro and suspended the Extraordinary General Shareholders' Meetings called to resolve upon the dismissal of members of the Board of Directors, as well as the adoption of measures to commence a lawsuit against certain managers of the Company, which were called by the shareholder Société Mondiale Fundo de Investimento em Ações to be held on September 8, 2016. Due to existing disputes between shareholders of the Company, the Court also determined that the involved parties should carry out a mediation proceeding to be concluded within 20 days, with the shareholders entitled to extend such deadline.

As a result of this decision, the Company informed its shareholders that the Meetings would no longer be held on September 8, 2016 and would only take place subject to a future decision by the Court.

The full decision by which the Court suspended the Meetings and the full opinion of the Public Prosecutor of the State of Rio de Janeiro are available to the Company's shareholders at the Company's headquarters, on its website ([www.oi.com.br/ri](http://www.oi.com.br/ri)), as well as on IPE Module of the CVM's Sistema Empresas.NET ([www.cvm.gov.br](http://www.cvm.gov.br)) and the BM&FBovespa website ([www.bmfbovespa.com.br](http://www.bmfbovespa.com.br)). A copy of the above mentioned judicial decision and opinion, translated to English, was also filed with the U.S. Securities and Exchange Commission on Form 6-K as soon as possible.

## **PRESENTATION OF THE OI'S JUDICIAL REORGANIZATION PLAN**

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On September 5, 2016, Oi ("Company"), in accordance with Article 157, paragraph 4 of Law No. 6,404/76 ("LSA"), informed that, in a meeting held on that date, the Company's Board of Directors approved the

terms and conditions of the Oi Companies' joint judicial reorganization plan, as well as the presentation of such plan in the Oi Companies' judicial organization proceeding, underway in the 7th Corporate Court of the Judicial District of the State Capital of Rio de Janeiro ("Judicial Reorganization Plan").

The Judicial Reorganization Plan establishes the terms and conditions proposed for the principal measures that may be adopted, with the goal of overcoming the Oi Companies' current financial and economic situation and ensuring their ongoing continuity, including measures for (i) the restructuring and equalization of its liabilities; (ii) the exploration and adoption of measures during the judicial reorganization aimed at obtaining new financial resources and (iii) the possible sale of fixed assets.

The Judicial Reorganization Plan is available to the Company's shareholders at the Company's headquarters and on its website ([www.oi.com.br/ri](http://www.oi.com.br/ri)). A copy of this material was also made available on the Empresas.NET System of the Brazilian Securities and Exchange Commission (Comissão de Valores Mobiliários – CVM), as well as the website of BM&FBovespa ([www.bmfbovespa.com.br](http://www.bmfbovespa.com.br)). A translated copy of the material presented to the CVM was also sent as soon as possible to the U.S. Securities and Exchange Commission on Form 6-K.

#### **MATERIAL FACT DISCLOSED BY OI - ACCEPTANCE OF URGENT MEASURES IN ARBITRATION PROCEEDING**

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On September 6, 2016, Oi ("Company"), in accordance with Article 157, paragraph 4 of Law No. 6,404/76 ("LSA"), informed that, at the end of the day before, it was informed that, in an arbitration proceeding commenced by its shareholder Société Mondiale Fundo de Investimento em Ações ("Société Mondiale"), against the shareholder Bratel B.V. ("Bratel") and the Market Arbitration Chamber (Câmara de Arbitragem do Mercado, "CAM"), the Supporting Arbitrator appointed by CAM decided to partially grant the request for urgent measures presented by Société Mondiale ("Decision") and decided to :

- Recognize arbitral jurisdiction and the Supporting Arbitrator's power to resolve the corporate disputes existing within the Company with the respect to the call and holding of the Extraordinary General Shareholders' Meetings called for September 8, 2016 by shareholder Société Mondiale;
- Overrule the request for urgent measure consisting of the "determination that the Company and Bratel, by themselves or through third parties, affiliates, parent companies and subsidiaries, refrain from practicing acts seeking to frustrate or vacate CAM's power – such as requesting from Courts that are not part of the Arbitral Panel (especially the Court where the Oi's judicial reorganization proceeding is underway) the adoption of acts or the issuance of statements concerning the call and/or the holding of the Extraordinary General Shareholders' Meetings of September 8, 2016";
- Determine that the Company and Bratel, by themselves or through third parties, affiliates, parent companies and subsidiaries, refrain from performing extrajudicial acts seeking to disturb, impede or in any way frustrate the holding of the Extraordinary General Shareholders' Meetings called for September 8, 2016; and
- Suspend the effectiveness of the Company's Board of Directors' deliberation, dated August 12, 2016, with respect to setting the term of the nominated members of the Board of Directors to carry out the



remainder of the terms at that time, so that the fixed term set as “in term of office until the Annual General Shareholders’ Meeting of 2018” is read as “to serve until the next General Shareholders’ Meeting”.

#### **MATERIAL FACT DISCLOSED BY OI - JUDICIAL DECISION - SUSPENSION OF THE SEPTEMBER 8, 2016 EXTRAORDINARY GENERAL SHAREHOLDERS’**

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On September 6, 2016, Oi (“Company”) informed that, pursuant to Article 157, paragraph 4 of Law No. 6,404/76 (“LSA”) and in continuity with the information disclosed by the Company that morning in a Material Fact, it was informed that the Second Section of the Superior Court of Justice denied the preliminary injunction with respect to conflict of jurisdiction requested by shareholder Société Mondiale Fundo de Investimento em Ações, calling for an urgent decision by the lower court demanding the disclosure of information about the underlying proceedings and requesting that the Federal Prosecutor issue an opinion regarding conflict.

As a result of this decision, the Company informed its shareholders that the Meetings called for September 8, 2016 were suspended and would only take place pending further instruction from the judiciary.

#### **JUDICIAL DECISION ABOUT OI - SUSPENSION OF THE SHAREHOLDERS’ MEETINGS**

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On September 8, 2016, Oi (“Company”) informed that, in continuity with the Material Facts disclosed on September 2, 5 and 6, 2016 regarding the Extraordinary General Shareholders’ Meetings called for September 8, 2016 (the “Meetings”), on that date, the 7th Corporate Court of the Judicial District of the City and State of Rio de Janeiro granted the Motion for Clarification of Judgment filed by Bratel B.V., on the following terms: “That being said, I receive the Motion, which is timely, and grant the request to remedy the omission in the operative part of the decision in question, which will read as follows: ‘a) to suspend, as a precautionary measure, in accordance with the opinion, the call of the Extraordinary General Shareholders’ Meetings to resolve upon the dismissal of members of the Board of Directors, as well as the adoption of measures to commence a lawsuit against certain managers of the company.

Therefore, the Company reiterated the suspension of the Meetings called to be held on September 8, 2016 and that they would only take place subject to a future decision by the Court.

#### **RESIGNATION OF OI’S BOARD MEMBER**

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On September 12, 2016, Oi (“Company”) informed that, pursuant to article 157, paragraph 4, of Law no. 6,404/1976 and in accordance with CVM Instruction no. 358/2002, Mr. Marcos Grodetzky presented his resignation as member of the Board of Directors of the Company on September 9, 2016.

#### **MATERIAL FACT DISCLOSED BY OI - RESIGNATION OF CHIEF FINANCIAL OFFICER AND INVESTOR RELATIONS OFFICER**

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On September 12, 2016, Oi ("Company") informed that, pursuant to Article 157, paragraph 4, of Law No. 6,404/1976 and in accordance with CVM Instruction No. 358/2002, Mr. Flavio Nicolay Guimarães presented his resignation as Chief Financial Officer and Investor Relations Officer on this date.

The Board of Directors, on this date, elected Mr. Ricardo Malavazi Martins, who resigned from his position as member of the Board of Directors of the Company, for the position of Chief Financial Officer and Investor Relations Officer to replace Mr. Flavio Nicolay Guimarães.

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#### **CONCLUSION OF AN AGREEMENT BETWEEN BRATEL AND SOCIÉTÉ MONDIALE**

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On September 13, 2016, PHAROL, SGPS S.A. informed that Bratel BV ("Bratel"), its wholly owned subsidiary, concluded an agreement with Société Mondiale Fundo de Investimento em Ações ("Société Mondiale") about the requirement of Oi's extraordinary general shareholders' meeting to September 8, 2016.

As a result of this agreement, all the judicial claims related to these meetings are extinguished.

Société Mondiale is also requesting to the Chairman of the Board of Oi the cancellation of the general meetings.

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#### **MATERIAL FACT - U.S. SECURITIES AND EXCHANGE COMMISSION ISSUES SETTLED CEASE-AND-DESIST ORDER AGAINST PHAROL, SGPS S.A.**

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On September 13, 2016, PHAROL informed that the US Securities and Exchange Commission ("SEC") issued a Settled Order ("Order") against PHAROL, SGPS S.A. ("PHAROL" or the "Company"), pursuant to which the Company agreed to cease and desist from committing or causing any violations and any future violations of Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Rules 12-b20, 13a-1, and 13a-16, thereunder, and pay a civil money penalty in the amount of \$1,250,000 to the SEC for transfer to the United States Treasury. The Company entered into the settlement without admitting or denying (except for jurisdiction) the SEC's findings in the Order.

The Order arose out of disclosures made by the Company, at the time Portugal Telecom, SGPS, S.A. ("Portugal Telecom") regarding the investments in debt instruments issued by entities of Portuguese conglomerate Grupo Espírito Santo ("GES"), such as investments in debt instruments issued by Espírito Santo International, S.A. ("ESI").

According to the SEC's allegations, in its 2013 financial statements, Portugal Telecom (now PHAROL) misrepresented the nature of its short-term investment in ESI commercial paper and failed to disclose the nature and extent of the credit risk to which it was exposed. In addition, the SEC found that the Company's internal accounting controls were insufficient.

More specifically, the SEC alleged that, in the 2013 financial statements, Portugal Telecom (a) mischaracterized the short-term investment in ESI commercial paper and failed to identify the issuer of the debt securities and (b) failed to disclose the nature and extent of the credit risk to which it was exposed and

to accurately disclose its objectives, policies, and processes for managing its exposure to credit risks arising from financial instruments, as required by IFRS No. 7.

The SEC further alleged that the Company did not disclose that €750 million was invested in commercial paper issued by ESI, a non-financial holding company. Furthermore, Portugal Telecom failed to implement controls and procedures to ensure compliance with its credit risk management policy, with investments being made informally, without evidence concerning who made the investment decisions or who authorized the investments or with supporting documents lacking relevant information, among other internal controls violations.

As a consequence of the above, the SEC found that Portugal Telecom violated the reporting, books-and-records, and internal controls provision of the Federal securities laws. The SEC's entry of the Order concludes this matter.

Portugal Telecom's 2013 consolidated financial statements, were filed with the SEC on Form 6-K on March 12, 2014 and also included in Portugal Telecom's 2013 annual report filed with the SEC on Form 20-F on April 30, 2014.

On August 25, 2014, in a Form 6-K, Portugal Telecom made supplemental and clarifying disclosures to its December 31, 2013 financial statements. Among other matters, Portugal Telecom disclosed that, as of December 31, 2013, its short-term investments included commercial paper in the total amount of €750 million issued by ESI, an unrated, non-financial GES holding company. Portugal Telecom also disclosed that the ESI investment represented 82% of its short-term investments at December 31, 2013. Portugal Telecom additionally disclosed the concentration of its cash deposits with BES and further that it had not implemented an effective investment diversification policy at December 31, 2013.

#### **MATERIAL FACT DISCLOSED BY OI - TRANSACTION BETWEEN BRATEL AND SOCIÉTÉ MONDIALE**

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On September 13, 2016, Oi ("Company") informed that, pursuant to Article 157, paragraph 4 of Law No. 6,404/76 and in accordance with CVM Instruction No. 358/02, on this date, the shareholders Bratel B.V. ("Bratel") and Société Mondiale Fundo de Investimento em Ações ("Société Mondiale") announced the execution of an agreement amongst themselves regarding the call and occurrence of the Company's extraordinary general shareholders' meetings to be held on September 8, 2016 (the "Meetings"). The Company was informed that, as a result of this transaction, all claims relating to such Meetings have been extinguished.

Also as a result of this transaction, Société Mondiale stated that, on that date, it would request that the Chairman of the Company's Board of Directors cancel the Meetings.

## **MATERIAL FACT DISCLOSED BY OI - NOMINATION OF NEW MEMBERS FOR THE BOARD OF DIRECTORS**

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On September 14, 2016, Oi ("Company") informed that, pursuant to Article 157, paragraph 4, of Law No. 6,404/76 (the "Brazilian Corporation Law") and CVM Instruction No. 358/02, in conformity with Article 150 of the Brazilian Corporation Law, the Board of Directors of the Company, in a meeting authorized by the 7th Corporate Court of the Judicial District of the State Capital of Rio de Janeiro, held on this date, nominated the following individuals to hold the vacant positions for members and alternate members of the Board of Directors: as members, Messrs. Demian Fiocca and Hélio Calixto da Costa; and as alternate members, Messrs. Pedro Grossi Junior, Nelson de Queiroz Sequeiros Tanure, Blener Braga Cardoso Mayhew, Luís Manuel da Costa de Sousa de Macedo, Nelson Sequeiros Rodriguez Tanure and José Manuel Melo da Silva. As a result of these nominations, Oi's Board of Directors had the following composition:

<b>Member</b>	<b>Alternate Member</b>
José Mauro M. Carneiro da Cunha [Chairman]	--
Ricardo Reisen de Pinho	Pedro Grossi Junior
Marcos Duarte Santos	Nelson de Queiroz Sequeiros Tanure
Demian Fiocca	Blener Braga Cardoso Mayhew
Thomas C. Azevedo Reichenheim	Sergio Bernstein
Rafael Luís Mora Funes	João do Passo Vicente Ribeiro
João Manuel Pisco de Castro	Luís Manuel da Costa de Sousa de Macedo
Luís Maria Viana Palha da Silva	Maria do Rosário A. Pinto Correia
André Cardoso de Menezes Navarro	Nuno Rocha dos Santos de Almeida e Vasconcellos
Hélio Calixto da Costa	Nelson Sequeiros Rodriguez Tanure
Pedro Zañartu Gubert Morais Leitão	José Manuel Melo da Silva

The nomination of such members would be submitted to the shareholders for ratification in the first general shareholders' meeting that may be timely called, pursuant to the Brazilian Corporation Law.

The Company clarifies, furthermore, that it would submit to the National Telecommunications Agency (Agência Nacional de Telecomunicações – ANATEL) a request for prior approval for the nomination of the new members of the Board of Directors, pursuant to the Regulation for the Assessment and Transfer of Control in Telecommunications Service Providers, approved by Resolution No. 101/99.

## **APPROVAL OF THE AGREEMENT BETWEEN THE SOCIÉTÉ MONDIALE AND BRATEL**

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On September 20, 2016, PHAROL, informed that, with the concurrence of the Brazilian public prosecutor, the judge of the 7th Corporate Court of the Judicial District of Rio de Janeiro approved the agreement signed between Société Mondiale Fundo de Investimento em Ações ("Société Mondiale") and Bratel BV ("Bratel"), a PHAROL's wholly owned subsidiary, through which were extinguished all legal proceedings relating to the call of extraordinary general meetings for the day 08/09/2016, under the Oi SA - in judicial reorganization ("Oi").

## **UPDATED LIST OF CREDITORS OF OI**

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On September 21, 2016, Oi (“Company”) informed that the complete and updated list of creditors of the Oi Companies would be available from this date to its shareholders and the market in general and to the Oi Companies’ creditors on the website of the judicial reorganization of Oi Companies, which can be accessed through the <http://www.recjud.com.br> address and on the website of the Court of the judicial District of Rio de Janeiro, with access to the public at the website <http://www.tjrj.jus.br/consultas/relacao-nominal-de-credores/7-vara-emp>.

## **SUSPENSION OF PAYMENTS – PTIF B.V.**

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On October 3, 2016, Oi (“Company”) informed that, on this date, the District Court of Amsterdam, The Netherlands, granted the request of Portugal Telecom International Finance B.V. – In Judicial Reorganization (“PTIF”), one of the Company’s financial vehicles in The Netherlands, for the commencement of suspension of payment proceedings, initiated in order to ensure compatibility in that jurisdiction with the judicial reorganization initiated by the Company and certain of its subsidiaries (including PTIF) in Brazil. The (provisionally) granted suspension of payment proceedings provide PTIF with a stay against creditor action in The Netherlands to allow it to restructure its debts with the ultimate aim of satisfying its creditors. Among other matters addressed by the order of the District Court of Amsterdam, Mr. J.L.M. Groenewegen of CMS in Amsterdam was appointed as administrator to oversee PTIF’s (provisionally) granted suspension of payment proceedings in The Netherlands and the interests of PTIF’s creditors in cooperation with PTIF’s managing board.

All material documents relating to the commencement of the suspension of payment proceedings with respect to PTIF are being translated into Portuguese and English and will be made available to the Company’s shareholders and other interested parties as soon as possible at the Company’s headquarters (during normal business hours) and on its website ([www.oi.com.br/ri](http://www.oi.com.br/ri)). The Portuguese versions of the documents will also be available on the CVM’s IPE System Module Empresas.NET ([www.cvm.gov.br](http://www.cvm.gov.br)) and the BM&FBovespa website ([www.bmfbovespa.com.br](http://www.bmfbovespa.com.br)). PTIF’s administrator will publish the documents and their translations, and going forward other relevant information for PTIF’s creditors on a dedicated website at [www.cms-dsb.com/ptif](http://www.cms-dsb.com/ptif).

## **RESIGNATION OF DIRECTOR**

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On October 21, 2016, pursuant to the terms of subparagraph a) of article 3 of the Portuguese Securities Commission Regulation no. 5/2008 and article 248 of the Portuguese Securities Code, PHAROL, SGPS S.A. (“PHAROL”) announced that Ricardo Malavazi Martins has resigned, on October 21, 2016, from the respective office as non-executive member of PHAROL’s Board of Directors.

## **MATERIAL FACT DISCLOSED BY OI - ADOPTION OF AN INJUNCTION BY ANATEL**

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On November 8, 2016, Oi S.A. (“Company”), pursuant to Article 157, paragraph 4, of Law No. 6.404/76

("Brazilian Corporation Law") and the terms of CVM Instruction No. 358/02, informed that, on that date, the National Telecommunications Agency (Agência Nacional de Telecomunicações – ANATEL) decided, in Decision Order No. 17/2016/SEI/CPOE/SCP, among other matters:

(i) To suspend, in the deliberations of the Company and its subsidiaries and affiliated companies, the exercise of voting and veto rights by the new members of the Company's Board of Directors appointed by the shareholder Société Mondiale Fundo de Investimento em Ações ("Société") in the resolutions of the Board of Directors, Management or equivalent corporate bodies;

(ii) To prohibit the participation of members of the Company's Board of Directors appointed by Société in the Board of Directors or Management of the Company and its subsidiaries and affiliates;

(iii) To prohibit the participation of Société's representatives in the management or in the operation of the Company and its subsidiaries and affiliates;

(iv) To order the Company to notify the Superintendence of Competition, on the date the meeting of the Board of Directors is convened, so that such Superintendence may, upon request, send a representative to attend the meeting;

(v) To order the Company to send a copy of the minutes of the meetings of the Board of Directors to the Superintendence of Competition, within a period of up to 2 business days after the minutes are signed;

(vi) To order the Company, in the event of violation of the instructions granted, to pay a fine in the amount of R\$50,000,000.00 for each meeting of the Company's Board of Directors, Management or equivalent corporate bodies, in which the exercise of corporate rights by the members of the Company's Board of Directors appointed by Société or by participation in the management or operation of the Company is verified, without prejudice to other applicable sanctions.

#### **HIRING OF FINANCIAL ADVISOR BY OI**

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On November 21, 2016, Oi S.A. ("Company") communicated that it had hired LAPLACE Finanças as its financial advisor to assist in the judicial reorganization process of the Company and its subsidiaries Telemar Norte Leste S.A. – In Judicial Reorganization, Oi Móvel S.A. – In Judicial Reorganization, Copart 4 Participações S.A. – In Judicial Reorganization, Copart 5 Participações S.A. – In Judicial Reorganization, Portugal Telecom International Finance B.V. – In Judicial Reorganization and Oi Brasil Holdings Coöperatief U.A. – In Judicial Reorganization.

#### **QUALIFIED HOLDING – HESTIA INVESTMENTS DAC**

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On November 22, 2016, PHAROL informed that Hestia Investments Designated Activity Company now holds 4.85% of the share capital of PHAROL. This statement is pursuant to the terms and for the purposes of articles 16 of the Portuguese Securities Code and 2 of the Portuguese Securities Commission Regulation no. 5/2008, following a communication received from Hestia Investments Designated Activity Company, on November 22, attached hereto.

## **QUALIFIED HOLDING – HIGH SEAS CAPITAL INVESTMENTS, LLC**

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On November 23, 2016, PHAROL informed that High Seas Capital Investments, LLC, on that date held 2.04% of the share capital of PHAROL.

This situations occurred after the acquisition of 18.300.00 ordinary shares, representatives of 2.04% of share capital of PHAROL, on October, 28.

## **UPDATES CONCERNING THE JUDICIAL REORGANIZATION OI S.A**

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On November 29, 2016, Oi provided its shareholders and the market with information regarding the judicial reorganization of the Oi Companies. Oi was informed by the Dutch judicial administrators that they may apply for a conversion of the suspension of payment proceedings of its subsidiaries Oi Brasil Holdings Coöperatief UA – In Judicial Reorganization (“Oi Brasil Holdings”) and Portugal Telecom International Finance B.V. – In Judicial Reorganization (“PTIF”), Oi’s financial vehicles in the Netherlands, into bankruptcy proceedings. The Company believed that, should such conversion occur, it would not harm the Company’s cash reserves or operating activities and that such conversion would be restricted to Dutch jurisdiction and law. Oi anticipated that this will not result in significant impacts in the judicial reorganization and the day-to-day operations of the Company in Brazil, where Oi will take the necessary measures to keep its assets protected. The Company further informs that it participated in a mediation hearing with the National Telecommunications Agency (Agência Nacional de Telecomunicações – Anatel) with the objective of reaching a consensual solution for the debts in which Anatel is a creditor of the Company. Finally, the Company informed that it presented to the Court in which the judicial reorganization is underway a proposal for the use of mediation in order to settle the credits of up to R\$50 thousand, which encompasses a universe of approximately 58,000 creditors with debt claims of up such amount. Such proposal could result in a disbursement of up to R\$783 million by the Company.

All of these factors clearly indicate that Oi remains engaged in the search for consensus for the approval of a judicial reorganization plan that ensures the sustainability, having conversations with creditors been initiated in order to discuss possible amendments to the proposed terms of the Company’s judicial reorganization plan.

## **UPDATES CONCERNING THE JUDICIAL REORGANIZATION**

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On December 1, 2016, Oi informed about the following, in continuity with and in addition to the information in the Notice to the Market disclosed by the Company on November 29, 2016, which contained information about, among other matters, the possible requests for conversion of the suspension of payments proceedings involving Oi’s subsidiaries in the Netherlands into Dutch bankruptcy proceedings.

On that date, the judicial administrators appointed to supervise the suspension of payments proceedings of Oi’s subsidiaries Oi Brasil Holdings Coöperatief UA – In Judicial Reorganization (“Oi Brasil Holdings”) and

Portugal Telecom International Finance B.V. – In Judicial Reorganization (“PTIF”), Oi’s financial vehicles in the Netherlands, filed with the District Court of Amsterdam, The Netherlands requests for the conversion of the suspension of payments proceedings into Dutch bankruptcy proceedings against Oi Brasil Holdings and PTIF. On this date, the District Court of Amsterdam, The Netherlands ordered that a hearing in relation to the requests for conversion of the suspension of payments process for each of Oi Brasil Holdings and PTIF will be held on January 12, 2017 at 13:30 (CET).

Oi reiterated that the possible conversion would be restricted to Dutch jurisdiction and law and expected this will not result in a significant impact on the judicial reorganization — which continues to include Oi Brasil Holdings and PTIF —, in the Company’s cash reserves, nor in the day-to-day operations of the Company in Brazil. Oi intends to make every appropriate effort to ensure the protection of the interests of the Oi Companies’ and all of their stakeholders.

### **QUALIFIED HOLDING – HIGH SEAS CAPITAL INVESTMENTS, LLC**

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On December 5, 2016, PHAROL informed that High Seas Capital Investments, LLC, on that date held 5.20% of the share capital of PHAROL.

This situation occurred after the acquisition of 46,657,016 ordinary shares, representatives of 5.20% of share capital of PHAROL, on November, 28.

### **REQUEST FOR AUTHORIZATION FOR THE SALE OF DIRECT AND INDIRECT INTERESTS IN TIMOR TELECOM S.A**

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On December 13, 2016, Oi informed, pursuant to the Judicial Reorganization Plan, it requested the authorization of the 7th Corporate Court of the District of the Capital of the State of Rio de Janeiro for the sale of direct and indirect interests in Timor Telecom S.A. (“Timor Telecom”), a non-relevant asset that was already recorded in the Company’s financial statements as “Assets Held for Sale,” to Investel Communications Limited. Oi requested the judicial deposit of the amount attributed to the disposition of the direct and indirect interests, which is to be kept in a judicial account affiliated with the 7th Corporate Court, specifically for its use in compliance with the Judicial Reorganization Plan. Oi, after a competitive sale process, received a proposal from Investel Communications Limited for the acquisition of direct and indirect interests in Timor Telecom for approximately US\$36 million, in addition to the payment of Timor Telecom’s debts to Oi in the amount of US\$26 million. In addition to the authorization requested of the 7th Corporate Court, should it be granted, the sale of the direct and indirect interests in Timor Telecom, when concluded, will be subject to the implementation of other conditions. The Company will inform the market if such conditions are implemented after the decision of the 7th Corporate Court.

### **ALTERNATIVE JUDICIAL REORGANIZATION PLAN**

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On December 19, 2016, Oi informed that it has been meeting with creditors and other stakeholders of the



Company on a regular basis, with the purpose of gathering views and comments on the judicial reorganization plan presented to the 7<sup>th</sup> Corporate Court of the Judicial District of the State Capital of Rio de Janeiro last September, aiming at the success of the judicial reorganizations of the Company and its direct and indirect wholly-owned subsidiaries Oi Móvel S.A. – In Judicial Reorganizations, Telemar Norte Leste S.A. – In Judicial Reorganization, Copart 4 Participações S.A. – In Judicial Reorganization, Copart 5 Participações S.A. – In Judicial Reorganization, Portugal Telecom International Finance BV – In Judicial Reorganization, and Oi Brasil Holdings Cooperatief U.A. - - In Judicial Reorganization.

In this regard, on December 16, 2016 late afternoon, the Company met with a group formed by the representatives of creditors of the Company (Moelis Company and FTI Consulting) and potencial investor, Orascom TMT Investmente S.à.r.l., a company based in Luxembourg, which presented an alternative judicial reorganization plan.

The company and its wholly-owned subsidiaries will carefully analyze the suggestions of such group of creditors in due course, along with other suggestions that emerge during meetings with other creditors of the company.

Oi believes that the outcome of these negotiations should reflect a final proposal of a Judicial Reorganization Plan to be submitted to approval in a General Meeting as provided by law, which guarantees the Company's operational viability and sustainability and serves creditors, shareholders and other interested parties, allowing Oi to be strengthened at the end of this process.

In addition, since the proposals of the aforementioned group of creditors were made public in some media vehicles, and with the purpose of ensuring the broad knowledge of their content, the company discloses the document it received in its entirety to its shareholders, the market in general and the creditor and other stakeholders of the Oi Companies at the Company's website ([www.oi.com.br](http://www.oi.com.br)), in addition to the BM&FBovespa website ([www.bmfbovespa.com.br](http://www.bmfbovespa.com.br)). The Company will not issue any comments at this stage on any of the points contained in the document that is now disclosed. The disclosure of such document by the Company does not mean that the Company and its subsidiaries agree with or support any of its terms or commit themselves to reflecting its terms, whether in part or in the whole, in future reviews of the proposal of the Judicial Reorganization Plan. Likewise, the disclosure of such document should not be considered as a proposal from the company or any of its subsidiaries.

#### **MATERIAL FACT DISCLOSED BY OI - DECISION OF THE BOARD OF DIRECTORS OF ANATEL CONCERNING THE EFFECTIVE ENTRY OF NEW MEMBERS TO OI'S BOARD OF DIRECTORS**

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On January 6, 2017, Oi informed, pursuant to Article 157, paragraph 4 of Law No. 6,404/76 and the terms of CVM Instruction No. 358/02, in continuance of the Material Facts disclosed by Oi on September 14 and November 9, 2016, informs its shareholders and the market in general that, on this date, the Company was made aware of the decision of the Board of Directors of the Brazilian National Agency of Telecommunications (Agência Nacional de Telecomunicações—ANATEL) with respect to Oi's request for prior approval for the effective entry of new members to Oi's Board of Directors, in which Anatel has decided, among other matters: (i) to grant prior approval for the effective entry of the following new members to Oi's Board of Directors: Demian Fiocca, Hélio Calixto da Costa, Blener Braga Cardoso Mayhew, Luís Manuel da Costa de

Sousa de Macedo, Nelson Sequeiros Rodriguez Tanure and José Manuel Melo da Silva; and (ii) to deny prior approval for the effective entry of the following new members to Oi's Board of Directors: Pedro Grossi Junior and Nelson de Queiroz Sequeiros Tanure.

Anatel also established certain obligations of Oi and determined that Oi and its Directors and Officers must provide certain information, in accordance with the Judgement.

#### **QUALIFIED HOLDING – RENAISSANCE TECHNOLOGIES LLC**

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On January 10, 2016, PHAROL informed that Renaissance Technologies LLC now held an economic position of 2.13% of the share capital of PHAROL, without voting rights, through derivative financial instruments with cash settlement, held by the funds GF Trading LLC and RIDGE Master Trading LP, that are managed by the entity above.

This occurred as a result of an change in equity swaps contracted by those funds, which establishes the right to acquire 19,068,633 shares of PHAROL.

#### **MATERIAL FACT DISCLOSED BY OI - HEARING IN THE NETHERLANDS ABOUT REQUESTS FOR THE CONVERSION OF THE SUSPENSION OF PAYMENT PROCEEDINGS**

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On January 12, 2017, Oi informed, in continuance of and in addition to the information contained in the Notices to the Market disclosed by the Company on November 29, 2016 and December 1, 2016, hereby informs its shareholders and the market in general that, on this date, a hearing was held in the District Court of Amsterdam, The Netherlands, in relation to the requests for conversion of the suspension of payments proceedings for each of Oi's financial vehicles in the Netherlands, Oi Brasil Holdings Coöperatief UA – In Judicial Reorganization ("Oi Brasil Holdings") and Portugal Telecom International Finance B.V. – In Judicial Reorganization ("PTIF"). The District Court of Amsterdam, The Netherlands, informed that it expects to render its decision in relation to both Oi Brasil Holdings' and PTIF's hearings for the conversion of their respective suspension of payments proceedings on January 26, 2017. Oi reiterate that it is making all efforts to negotiate with all the creditors a final proposal of a Judicial Reorganization Plan to be submitted to approval in a Creditors' General Meeting in accordance with the deadlines and rules provided by law, which guarantees the Company's operational viability and sustainability and serves creditors, shareholders and other interested parties in a balanced way, allowing the Company to be strengthened at the end of this process. Oi intends to use all the necessary resources to seek to ensure the protection of the Oi Companies' and their stakeholders' interests with respect to any effects of a possible conversion.

#### **QUALIFIED HOLDING – DISCOVERY CAPITAL MANAGEMENT, LLC**

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On January 16, 2017, PHAROL informed that Discovery Capital Management, LLC, held 2.02% of the share capital of PHAROL.

This situation occurred after the acquisition of 18,148,055 ordinary shares, representatives of 2.02% of share capital of PHAROL, on January 11, 2017.

## **POSTPONEMENT OF DECISION REGARDING THE HEARINGS ABOUT THE APPLICATIONS FOR CONVERSION OF THE SUSPENSION OF PAYMENTS OF OI**

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On January 26, 2017, Oi informed, in continuance of and in addition to the information contained in the Notices to the Market disclosed by the Company on November 29, 2016, December 1, 2016 and January 12, 2017, its shareholders and the market in general that the District Court of Amsterdam, The Netherlands, has announced the postponement of its decision regarding the hearings about the applications for conversion of the suspension of payments proceedings for each of Oi's financial vehicles in the Netherlands, Oi Brasil Holdings Coöperatief UA – In Judicial Reorganization ("Oi Brasil Holdings") and Portugal Telecom International Finance B.V. – In Judicial Reorganization ("PTIF"). The District Court of Amsterdam, The Netherlands, informed that it now expects to render its decision in relation to both Oi Brasil Holdings' and PTIF's hearings for the conversion of their respective suspension of payments proceedings on February 2, 2017.

## **TERMINATION OF THE ARBITRATION PROCEEDINGS AGAINST SUBSIDIARIES**

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On January 31, 2017, Oi informed, in continuity with and in addition to the information in the Notice to the Market disclosed by the Company on June 16, 2016, its shareholders and the market in general that, after satisfying all the precedent contractual conditions, the transactions contemplated in the Settlement and Share Exchange Agreement ("SSEA") executed on June 16, 2016 were completed on this date by Oi's wholly-owned subsidiaries PT Participações, SGPS, S.A and Africatel GmbH & Co. KG ("Africatel KG"), Oi's 75%-owned subsidiary Africatel Holdings B.V. ("Africatel BV"), Samba Luxco S.à r. l. ("Samba" or "Helios"), owner of the remaining 25% of Africatel BV, and Pharol, SGPS, S.A. ("Pharol", and together with Africatel KG and Africatel BV, the "Respondents"), former 75% holding company of Africatel BV, with the primary purpose of settling the arbitral proceedings commenced by Samba against the Respondents at the end of year 2014. As a result, Samba waived certain approval rights that it alleged it had under the Africatel BV shareholders' agreement dated August 13, 2007 (as amended from time to time in accordance with its terms) (the "Africatel BV SHA"), as well as transferred to Africatel BV, 11,000 shares in the share capital of Africatel BV, reducing Samba's stake in Africatel BV from 25% to 14%. In exchange, Africatel BV transferred to Samba its approximately 34% stake in the Namibian telecoms operator, Mobile Telecommunications Limited. The parties also executed related amendments to the Africatel BV SHA. Given the completion of such transactions, Samba irrevocably and unconditionally discharges Africatel KG, Africatel BV, Pharol and their affiliates and successors from all claims brought in the arbitration. Samba and the Respondents shall further request that the arbitral tribunal constituted under the rules of the International Chamber of Commerce issue an Award by Consent in order to record the terms of the settlement contained in the SSEA, pursuant to which the arbitration shall be discontinued and Oi's subsidiaries released from all past and present claims by Samba relating to alleged breaches of the Africatel BV SHA asserted in the arbitration.

## **BOARD OF DIRECTOR ´S MEETING**

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On February 1, 2017, Oi informed, in continuity with and in addition to the information in the Notices to the Market disclosed by the Company on January 30 and 31, 2017, its shareholders and the market in general that, during a meeting of the Board of Directors held on that date, LaPlace, the Company's financial adviser, presented to the Board of Directors a few scenarios developed based on the feedbacks from the creditors, in order to allow the progress in the interactions, which scenarios were debated with the members of the Board. The Board authorized Oi's Executive Officers Board to continue with the discussions with the creditors, going deeper into some critical items, including, among others, the possibility of converting part of the debt into equity. Oi understands the interactions with creditors are progressing and reiterates that it shall continue to meet regularly with its creditors, other stakeholders and potential investors, with the intent of gathering impressions, comments and suggestions.

## **DENIAL TO THE REQUEST FOR CONVERSION OF THE SUSPENSION OF PAYMENTS PROCEEDING**

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On February 2, 2017, Oi informed, in continuance of and in addition to the information contained in the Notices to the Market disclosed by the Company on November 29, 2016, December 1, 2016, January 12, 2017 and January 26, 2017, its shareholders and the market in general that, the District Court of Amsterdam, The Netherlands, denied the requests for conversion of the suspension of payments proceedings into Dutch bankruptcy proceedings for each of Oi's financial vehicles in the Netherlands, Oi Brasil Holdings Coöperatief UA – In Judicial Reorganization ("Oi Brasil Holdings") and Portugal Telecom International Finance B.V. – In Judicial Reorganization ("PTIF"), under the Dutch laws. Oi highlights that it did not have access to the translation of the entire content of the judgement. The Company understands the interactions with creditors are progressing and reiterates that it shall continue to meet regularly with its creditors, other stakeholders and potential investors, with the intent of gathering impressions, comments and suggestions that contribute to the Company's operational viability and sustainability. Oi will keep its shareholders and the market informed of the development of the subject matter of this Notice to the Market, whenever appropriate

## **INFORMATION RELATED TO THE SUSPENSION OF PAYMENTS PROCEEDINGS OF OI BRASIL HOLDINGS COÖPERATIEF UA AND PORTUGAL TELECOM INTERNATIONAL FINANCE B.V.**

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On February 10, 2017, Oi informed, in continuance of and in addition to the information contained in the Notice to the Market disclosed by the Company on February 2, 2017, its shareholders and the market in general that, the administrators appointed to supervise the suspension of payments proceedings of Oi Brasil Holdings Coöperatief UA – In Judicial Reorganization ("Oi Brasil Holdings") and Portugal Telecom International Finance B.V. – In Judicial Reorganization ("PTIF") informed that they will not appeal against the judgements of the District Court of Amsterdam, The Netherlands, whereby the requests for conversion of the suspension of payments proceedings into Dutch bankruptcy proceedings for each of Oi Brasil Holdings and PTIF were denied. Oi was also informed that certain creditors of each of Oi Brasil Holdings and PTIF filed

appeals against such judgements on this date. Oi will keep its shareholders and the market informed of the development of the subject matter of this Notice to the Market, whenever appropriate.

#### **INFORMATION RELATED TO THE SUSPENSION OF PAYMENTS PROCEEDINGS OF OI BRASIL HOLDINGS COÖPERATIEF UA AN**

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On February 20, 2017, Oi informed in continuance of and in addition to the Notice to the Market disclosed by the Company on February 10, 2017, its shareholders and the market that, it became aware that the Court of Appeal of Amsterdam, The Netherlands, has ordered that a hearing in relation to the appeals filed by certain creditors against the judgements rendered by the District Court of Amsterdam on February 2, 2017, whereby the requests for conversion of the suspension of payments proceedings into Dutch bankruptcy proceedings for each of Oi Brasil Holdings Cooperatief U.A. – Em Recuperação Judicial e Portugal Telecom International Finance B.V. – Em Recuperação Judicial were denied, would be held on March 29, 2017. The Company will keep its shareholders and the market informed of the development of the subject matter of this Notice to the Market, whenever appropriate.

#### **S&P'S UPDATE ON OI'S CREDIT RATING**

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On February 23, 2017, Oi informed its shareholders and the market that Standard & Poor's ("S&P") announced yesterday its research update on the credit rating attributed to the Company, affirming all debt and corporate ratings at D. At the same time, S&P withdrew the Company's recovery ratings, which the agency plans to reinstate once the Company's debt is restructured with an updated capital structure after emerging from its judicial reorganization.

#### **LETTER SENT TO THE COMPANY BY ORASCOM TMT INVESTMENTS S.À.R.L.**

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On March 2, 2017, Oi, in continuity and in addition to the information contained in the Notices to the Market disclosed by the Company on December 19, 2016 and January 30, 2017, informed its shareholders and the market in general that it has received a letter from Orascom TMT Investments S.à.r.l. extending the validity of its suggestions for an alternative judicial reorganization plan until March 31, 2017. Oi reiterates that it continues to meet regularly with other creditors, stakeholders of the Company and potential investors, with the intent of gathering impressions, comments and suggestions for the improvement of the judicial reorganization plan.

#### **RECOGNITION OF JUDICIAL REORGANIZATION PROCEEDING IN PORTUGAL**

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On March 6, 2017, Oi hereby informed its shareholders and the market in general that it learned of a judgment rendered on March 2, 2017 by the Commercial Court of Lisbon – Judge Number 3 of the Judicial Court of the Region of Lisbon, recognizing, with respect to the Company and Telemar Norte Leste S.A. – In

Judicial Reorganization, the decision rendered by the 7th Corporate Court of the District of the Capital of the State of Rio de Janeiro on June 29, 2016 granting the processing of the request for judicial reorganization submitted in Brazil, under the terms of Law No. 11,101/05 and the Brazilian Corporation Law.

#### **RESIGNATION OF DIRECTOR**

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On March 7, 2017, PHAROL announced that Rafael Luis Mora Funes has resigned, on March, 7, 2017, from his office as member of Board of Directors and as Executive Director.

#### **RESIGNATION OF DIRECTOR**

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On March 7, 2017, Oi informed that the Chairman of the Board of Directors of the Company received a resignation letter from Mr. Rafael Luis Mora Funes as member of the Board of Directors of Oi on date. With his resignation, Mr. João do Passo Vicente Ribeiro, previously an alternate to Mr. Rafael Funes, will assumed the role as an effective member of the Board of Directors.

#### **APPROVAL OF BASIC CONDITIONS FOR ADJUSTMENTS TO THE JUDICIAL REORGANIZATION PLAN**

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On March 22, 2017, Oi, in accordance with Article 157, paragraph 4 of Law No. 6,404/76 and pursuant to CVM Instruction No. 358/02, informed that during a meeting held on that date, the Board of Directors of the Company approved the basic financial conditions contained in the Exhibit to this Material Fact as adjustments to the Oi Companies' Judicial Reorganization Plan that was presented on September 5, 2016 ("JRP"), as well as authorized the Company's Executive Officers and advisors to file as soon as possible an amendment to the JRP with the 7th Corporate Court of the State of Rio de Janeiro, where the judicial reorganization of Oi and its subsidiaries is underway.

#### **OI'S Q16 RESULTS**

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On March 22, 2017, Oi disclosed the fourth quarter results.

#### **MANAGING DIRECTOR**

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On March 27, 2017, PHAROL informed that, pursuant to the terms of article 407º of the Portuguese Securities Code and article 20º of Bylaws of PHAROL, the Board of Directors on 27 March 2017, decided to allocate the competences for Managing Director to the Chairman, Luís Palha da Silva.

## **PRESENTATION TO THE COURT OF THE NEW FINANCIAL CONDITIONS AS ADJUSTMENTS TO THE JRP**

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On March 28, 2017, Oi informed that, on this date, the company presented to the 7th Corporate Court of the State of Rio de Janeiro, where the Judicial Reorganization of Oi and its subsidiaries is currently underway, information about new financial conditions as adjustments to the Oi Companies' Judicial Reorganization Plan (Plano de Recuperação Judicial—"PRJ"), presented on September 5, 2016, as detailed in Oi's Material Fact dated March 22, 2017.

The new conditions were formulated on the basis of conversations held in more than 50 face-to-face meetings with various creditors of Oi in Brazil and abroad, as well as their respective advisors, considering the different credit profiles, including national and international banks, development institutions and bondholders. In addition, a number of other meetings and mediations were held with other groups of creditors, such as suppliers, Anatel and small creditors, among others. The company's management and advisors also participated in the meetings.

The discussions considered, in addition to the debt restructuring plan, a sustainable business plan for Oi. The company considered suggestions and contributions from these various creditors, represented in the four classes provided for in the company's Judicial Reorganization, as well as shareholders, to structure the presented conditions and to seek to balance the different interests and credit and investment profiles. The amended judicial reorganization plan will be presented as soon as possible, in accordance with Oi's Material Fact disclosed on March 22, 2017.

## **ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF OI, S.A.**

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On March 29, 2017, Oi informed that the Board of Directors of Oi S.A. calls the Shareholders to an Ordinary General Shareholders Meeting, to be held on April 28, 2017, at 11 p.m., at the Company's headquarters located at Rua do Lavradio No. 71, Centro, City and State of Rio de Janeiro, to discuss the following agenda:

- (1) Take the Management's accounts and examine, discuss and vote on the Management's Report and the Financial Statements for the fiscal year ended December 31, 2016, together with the Independent Auditors' report and the Fiscal Council;
- (2) Examine, discuss and vote on the Management Proposal for the allocation of the results for the fiscal year ended December 31, 2016;
- (3) Determine the annual global amount of compensation for the Management and the members of the Company's fiscal council;
- (4) Ratify the election of members nominated in the Board of Directors Meetings held on August 12, 2016 and September 14, 2016 to the Board of Directors, in the form provided for in Article 150 of Law 6,404/76; and
- (5) Elect member of the Fiscal Council and their respective alternates.

## **INFORMATION RELATED TO THE SUSPENSION OF PAYMENTS PROCEEDINGS OF OI BRASIL HOLDINGS COÖPERATIEF UA AND PORTUGAL TELECOM INTERNATIONAL FINANCE B.V.**

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On March 29, 2017, Oi informed in continuance of and in addition to the information contained in the Notices to the Market disclosed by the Company on February 2, 2017, February 10, 2017 and February 20, 2017, its shareholders and the market in general that hearings were held in the Dutch Court of Appeals, Amsterdam, The Netherlands, in relation to the appeals against the decisions that denied the requests for conversion of the suspension of payments proceedings for each of Oi's financial vehicles in the Netherlands, Oi Brasil Holdings Coöperatief UA – In Judicial Reorganization (“Oi Brasil Holdings”) and Portugal Telecom International Finance B.V. – In Judicial Reorganization (“PTIF”). The Company was informed that the Dutch Court of Appeals indicated that it intended to render its decision in relation to both Oi Brasil Holdings’ and PTIF’s hearings on April 19, 2017.

## **REPLACEMENT OF EXTERNAL AUDITOR**

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On March 30, 2017, Oi informed that the Company has engaged BDO RCS Auditores Independentes do Brasil (“BDO”) to provide external audit services for the fiscal years 2017-2019, pursuant to Brazilian laws and regulations, replacing the KPMG Auditores Independentes (“KPMG”), which will continue as Oi’s auditor for financial statements to be filed with the SEC.

The Company explains that the engagement of BDO is exclusively due to the 5 (five) year term period provided for in Article 31 of CVM Instruction No. 308/99, and has been undertaken with the favorable opinion of the Fiscal Council and approval by Oi’s Board of Directors, as well as with the consent of KPMG with respect to such substitution, in compliance with the requirements of Article 28 of CVM Instruction 308/99.

The work of BDO will begin with the review of the quarterly information of Oi for the first quarter of 2017.

## **LETTER SENT TO THE COMPANY BY ORASCOM TMT INVESTMENTS S.À.R.L.**

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On March 31, 2017, Oi informed, in continuity and in addition to the information contained in the Notices to the Market disclosed by the Company on December 19, 2016, January 30, 2017 and March 2, 2017, its shareholders and the market in general that Orascom TMT Investments S.à.r.l. voluntarily sent a letter to the Company on this date extending the validity of its suggestions for an alternative judicial reorganization plan until May 1, 2017.

## **NOMINATION OF ESCRITÓRIO DE ADVOCACIA ARNOLDO WALD FOR THE ROLE OF JUDICIAL ADMINISTRATOR**

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On April 10, 2017, Oi communicated to its shareholders and the market in general that the 7th Corporate Court of the City and State of Rio de Janeiro, where the Company’s judicial reorganization process is underway, nominated Escritório de Advocacia Arnaldo Wald to fully assume and concentrate the role of



judicial administrator of the Company, Telemar Norte Leste S.A. – In Judicial Reorganization, Oi Móvel S.A. – In Judicial Reorganization, Copart 4 Participações S.A. – In Judicial Reorganization, Copart 5 Participações S.A. – In Judicial Reorganization, Portugal Telecom International Finance BV – In Judicial Reorganization and Oi Brasil Holdings Coöperatief UA – In Judicial Reorganization, the judicial administrator being authorized to hire individuals or entities to assist such administrator in the financial and accounting aspects of the role, as permitted by the Reorganization Law.

## **INFORMATION ABOUT JUDGMENT OF THE JUDICIAL COURT OF THE DISTRICT OF LISBON**

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On April 11, 2017, PHAROL informed that by judgment given on 29 March 2017, the Judicial Court of the District of Lisbon dismissed as unfounded the action that Henrique Manuel Fusco Granadeiro proceeded against PHAROL, in which was requested that the resolution of PHAROL's General Meeting of 31 July 2015 be declared null or cancelled. The said resolution approved a civil liability action against any member of the Board of Directors elected for the period 2012/2014 who had violated legal, fiduciary and/or contractual duties, for damages to the Company and/or related to the investments in debt instruments issued by Espirito Santo Group entities.

## **DECISION OF THE DUTCH COURT OF APPEAL ON REQUESTS FOR CONVERSION OF THE PROCEDURES FOR SUSPENSION OF PAYMENTS**

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On April 20, 2017, Oi, in continuance of and in addition to the information contained in the Notices to the Market disclosed by the Company on February 2, 2017, February 10, 2017, February 20, 2017 and March 29, 2017, informed its shareholders and the market in general that the Dutch Court of Appeals, Amsterdam, The Netherlands, granted the appeals against the decisions that had denied the requests for conversion of the suspension of payments proceedings for each of Oi's financial vehicles in the Netherlands, Oi Brasil Holdings Coöperatief UA – In Judicial Reorganization ("Oi Brasil Holdings") and Portugal Telecom International Finance B.V. – In Judicial Reorganization ("PTIF"), and ordered that such suspension of payments proceedings shall be converted into Dutch bankruptcy proceedings. These judgments rendered today by the Dutch Court of Appeals are restricted to Dutch jurisdiction and law and are not definitive. Oi Brasil Holdings and PTIF are going to file an appeal against them with the Dutch Supreme Court. Oi reiterates that Oi Brasil Holdings and PTIF remain under judicial reorganization in Brazil and clarifies that today's judgments do not have any impact on the Company's day by day and operational activities. Oi continues with its healthy operations and strong commercial performance, as well as its sales, installation and maintenance activities, and investments. Oi reiterates that it has been progressing on the discussions with creditors, potential investors and other stakeholders about the best proposal of a Judicial Reorganization Plan in order to submit it for approval in a Creditors' Meeting, in accordance with the deadlines and rules provided by law. The goal is to ensure a proposal that guarantees the Company's operational viability and sustainability and serves all interested parties in a balanced way, allowing Oi to be strengthened at the end of this process.

## **CLARIFICATION REGARDING JUDICIAL DECISION TO APPROVE INSOLVENCY PROCEEDINGS OF OI'S NETHERLANDS SUBSIDIARIES**

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The decision of the Netherlands Appellate Court is applicable only to the companies Portugal Telecom International Finance B.V. and Oi Brasil Holdings Coöperatief UA - which are under Netherlands jurisdiction.

The decision will be appealed to the Supreme Court, in accordance with current legislation in the Netherlands.

The decision in question does not impact the activities of the companies under judicial recovery in Brazil nor does it impact the recovery proceedings of the 7th Corporate Court of Rio de Janeiro, which is the only competent entity to decide on the Judicial Recovery of the Oi group, under the terms of Brazilian Judicial Recovery legislation.

Besides appealing to the Netherlands Supreme Court, the Dutch administrators, to be appointed by the judicial authorities, will only have potential access to assets which are of lesser relevance to the Companies under recovery - under 10 million euros - since the disposal of assets is the competence of the Brazilian judicial authorities, which, together with the Brazilian appointed judicial administrator and the Public Prosecutors, defend the interests of the creditors as well as maintaining the corporate and financial health of the companies under recovery.

The Oi Group remains focused on negotiating with its creditors and all its stakeholders the best proposal to be submitted for approval by the Creditors' General Assembly, to be requested by the 7th Corporate Court of Rio de Janeiro, and the above decision does not affect either timelines or negotiations followed so far.

For PHAROL, shareholder of 27.18% of Oi, there is no direct impact from this decision.

Regarding bondholders of Portugal Telecom International Finance B.V., there is also no impact, as these remain considered in the Judicial Recovery Plan, as they have been thus far, without any change in their classification as creditors of Oi.

## 04. MAIN RISKS AND UNCERTAINTIES

The events and circumstances described below could result in a significant or material adverse effect on the financial condition of PHAROL and a corresponding decline in the market price of the ordinary shares of PHAROL or the PHAROL ADSs, as the case may be.

Relevant Risks		
<b>Economic Risks</b>	<b>Oi's Performance</b>	<p>The main risk to which PHAROL is subject to derives from Oi's operational and financial performance, notably Oi's ability to generate profits and cash flow and pay dividends.</p> <p>Oi's performance is also dependent on the performance of the Brazilian economy and, at this time in particular, the evolution of the judicial recovery process that the Company has adopted. Despite the fact that this process can bring financial and operational stability to the Company, it depends on the objectives of many which are not fully controlled by Oi.</p> <p>In the event of failure in negotiations with creditors, Oi may face serious difficulties in the normal development of their activities.</p>
<b>Financial Risks</b>	<b>Exchange Rates</b>	<p>Foreign currency exchange rate risks relate mainly to PHAROL's investment in Oi (Brazil). Any exchange rate fluctuations of the Real against the Euro affect the translation of the results attributable to PHAROL, and therefore impact PHAROL's results and financial position.</p> <p>The Company does not have a hedging policy regarding the value of these investments.</p>
	<b>Interest Rate</b>	<p>Interest rate risks basically relate to financial expenses and the floating interest rate debt and cash applications. PHAROL is indirectly exposed to this risk specially in Brazil. It is important to point out that, at December 31, 2016 PHAROL has no debt.</p> <p>Regarding debt, Oi is consolidated by the equity method in PHAROL's Financial Statements.</p> <p>Market interest rates also affect the discount rates used for impairment testing to the various assets of the entity.</p>
	<b>Treasury Applications</b>	<p>PHAROL is mainly subject to credit risks in its treasury applications.</p> <p>In order to dilute these risks, in July 2014 the Board of Directors defined a policy for treasury applications.</p>
	<b>Default by Rio Forte as to the reimbursement of</b>	<p>The Rio Forte Instruments currently held by PHAROL, are not guaranteed by assets. Therefore, even though there may exist amounts available for reimbursement to Rio Forte's creditors the right</p>

	<b>the instruments that PHAROL holds following the execution of the Exchange</b>	to reimbursement of PHAROL will be shared pro rata with the other unsecured creditors of Rio Forte and only after the repayment of all debts to any secured creditors, and after confirmation of the validity of the credits.
	<b>Exercise of the call option on Oi's shares</b>	<p>The value of the Call Option on Oi's shares will depend primarily on the market price for Oi's ordinary and preferred shares, the price of which will depend, in its turn, on Oi's performance, including its operations, financial position, business outlook and its judicial reorganization develop.</p> <p>The Board of Directors of PHAROL closely monitors Oi's business on regular basis and is further engaged in periodically following up the Call Option for purposes of financial statement recording, as well as the price of Oi's shares.</p>
<b>Legal Risks</b>	<b>Court proceedings</b>	The Board of Directors subcontracts the risk analysis as to court proceedings to external lawyers and consultants, so as to know, for each claim, their assessment as to PHAROL's liability (probable, possible and remote occurrence), the status of the proceedings, the amounts involved, provisioned and paid, and what steps should be taken to defend PHAROL's interests.
	<b>Tax contingencies</b>	PHAROL may incur future liabilities under its tax obligations with the Tax Authorities. In the context of the agreement with Oi, where Oi has been assuming responsibility for the payment of all contingencies until May 5, 2014, PHAROL remains severally liable for these contingencies.
	<b>Disputes or investigations triggered under the Rio Forte Instruments or the Business Combination</b>	PHAROL may incur in liability under disputes and other future proceedings and incur in legal costs in such disputes or other proceedings. Any liability incurred may adversely affect PHAROL's financial position and the capacity to fully implement the Business Combination.

## 05. QUALIFIED HOLDINGS

### QUALIFIED HOLDINGS

As at December 31, 2016, qualified holdings represented over 44% of PHAROL's share capital, as follows:

DATE OF INFORMATION	ENTITIES	NO. OF SHARES	% OF CAPITAL	% OF VOTING RIGHTS
05/31/2012	Telemar Norte Leste S.A.	89,651,205	10.00%	10.00%
07/05/2016	Novo Banco S.A.(a)	85,665,125	9.56%	9.56%
08/14/2015	Banco Comercial Português, S.A.	55,304,969	6.17%	6.17%
12/05/2016	High Seas Investments LLC	46,657,016	5.20%	5.20%
11/22/2016	Hestia Investments DAC	43,476,423	4.85%	4.85%
07/26/2016	Norges Bank	37,183,570	4.15%	4.15%
01/02/2014	Grupo Visabeira	23,642,885	2.64%	2.64%
06/02/2016	Renaissance Technologies LLC	18,003,736	2.01%	0.00%
	<b>TOTAL</b>	<b>399,584,929</b>	<b>44.57%</b>	<b>42.56%</b>

(a) This holding refers only to the shares holding by Novo Banco and do not included shares held by societies in a controlling relationship or group, leaders and members of the Governing Bodies of Novo Banco.

Under the terms of article 9, number 1 c), of Regulation number 5/2008 of CMVM, the following information is presented with respect to the qualified holdings held by third parties in PHAROL's share capital, which the company was informed about with reference to December 31, 2016 or the previous date, as indicated:

- On May 31, 2012, PHAROL announced that Telemar Norte Leste SA ("TMAR") held a qualifying stake in PHAROL corresponding to 89,651,205 shares, representing 10.0% of the respective share capital and voting rights. The only shareholder of TMAR is Oi.
- On July 5, 2015, Novo Banco reported the change in its qualifying holding to 85,665,125 shares, corresponding to 9.56% of the share capital and voting right of PHAROL. On August 2, 2016, Novo Banco confirmed that on June 30, 2016 it held 85,703,041, under the following terms:

ENTITIES	No. OF SHARES
Shares held by societies in a controlling relationship or group with Novo Banco, S.A.	15,916
Shares held by Novo Banco, S.A.	85,665,125
Shared held by Management Bodies	22,000
<b>Total</b>	<b>85,703,041</b>

- On August 14, 2015, PHAROL disclosed that Banco Comercial Português held an effective stake of 6.17% of the share capital and corresponding voting rights.

- On November 5, 2016, PHAROL announced that High Seas Investments LLC held a qualified holding of 46,657,016 shares, corresponding to 5.2% of the share capital and voting right of PHAROL, since November 28, 2016. High Seas Investments LLC also informed that its chain of controlled encompasses the company Angra Capital Management LTD.
- On November 22, 2016, Hestia Investments DAC reported the change in its qualifying holding to 43,476,423 shares, corresponding to 4.85% of the share capital and voting right of PHAROL since November 21, 2016.
- On 26 July, Norges Bank confirmed its position of 37,183,570 shares corresponding to 4.15% of the share capital of PHAROL.
- On January 2, 2014, PHAROL announced that it attributed to the Visabeira SGPS Group, S.A. ("Visabeira Group", a company held 77.85% by Engineer Fernando Campos Nunes) a qualifying stake of 23,642,885 PHAROL shares, representing 2.637% of the share capital and voting rights, under the following terms:

ENTITIES	No. OF SHARES
Visabeira Group	11,523,213
Visabeira Estudos e Investimentos, S.A., (company held at 100% by Visabeira Participações Financeiras, SGPS, S.A., which in turn was held at 100% by the Visabeira Group)	12,119,672
<b>Total</b>	<b>23,642,885</b>

PHAROL was also informed that a participation corresponding to 78.2642% of the Visabeira Group's share capital and corresponding voting rights are directly held by the NCFGEST, SGPS, S.A. society, which is 100% held by Engineer Fernando Campo Nunes, by which the qualified holdings of the Visabeira Group are equally attributable to these entities.

- On June 2, 2016, PHAROL announced that Renaissance Technologies LLC held a qualified holding of 18,003,736 shares, corresponding to 2.01% of the share capital without voting rights, through derivative financial instruments with cash settlement, held by the funds GF Trading LLC and RIDGE Master Trading LP, that are managed by Renaissance Technologies LLC.

After December 31, 2016, the following changes have occurred:

- On January 10, 2017, PHAROL informed that Renaissance Technologies LLC held an economic position of 2.13% of the share capital of PHAROL, without voting rights, through derivative financial instruments with cash settlement, held by the funds GF Trading LLC and RIDGE Master Trading LP, that are managed by the entity above. This occurred as a result of an change in equity swaps contracted by those funds, which establishes the right to acquire 19,068,633 shares of PHAROL.

- On January 16, 2017, PHAROL informed that Discovery Capital Management, LLC, held 2.02% of the share capital of PHAROL. This situation occurred after the acquisition of 18,148,055 ordinary shares, representatives of 2.02% of share capital of PHAROL, on January 11, 2017.

## THE BOARD MEMBERS AND SUPERVISORY BODIES SHAREHOLDINGS

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Under the terms of article 9, number 1 c), of Regulation number 5/2008 of CMVM, the following information is presented with respect to the qualified holdings held by the board members and supervisory bodies in PHAROL's share capital, which the company was informed about regarding December 31, 2016 or the previous date, as indicated:

### Board of Directors

- Luís Maria Viana Palha da Silva owns 200,000 PHAROL shares. He was appointed for the Board of Directors of PHAROL on May 29, 2015 and he is also a member of the Board of Directors of Oi.
- André Cardoso de Meneses Navarro owns 397 PHAROL shares. He was co-opted non-executive Director of PHAROL on September 2, 2015. He is also a member of the Board of Directors of Oi.
- João do Passo Vicente Ribeiro is not an owner of any marketable securities of PHAROL nor of other companies which are in a controlling or group relationship with it. He was appointed for the Board of Directors of PHAROL on May 29, 2015. On December 31, 2016, he was an alternate member of the Oi Board of Directors. After the resignation of Rafael Mora, he became an effective member of the Board of Directors of Oi.
- João Manuel Pisco de Castro is not an owner of any marketable securities of PHAROL nor of other companies which are in a controlling or group relationship with it. He was appointed for the Board of Directors of PHAROL on March 17, 2015. He is also Vice-President of Grupo Visabeira, SGPS, SA. and member of the Board of Directors of Oi.
- Jorge Freire Cardoso is not an owner of any marketable securities of PHAROL nor of other companies which are in a controlling or group relationship with it. He was appointed for the Board of Directors of PHAROL on November 5, 2015. He is also a member of the Board of Directors of Novo Banco, SA. He was an alternate member of the Board of Directors of Oi, until February 17, 2016, on which date he resigned his appointment.
- José Manuel Melo da Silva is not an owner of any marketable securities of PHAROL nor of other companies which are in a controlling or group relationship with it. He was co-opted non-executive Director of PHAROL on July 25, 2016. He is also an alternate member of the Board of Directors of Oi, since September 14, 2016.
- José Mauro Mettrau Carneiro da Cunha is not an owner of any marketable securities of PHAROL nor of other companies which are in a controlling or group relationship with it. He was appointed for the Board of Directors of PHAROL on 29 May, 2015 and he is also a member of the Board of Directors of Oi.

- Maria do Rosário Pinto-Correia owns 40 shares of PHAROL. She was co-opted non-executive Director of PHAROL on September 2, 2015. She is an alternate member of the Board of Directors of Oi since February 16, 2016.
- Pedro Zañartu Gubert Morais Leitão is not an owner of any marketable securities of PHAROL nor of other companies which are in a controlling or group relationship with it. He was appointed for the Board of Directors of PHAROL on May 29, 2015. He was an alternate member of the Oi Board of Directors until July 4, 2016, when he was appointed as a member of the Board of Directors of Oi.
- Rafael Luís Mora Funes is not an owner of any marketable securities of PHAROL nor of other companies which are in a controlling or group relationship with it. On December 31, 2016, he was a member of the Board of Directors of PHAROL since June, 22, 2007 and he was also a member of the Board of Directors of Oi. On March 7, 2017, he resigned both.

### **Fiscal Council**

The fiscal council members, identified below, do not own any shares of PHAROL.

- José Maria Rego Ribeiro da Cunha
- Isabel Maria Beja Gonçalves Novo
- Pedro Miguel Ribeiro de Almeida Fontes Falcão

### **Executive Committee**

On December, 31, 2016, the Executive Committee members, identified below, were also member of the Board of Directors.

- Luís Maria Viana Palha da Silva
- Rafael Luís Mora Funes

Until March, 7, 2017, the Executive Committee members, was comprised by the members above. After the resignation of Rafael Mora, the Board of Directors decided that the executive management become through an Managing Director, whom is Luís Maria Viana Palha da Silva.

### **Statutory Auditor (“ROC”)**

The Statutory Auditor, identified below, does not own any shares of PHAROL.

- Effective ROC - BDO & Associados - SROC, represented by Dr. Rui Carlos Lourenço Helena
- Substitute ROC - Dr. Pedro Manuel Aleixo Dias



## 06. OUTLOOK

PHAROL's management intend to exclusively focus on the management of the Company's current portfolio, not foreseeing diversification in its activities nor relevant investments.

PHAROL holds as its main asset, its investment in Oi, being its most relevant shareholder with 183,662,204 common shares and a stake of 27.18% of its equity, and also holds a Call Option over 42,691,385 common shares and 85,382,770 preferred shares of Oi.

Having monitored Oi's management, Oi has followed the guidelines in its Strategic Plan, and that are based on a significant cost reduction programme and investment optimization program, focused on its opportunities for growth and return. In 2017, PHAROL will cooperate with Oi for the success of its the judicial reorganization plan and for its operations improvement strategy. At the same time, PHAROL will monitor the value of its Call Option on Oi shares and analyze the alternatives that enable the maximization of value which includes the possibility of monetizing the aforementioned instruments.

PHAROL additionally has a credit over Rio Forte and will continue to carefully monitor the ongoing liquidation process in Luxembourg, with a view to maximizing the settlement of the Rio Forte Instruments. Among the possible scenarios, there is the possibility to trigger legal proceedings against Rio Forte, the relevant related parties and others.

PHAROL's Financial Statements are characterized today by the almost absence of financial debt but with some risks and lawsuits, that may potentially lead to further liabilities, and that are identified throughout this report. These are mainly contingencies that have been transferred to Oi, but in which PHAROL is severally liable, and have occupied a significant part of the Company's leadership team efforts.

The optimization and distribution to shareholders of any cash surplus has been a concern of management and the Board of Directors has made significant steps in this direction by approving the dividend payment of Euro 0.03 per share, paid on June 9, 2016.

In 2016, PHAROL's operating expenses were Euro 7 million, representing a significant decrease - 57% on a comparable basis - and the Board is making efforts to maintain the same trend in 2017 and in the coming years.

## **07. STATEMENT FROM THE BOARD OF DIRECTORS**

For the purposes of article 245 of the Portuguese Securities Code, the members of the Board of Directors of PHAROL, SGPS S.A., identified hereunder, hereby declare, in their capacity and within their functions as described therein, that, as far as they are aware, and based on information that they have had access to, through the Board of Directors and/or Executive Committee, as applicable, while in office:

- The information featured in the management report, financial statements, and other accountability documents required by law or regulations concerning to 2016, was prepared in accordance with the applicable set of accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of PHAROL, SGPS S.A. and companies included in the respective consolidation perimeter;
- 2016 management report outlines the progress of the business activities, the performance and position of PHAROL, SGPS, SA and companies included in the respective consolidation perimeter, and it contains a correct description of the main risks and uncertainties that these entities face.

Lisbon, April 27, 2017

Luís Maria Viana Palha da Silva, Chairman of the Board of Directors and Managing Director

André Cardoso de Meneses Navarro, Board Member

José Manuel Melo da Silva, Board Member

João do Passo Vicente Ribeiro, Board Member

João Manuel Pisco de Castro, Board Member

Jorge Telmo Maria Freire Cardoso, Board Member

José Mauro Mettrau Carneiro da Cunha, Board Member

Maria do Rosário Pinto-Correia, Board Member

Pedro Zañartu Gubert Morais Leitão, Board Member

Rafael Luís Mora Funes, Member of the Executive Committee and Board Member, resigned on March 7, 2017

## 08. ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS

According to its charter, PHAROL's Board of Directors has restated the commitment to provide its Non-Executive members with effective powers to monitor, evaluate and supervise the executive management of the Company.

During 2016, PHAROL's Non-Executive Directors were allowed to carry out their duties effectively and without constraints of any kind. In this context, the following activities are highlighted:

- In addition to the performance of their role not delegated to the Executive Committee, PHAROL's Non-Executive Directors carried out their duties of supervising the activity of the executive management, under and for the purposes of Article 407, no. 8 of the Portuguese Companies Code and the charter of the Board of Directors. In fact, under those rules, the delegation of authority to the Executive Committee does not preclude the legal duty of general monitoring by the Non-Executive Directors;
- The effective performance of their functions by PHAROL's Non-Executive Directors was also enhanced by the significant number of independent members within the Board

In fact, PHAROL's Board includes 3 independent directors corresponding to one third of the Non-Executive directors and more than one fourth of the Board members, with an active and assiduous participation in the Board meetings.

Additionally, said concentration of the Chairman / CEO roles has not prejudiced in any way the effective performance of their functions by the Non-Executive Directors, being particularly adequate to the current stage of PHAROL's life, for the following reasons:

- Such concentration of roles in one person is fully in line with the efficient and rigorous performance of functions by Board members in the current period;
  - The actual governance model maintains the segregation of powers between the Board and the Executive Committee, in particular through the roles carried out by the Non-Executive Directors.
- In 2016, PHAROL's Board of Directors kept in place various practices and mechanisms aiming at facilitating the informed and independent decision making by Non-Executive Directors, including inter alia the following:
  - The Executive Committee providing detailed presentations during the meetings of the Board of Directors, regarding relevant issues concerning the activity developed, granting the Non-Executive Directors any additional information requested and promoting a productive debate regarding the activity of the Company (particularly in what regards strategic decisions);
  - The Non-Executive Directors gathering, jointly or separately, the information necessary or convenient to the exercise of their duties, allowing for an adequate and timely answer to be given;

- Without prejudice to cases of acknowledged urgency, the meetings of the Board of Directors are convened with a minimum prior notice of five days and the agenda and supporting documentation of the meeting is made available at least three days in advance;
- The Non-Executive Directors frequently attending the meetings of the Board of Directors, which were held in a significant number (13 meetings during 2016), as well as informal meetings and presentations with Non-Executive Directors intended to clarify and debate specific issues concerning the financial information and the business of the Company.

In addition to these activities, it is important to note that, having the Company opted for the classic corporate governance model, its supervisory body is a Fiscal Council which, in the performance of their legal and regulatory duties, as well as those laid down in the articles of association, as described in the Company's Corporate Governance Report, presents the result of its activities in autonomous reports and opinions, including the report of supervisory activity and the opinions on the individual and consolidated annual reports, to be issued each year.

# PHAROL, SGPS S.A.



## CONSOLIDATED FINANCIAL STATEMENTS

2016

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS

<b>PHAROL, SGPS S.A.</b>			
<b>CONSOLIDATED INCOME STATEMENT</b>			
<b>PERIODS ENDED DECEMBER 31 2016 AND 2015</b>			
	<b>Notes</b>	<b>2016</b>	<b>Euro 2015</b>
<b>COSTS, LOSSES AND (INCOME)</b>			
Wages and salaries	6	2,052,252	3,578,421
Supplies, external services and other expenses	7	4,389,268	9,363,396
Indirect taxes	8	566,329	3,227,206
Depreciation		83,638	105,914
Losses (gains) on disposal of fixed assets, net		42,946	47,156
Net other losses (gains)		(10,230)	(244,004)
		<b>7,124,204</b>	<b>16,078,089</b>
<b>Income (loss) before financial results and taxes</b>		<b>(7,124,204)</b>	<b>(16,078,089)</b>
<b>FINANCIAL LOSSES AND (GAINS)</b>			
Net interest income	9	(172,370)	(500,471)
Net foreign currency exchange losses	14	(716,113)	16,240,500
Net losses on financial assets and other investments	14	54,439,685	62,952,391
Equity in losses of joint ventures and associates	13	13,215,195	600,157,818
Net other financial expenses		1,165,026	(1,095,120)
		<b>67,931,423</b>	<b>677,755,118</b>
<b>Income (loss) before taxes</b>		<b>(75,055,626)</b>	<b>(693,833,207)</b>
Income taxes	10	21,550	59,096
<b>NET INCOME</b>		<b>(75,077,177)</b>	<b>(693,892,303)</b>
<b>Attributable to equity holders of the parent</b>		<b>(75,077,177)</b>	<b>(693,892,303)</b>
<b>Earnings per share</b>			
Basic and Diluted	11	(0.09)	(0.79)

The accompanying notes form an integral part of these financial statements.

	2016	2015
<b>Net Income recognised in the income statement</b>	<b>(75,077,177)</b>	<b>(693,892,303)</b>
<b>Income (expenses) recognised directly in shareholders' equity</b>		
<b>Items that may be reclassified subsequently to the income statement</b>		
Foreign currency translation adjustments (i)	22,346,283	(53,852,297)
Gains (expenses) recorded in shareholders' equity related to joint ventures (ii)	32,989,921	(104,996,877)
<b>Items that will not be reclassified to the income statement</b>		
Gains (expenses) recorded in shareholders' equity related to joint ventures (iii)	(3,449,024)	-
Other expenses recognised directly in shareholders' equity, net	-	(426,942)
<b>Total earnings recognised directly in shareholders' equity</b>	<b>51,887,180</b>	<b>(159,276,116)</b>
<b>Total comprehensive income</b>	<b>(23,189,996)</b>	<b>(853,168,418)</b>
<b>Attributable to shareholders of PHAROL SGPS</b>	<b>(23,189,996)</b>	<b>(853,168,418)</b>

The accompanying notes form an integral part of these financial statements.

(i) The gains recorded in 2016 and the Losses recorded in the 2015 mainly relate to the impact of the appreciation and depreciation, respectively, of the Real against the Euro on the investments in Brazil as well as on Oi's investments outside Brazil.

(ii) In 2015, this caption relates to the effective share of PHAROL in the (1) cumulative losses of Oi's on the valuation of derivative hedge instruments amounting to Euro 79 million; (2) recycling of amounts previously recognized by Oi in Shareholders' Equity to Profit and Loss regarding the currency gains of PT Portugal since May 2014 in the amount of Euro 131 million; and (3) net gains registered by Oi directly in equity associated with the implementation of the New ownership structure, amounting to 109 million euros, which are mainly related to the recognition of deferred tax assets on incorporated goodwill.

(iii) In 2016, this caption is in respect to PHAROL's effective participation in losses recorded in by Oi, from actuarial losses.



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
DECEMBER 31 2016 AND DECEMBER 31 2015**

	Notes	2016	Euro 2015
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	20.d	28,936,973	64,879,371
Accounts receivable		414,696	542,036
Taxes receivable	12	67,747	24,437
Prepaid expenses		14,064	-
<b>Total current assets</b>		<b>29,433,480</b>	<b>65,445,845</b>
<b>Non-Current Assets</b>			
Investments in joint ventures and associates	13	140,805,013	102,230,974
Tangible assets		270,430	421,578
Other non-current assets	14	87,324,070	141,045,340
<b>Total non-current assets</b>		<b>228,399,513</b>	<b>243,697,892</b>
<b>Total assets</b>		<b>257,832,993</b>	<b>309,143,737</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Short-term debt		8,430	15,851
Accounts payable	15	2,330,691	1,729,138
Accrued expenses	16	5,716,629	6,539,596
Taxes payable	12	137,841	424,215
Provisions	17	75,858	75,858
Other current liabilities		891,405	905,214
<b>Total current liabilities</b>		<b>9,160,853</b>	<b>9,689,871</b>
<b>Non-Current Liabilities</b>			
Medium and long-term debt		103,487	121,281
<b>Total non-current liabilities</b>		<b>103,487</b>	<b>121,281</b>
<b>Total liabilities</b>		<b>9,264,339</b>	<b>9,811,152</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	19.1	26,895,375	26,895,375
Treasury shares	19.2	(179,675,995)	(178,071,827)
Legal reserve	19.3	6,773,139	6,773,139
Reserve for treasury shares	19.4	186,646,315	185,042,147
Other reserves and accumulated earnings	19.5	207,929,819	258,693,752
<b>Total equity</b>		<b>248,568,653</b>	<b>299,332,586</b>
<b>Total liabilities and shareholders' equity</b>		<b>257,832,993</b>	<b>309,143,737</b>

The accompanying notes form an integral part of these financial statements.

PHAROL, SGPS S.A.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
PERIODS ENDED DECEMBER 31 2016 AND 2015

								Euro
	Share capital	Treasury shares	Legal reserve	Reserve for treasury shares	Other reserves and accumulated earnings	Equity excluding non-controlling interests	Non-controlling interests	Total equity
<b>Balance as at December 31, 2014</b>	<b>26,895,375</b>	<b>(178,071,827)</b>	<b>6,773,139</b>	<b>185,042,147</b>	<b>1,111,862,169</b>	<b>1,152,501,003</b>	-	<b>1,152,501,003</b>
Income (expenses) recognized directly in equity	-	-	-	-	(159,276,116)	(159,276,116)	-	(159,276,116)
Income recognized in the income statement	-	-	-	-	(693,892,302)	(693,892,302)	-	(693,892,302)
<b>Balance as at December 31, 2015</b>	<b>26,895,375</b>	<b>(178,071,827)</b>	<b>6,773,139</b>	<b>185,042,147</b>	<b>258,693,751</b>	<b>299,332,586</b>	-	<b>299,332,586</b>

								Euro
	Share capital	Treasury shares	Legal reserve	Reserve for treasury shares	Other reserves and accumulated earnings	Equity excluding non-controlling interests	Non-controlling interests	Total equity
<b>Balance as at December 31, 2015</b>	<b>26,895,375</b>	<b>(178,071,827)</b>	<b>6,773,139</b>	<b>185,042,147</b>	<b>258,693,751</b>	<b>299,332,586</b>	-	<b>299,332,586</b>
Acquisition of own shares	-	(1,604,169)	-	1,604,169	(1,604,169)	(1,604,169)	-	(1,604,169)
Dividends	-	-	-	-	(25,969,766)	(25,969,766)	-	(25,969,766)
Income (expenses) recognized directly in equity	-	-	-	-	51,887,180	51,887,180	-	51,887,180
Income recognized in the income statement	-	-	-	-	(75,077,177)	(75,077,177)	-	(75,077,177)
<b>Balance as at December 31, 2016</b>	<b>26,895,375</b>	<b>(179,675,995)</b>	<b>6,773,139</b>	<b>186,646,315</b>	<b>207,929,819</b>	<b>248,568,653</b>	-	<b>248,568,653</b>

The accompanying notes form an integral part of these financial statements.

**PHAROL, SGPS S.A.**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
PERIODS ENDED DECEMBER 31 2016 AND 2015**

	<b>Notes</b>	<b>2016</b>	<b>Euro 2015</b>
<b>OPERATING ACTIVITIES</b>			
Payments to suppliers	20.a	(5,895,914)	(38,744,760)
Payments to employees		(2,348,909)	(3,944,100)
Payments relating to income taxes		(50,253)	704,505
Other cash receipts, net		(269,101)	(202,374)
<b>Cash flows from operating activities (1)</b>		<b>(8,564,176)</b>	<b>(42,186,728)</b>
<b>INVESTING ACTIVITIES</b>			
Cash receipts resulting from:			
Short-term financial applications		-	-
Tangible and intangible assets		5,300	89,975
Interest and related income		133,303	523,671
		<b>138,603</b>	<b>613,646</b>
Payments resulting from:			
Tangible and intangible assets		(979)	(393,829)
		<b>(979)</b>	<b>(393,829)</b>
<b>Cash flows from investing activities (2)</b>		<b>137,624</b>	<b>219,817</b>
<b>FINANCING ACTIVITIES</b>			
Payments resulting from:			
Loans repaid		(110,059)	(202,541)
Interest and related expenses		(17,432)	(1,832,091)
Dividends	20.b	(25,969,766)	-
Purchase of own shares	20.c	(1,603,908)	-
<b>Cash flows from financing activities (3)</b>		<b>(27,701,165)</b>	<b>(2,034,632)</b>
Cash and cash equivalents at the beginning of the period		64,879,371	109,511,599
Change in cash and cash equivalents (4)=(1)+(2)+(3)		(36,127,717)	(44,001,544)
Effect of exchange differences		185,319	(630,217)
Changes in consolidation perimeter		-	(468)
<b>Cash and cash equivalents at the end of the period</b>	20.d	<b>28,936,973</b>	<b>64,879,371</b>

As notas fazem parte integrante destas demonstrações financeiras.

(Amounts stated in Euros, except where otherwise mentioned)

### **1. Introduction**

On December 31, 2016, PHAROL now holds, indirectly through wholly owned subsidiaries, 183,662,204 common shares of Oi, representing 27.2% of total share capital of Oi (excluding treasury shares). PHAROL's voting rights in Oi are limited to 15% of the total common shares of Oi.

Currently, PHAROL considers it has significant influence over Oi and classifies Oi as an associate company. As a result, from July 30, 2015 (the date of the end of shareholder agreements) the investment in Oi continues to be accounted for according to the equity method, based on PHAROL's economic stake in Oi's results.

Based on the agreements concluded on March 30, 2015 between PHAROL and Oi, PHAROL currently holds Rio Forte debt securities with a nominal value of Euro 897 million and a Call Option for shares of Oi. On March, 31 2016, as a part of the options has reached maturity, PHAROL holds a call option on 42,691,385 common shares of Oi and 85,382,770 preferred shares of Oi.

### **2. Basis of presentation**

The consolidated financial statements for the financial year ending on December 31, 2016 were approved by the Board of Directors and authorized for issue on 27 April 2017.

The consolidated financial statements are presented in Euros since this is the operating currency of PHAROL. The financial statements of the investing companies given in foreign currency were converted to Euros according to the accounting policies described in Note 3.

The PHAROL consolidated financial statements were prepared according to the International Financial Reporting Standards ("IFRS") as adopted by the European Union, including all interpretations of the International Financial Reporting Interpretation Committee ("IFRIC") that were in effect on December 31, 2016, approved for adoption by the European Union (EU).

The consolidated financial statements were prepared on the assumption of continuity of operations.

In the preparation of the consolidated financial statements in compliance with IFRS, the Board of Directors adopted certain assumptions and estimates that affect the reported assets and liabilities, as well as income and costs relating to the reported periods (Note 3).

#### **a) Principles of consolidation**

##### Subsidiaries (Appendix A)

PHAROL fully consolidated the financial statements of all controlled companies. A company is considered to be controlled when the Group is exposed, or has rights, to variable returns resulting from its involvement with the investee and has the ability to affect those returns through the same power it exercises over that company. In situations where the Group has, in substance, control of other entities established for a specific

purpose, even if it does not possess a majority of the voting rights, they are consolidated using the full consolidation method.

When there is a participation of third parties in the equity and net income of the consolidated companies is presented separately in the Consolidated Statement of Financial Position and the Consolidated Income Statement, respectively, in the "Non-controlling Interests" caption.

The assets, liabilities and contingent liabilities of a subsidiary are measured at their respective fair value at the acquisition date. Any excess of the cost of acquisition over the fair value of identifiable net assets is recorded as goodwill. In cases when the cost of acquisition is less than the fair value of identifiable net assets, the difference is recorded as a gain in the consolidated statement of results for the year. The interests of non-controlling shareholders are presented by the respective proportion of the fair value of identifiable assets and liabilities.

The results of subsidiaries acquired or sold during the period are included in the Consolidated Income Statement from the date of acquisition or up to the effective date of disposal, respectively.

Transactions and balances between subsidiaries are eliminated on consolidation. Capital gains arising from transactions between Group companies are also eliminated in the consolidation process.

Where necessary, adjustments are made to the financial statements of subsidiaries with a view to standardizing their accounting policies with the Group.

#### Joint Ventures

The classification of investments as joint ventures is determined based on the existence of agreements that clearly demonstrate the existence of joint control. According to IFRS 11, investments in joint ventures are recognized using the equity method.

The assets, liabilities and contingent liabilities of joint ventures resulting from the acquisition of shareholdings in other companies are measured at fair value as of the acquisition date. Any excess of the cost of acquisition over the fair value of identifiable net assets is included in the carrying amount of the investment.

Where necessary, adjustments are made to the financial statements of joint ventures with a view to standardizing their accounting policies with the Group.

### **3. Principal Accounting Policies, Judgements and Estimates**

#### **Principal Accounting Policies**

##### **a) Classification of the Consolidated Statement of Financial Position**

Assets realizable up to one year from the date of the Consolidated Statement of Financial Position are classified as current. Liabilities are also classified as current when they are due in less than one year or when there is no unconditional right to defer their liquidation for a period of at least 12 months after the date of the Consolidated Statement of Financial Position.

## **b) Tangible Assets**

Tangible assets are stated at acquisition cost, net of accumulated depreciation, investment subsidies and accumulated impairment losses, if any. Acquisition cost includes: (1) the amount paid to acquire the asset; (2) direct expenses related to the acquisition process; and (3) the estimated cost of dismantling or removal of the assets.

They are depreciated on a straight-line basis from the month they are available for use, during its expected useful life. The amortization period of tangible assets is monitored annually and adjusted whenever necessary to reflect its economic useful life. The amount of the asset to be depreciated is reduced by any residual estimated value. The depreciation rates used correspond to the following estimated average economic useful lives:

	<b>Years</b>
Buildings and other constructions	3 - 50
Transportation equipment	4 - 8
Tool and dies	4 - 8
Administrative equipment	3 - 10
Other tangible fixed assets	4 - 8

Estimated losses resulting from the replacement of equipment before the end of their economic useful lives are recognized as a deduction to the corresponding asset's carrying value, against results of the period, as well as any impairment of these assets. The cost of recurring maintenance and repairs is charged to net income as incurred. Costs associated with significant renewals and betterments are capitalized if any future economic benefits are expected and those benefits can be reliably measured.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the assets, and is recognized in the Consolidated Income Statement under the caption "Gains on disposals of fixed assets, net" when occurred.

## **c) Intangible Assets**

When existing, intangible assets are stated at acquisition cost, net of accumulated amortization and accumulated impairment losses, if any. Intangible assets are recognized only if any future economic benefits are expected and those benefits as well as the cost of the asset can be reliably measured.

## **d) Investments in Associates**

All entities over which PHAROL hold significant influence, that have not been deemed as Subsidiaries or Joint Ventures, have been considered as Associates. The existence of significant influence has been considered whenever there exists power to participate in the decisions pertaining the financial and operational policies of the investees, though such participation does not constitute neither control nor joint control over those policies (Note 13). The associates are accounted through the equity method, such that the financial investment is initially recognized at cost, while the book value is increased or decreased, in order to recognize the share of the investor in the investee's income/(losses). The distributions obtained from an

investee reduce the financial investment's book value. It may also be necessary to perform adjustments to the financial investment's book value, to reflect changes to the investor's proportional interest in changes in the investee's equity, that have not been recognized in the investee's profit or loss. This share of equity changes is directly recognized in the investor's equity. If the Company's share over the losses of an associate equals or exceeds the amount of the financial investment, the recognition of additional losses is discontinued; following the reduction of the associate's book value to zero, the Company recognizes a liability if it has incurred in additional legal or constructive obligations. After the application of the equity method, the Company applies the requirements of IAS 39, in order to determine the need to recognize any additional impairment losses, with respect to the Company's interest in its associates.

#### **e) Impairment of Tangible and Intangible Assets**

The Group performs impairment tests for these assets if any event or change results in an indication of impairment. In case of any such indication, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of i) fair value less cost to sell, and ii) the value in use. In assessing fair value less cost to sell, the amount that could be received from an independent entity is considered, reduced by direct costs related to the sale. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the specific risk to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, an impairment loss is recognized immediately in the Consolidated Income Statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior periods. A reversal of an impairment loss is recognized immediately in net income.

#### **f) Provisions, Liabilities and Contingent Liabilities**

Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where any of the above-mentioned criteria does not exist, or is not accomplished, the Group discloses the event as a contingent liability, unless the cash outflow is remote.

Provisions for restructuring are only recognized if a detailed and formal plan exists and if the plan is communicated to the related parties.

Provisions are updated on the date of the Consolidated Statement of Financial Position, considering the best estimate of the Group's management.

Obligations for dismantling and removal costs are recognized from the month the assets are in use and if a reliable estimate of the obligation is possible (Notes 3.b). The amount of the obligation is discounted, being the corresponding effect of time value recognized in net income, under the caption "Net interest expense".

## **g) Financial Assets and Liabilities**

Financial assets and liabilities are recognized in the Consolidated Statement of Financial Position when the Group becomes a party of the respective contractual relationship.

### (i) Accounts Receivable

Accounts receivable, loans granted and other accounts receivable that have fixed or defined payments and that are not quoted in an active market are classified as accounts receivable or loans granted.

Accounts receivable do not have implicit interest, are presented at the respective nominal value deducted from estimated losses in yield, calculated essentially based (a) on the age of the balance receivable and (b) on the credit profile of the specific debtor.

### (ii) Financial liabilities and Equity Instruments

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities.

Equity instruments issued by the Group are recognized based on their proceeds, net of any issuance costs.

### (iii) Accounts Payable (Note 15)

Trade payables are recognized at nominal value, which is substantially similar to their fair value.

### (iv) Treasury Shares (Note 19)

Treasury shares are recognized as a deduction to shareholders' equity, under the caption "Treasury shares", at acquisition cost, and gains or losses obtained in the disposal of those shares are recorded under "Accumulated earnings".

### (v) Cash and Cash Equivalents and Short-Term Investments (Note 20)

The amounts included under "Cash and Cash Equivalents" correspond to the cash values, bank deposits, terms deposits and others, maturing in three months or less and that may be immediately callable with insignificant risk of change in value. The heading "Cash and Cash Equivalents" also includes deposits from clients and other entities that were not yet compensated. For the purposes of the Consolidated Cash Flow Statement, the heading "Cash and Cash Equivalents" also includes bank overdrafts included on the Consolidated Statement of Financial Standing under the heading "Short-Term Debt," where applicable.

## **h) Leases (Company as Lessee)**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The classification of leases depends on the substance of the transaction and not on the form of the contract.

Assets acquired under finance leases and the corresponding liability to the lessor are accounted for using the finance method, in accordance with the lease payment plan. Interest included in the rents and the depreciation of the assets are recognized in net income in the period they occur.

Expenses incurred during investigation are recognized in net income when incurred.



## **i) Income Tax**

Income tax for the period is recognized in accordance with IAS 12 Income Taxes ("IAS 12") and is comprised of current tax and deferred tax.

Within income tax for the period, in addition to current tax, the effect of the deferred tax is also recognized, calculated based on the difference between the carrying amount of the assets and liabilities at a given time and the corresponding amount for tax purposes.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are only recognized when there is reasonable assurance that they may be used to reduce future taxable profit, or when there is an offset with deferred tax liabilities that are expected to reverse in the same period. Deferred tax assets are reviewed at the date of the Consolidated Statement of Financial Position and are reduced when it is no longer probable that they will be used in the future.

Tax amounts, either in respect of current or deferred tax, resulting from transactions or events recognized directly in shareholders' equity are recorded directly in those captions. The impact of changes in the tax rate is recognized in net income, except when it relates to items recognized directly in shareholders' equity, in which case the impact is also recognized directly in shareholders' equity.

## **j) Foreign Currency Transactions and Balances**

Transactions denominated in foreign currencies are translated to the Euro at the exchange rates prevailing at the time the transactions are made. At the date of the Consolidated Statement of Financial Position, assets and liabilities denominated in foreign currencies are adjusted to reflect the exchange rates prevailing at such date. The resulting gains or losses on foreign exchange transactions are recognized in net income. Exchange differences on non-monetary items, including goodwill, and on monetary items representing an extension of the related investment and where settlement is not expected in the foreseeable future, are recognized directly in shareholders' equity under the caption "Cumulative foreign currency translation adjustments", and included in the Consolidated Statement of Comprehensive Income.

The financial statements of subsidiaries operating in other countries are translated to Euro, using the following exchange rates:

- Assets and liabilities at the exchange rates prevailing at the date of the Consolidated Statement of Financial Position;
- Profit and loss items at the average exchange rates for the reported period;
- Cash flow items at the average exchange rates for the reported period, where these rates approximate the effective exchange rates (and in the remaining cases, at the rate effective on the day the transaction occurred); and
- Share capital, reserves and retained earnings at historical exchange rates.

The effect of translation differences is recognized in shareholders' equity under the caption "Cumulative foreign currency translation adjustments" and is included in the Consolidated Statement of Comprehensive Income. In accordance with IAS 21, when a reduction of PHAROL's investment in a foreign entity occurs, through the sale or reimbursement of share capital, the accumulated effect of translation differences is transferred to the Consolidated Income Statement, considering the proportion of the reduction occurred.

PHAROL choose to use the exception under IFRS 1 relating to cumulative translation adjustments as of January 1, 2004 and transferred this amount from "Foreign currency translation adjustments" to "Accumulated earnings". As from January 1, 2004, the Group has been recognizing all translation adjustments directly in shareholders' equity and therefore these amounts are transferred to net income only if and when the related investments are disposed off or there is a repayment of the investment made.

#### **k) Borrowing Costs**

Borrowing costs are recognized as an expense when they are incurred. The Group does not capitalize borrowing costs, even those related to loans to finance the acquisition, construction or production of an asset, when the construction period of the tangible and intangible assets is relatively short.

#### **l) Consolidated Statement of Cash Flows**

The Consolidated Statement of Cash Flows is prepared under IAS 7, using the direct method. PHAROL classifies as "Cash and cash equivalents" all highly liquid investments, with original maturity of up to three months and an insignificant risk of change in fair value. The "Cash and cash equivalents" item presented in the Consolidated Statement of Cash Flows also includes overdrafts, classified in the Consolidated Statement of Financial Position under "Short-term debt".

Cash flows are classified in the Consolidated Statement of Cash Flows according to three main categories, depending on their nature: (1) operating activities; (2) investing activities; and (3) financing activities. Cash flows from operating activities include primarily collections from clients, payments to suppliers, payments to employees, payments relating to post retirement benefits and net payments relating to income taxes and indirect taxes. Cash flows from investing activities include primarily acquisitions and disposals of financial investments, dividends received from associated companies and purchase and sale of property, plant and equipment. Cash flows from financing activities include primarily borrowings and repayments of debt, payments relating to interest and related expenses, acquisition of treasury shares and payments of dividends to shareholders.

#### **m) Subsequent Events (Note 24)**

Events occurring after the date of the Consolidated Statement of Financial Position that could influence the value of the assets and liabilities existing on the date of said statement are considered when preparing the financial statements for the period. These events, if significant, are disclosed in the notes to the consolidated financial statements.

#### **Judgements and Estimates**

When preparing the consolidated financial statements in accordance with IFRS, PHAROL's Board of Directors uses estimates and assumptions that affect the application of accounting policies and reported amounts. Estimates and judgments are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be probable under the circumstances on which the estimates are based, or as a result of new information or more experience. The main accounting estimates reflected in the consolidated financial statements are as follows:

- (a) Valuation of the investment in Oi** – On May 5, 2014, the Company valued its new stake in Oi based on Oi's reference share price in the capital increase on that date, having as of that date, appropriated

its stake in Oi's income using the equity method. Additionally, from September 8, 2014, onwards, the portion of the investment to be delivered within the scope of the Exchange Agreement was classified as a non-current asset held for sale, and measured at fair value up till the execution of the Exchange Agreement on March 30, 2015. As at December 31, 2016 and 2015, the measurement of the Company's investment in Oi was based on its market value, namely the stock price.

**(b) Valuation of the Rio Forte instruments** – On March 30, 2015, the Rio Forte instruments were obtained, following the execution of the Exchange Agreement, over Oi's shares. As of that date, subsequent to a market consultation, the Company valued the instruments at 15% of their notional value. This valuation was reviewed as at September 30, 2016, and was reduced to 9.65%. On December 31, 2016 this valuation maintains.

**(c) Valuation and useful life of intangible and tangible assets** – PHAROL uses estimates to determine the useful life of its property, plant and equipment (Note 3).

**(d) Recognition of provisions and adjustments** – PHAROL is party to various ongoing legal claims for which, based on the opinion of its legal advisors, a judgment was made to determine the recognition of a possible provision for these contingencies (Note 17). Adjustments for accounts receivable are calculated based primarily on the aging of the accounts receivable, the risk profile of the customers and their financial situation.

The estimates were determined based on the best information available during the preparation of the consolidated financial statements, however, situations may arise in subsequent periods which, not foreseeable at that time, were not taken into consideration in these estimates. In accordance with IAS 8, changes to estimates which occur after the reporting date of the consolidated financial statements are applied prospectively in net income.

#### **4. Changes in Accounting Policies**

During fiscal year 2016, PHAROL has adopted the following standards issued by the International Accounting Standards Board (IASB) and approved by the European Union:

**(a) Annual Improvements 2010 – 2013.** The 2011-2013 annual improvements affects: IFRS 2, IFRS 3, IFRS 8, IAS 16, IAS 24, IAS 38 and IAS 40. There is no material impact in PHAROL's financial statements from these changes.

**(b) IAS 19 (amendment) 'Defined benefit plans – Employee contributions'.** This amendment applies to contributions from employees or third parties to defined benefit plans and aims to simplify the accounting when contributions are not associated to the number of years of service. There is no material impact in PHAROL's financial statements from this amendment.

**(c) IAS 16 and IAS 41 (amendment) 'Agriculture: Plants for production'** This amendment sets the concept of a plant that produce biological assets to consumption and remove these assets from IAS 41 scope. – Agriculture to IAS 16 – Tangible assets, with an impact in the measure. However, biological assets produced by these plants still in IAS 41 – Agriculture scope. There is no material impact in PHAROL's financial statements from this amendment.

- (d) IFRS 11 (amendment), 'Acquisition of an interest in a joint operation'** (generally effective for annual periods beginning on or after January 1, 2016). This amendment set out orientation about the accounting of acquisition of an interest in a joint operation, where is applicable IFRS 3 – Business Combinations. There is no material impact in PHAROL's financial statements from this amendment.
- (e) IAS 16 and IAS 38 (amendment), 'Clarification of all acceptable methods of depreciation /amortization'** (generally effective for annual periods beginning on or after January 1, 2016). This amendment clarifies that depreciation and amortization methods for assets base in credits obtained, are not considered adequate for the measure of pattern of consumption of the future economic benefits of the assets. Has a prospective application. There is no material impact in PHAROL's financial statements from this amendment.
- (f) Annual Improvements 2012 - 2014,** (generally effective for annual periods beginning on or after January 1, 2016). The 2012-2014 annual improvements affects: IFRS 5, IFRS 7, IAS 19 and IAS 34. The impacts pursuant to the adoption of these amendments are being evaluated by Management.
- (g) IAS 1 (amendment), 'Divulgence initiative'** (generally effective for annual periods beginning on or after January 1, 2016). This amend indicates about the materiality and aggregation, the presentation of subtotals, financial statements structures and account politics divulgation. There is no material impact in PHAROL's financial statements from this amendment.
- (h) IAS 27 (amendment) 'Equity method in separate financial statements'** (effective for annual periods beginning on or after January 1, 2016). This amendment allows entities to use equity method to measure investments in subsidiaries, joint ventures and associates in separate financial statements. This amendment applies retrospectively. PHAROL does not estimate any impact, pursuant to the adoption of this revised standard.
- (i) IFRS 10, IFRS12 and IAS 28 (amendments), 'Investment entities: applying consolidation exception'** This amendment clarifies some aspects of (f) IFRS 10, IFRS12 and IAS 28 regarding the exemption from the obligation to prepare consolidated financial statements by investment entities. There is no material impact in PHAROL's financial statements from this amendment.

Below are standards, amendments to the existing standards and interpretations that were published before and which the application is mandatory for annual periods beginning on or after January 1, 2017 and that PHAROL decided not to adopt them in advance.

- (a) IFRS 15 (new), 'Revenue from contracts with customers'** (effective for annual periods beginning on or after January 1, 2018). This standard is still subject to endorsement by European Union. This new standard, applies only to contracts with customers to provide goods or services, and requires an entity to recognize revenue when the contractual obligation to deliver the goods or services is satisfied and by the amount that reflects the consideration the entity is expected to be entitled to, following a five-step approach. The impacts pursuant to the adoption of this new standard are being evaluated by Management.

- (b) IFRS 9 (new), 'Financial instruments'** (effective for annual periods beginning on or after January 1, 2018). This standard is still subject to endorsement by the European Union. IFRS 9 replaces the guidance in IAS 39, regarding: (i) the classification and measurement of financial assets and liabilities; (ii) the recognition of credit impairment (through the expected credit losses model); and (iii) the hedge accounting requirements and recognition. The impacts pursuant to the adoption of this new standard are being evaluated by Management.
- (c) IFRS 10 and IAS 28 (amendment) 'Sale or contribution of assets between investor and its Associate or Joint venture'** (the effective date for this amendment has not yet been established). This amendment clarifies that the sale or contribution of assets between an investor and its associate or joint venture, entitles the investor to recognise a full gain or loss when the assets transferred constitute a business, and only a partial gain or loss (in the share owned by third parties) when it does not constitute a business. The European Union's endorsement process will only be initiated following the confirmation over the IASB's effective date for adoption of the changes. PHAROL does not estimate any impact, pursuant to the adoption of these revised standards.
- (d) IAS 12 (amendment), 'Recognition of deferred tax assets for unrealized losses'** (effective for annual periods beginning on or after January 1, 2017). This amendment is still subject to endorsement by the European Union. The amendment provides for clarification, on the matter of how to account for deferred tax assets, related with debt instruments measured at fair value. PHAROL does not estimate any impact, pursuant to the adoption of this revised standard.
- (e) IAS 7 (amendment), 'Disclosure initiative'** (effective for annual periods beginning on or after January 1, 2017). This amendment is still subject to endorsement by the European Union. This amendment demands that IFRS preparers to disclose information, with regards to the changes to a Company's finance liabilities, so that investors can better understand the changes to the liabilities that have occurred. The impacts pursuant to the adoption of this amendment are being evaluated by Management.
- (f) IFRS 14 (new), 'Regulatory deferral accounts'** (effective for annual periods beginning on or after January 1, 2016). The European Union has decided not to launch the endorsement process of this interim standard and to wait for the final standard to be published by the IASB. This standard permit first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize regulatory assets / liabilities, the referred amounts must be presented separately in the financial statements. PHAROL does not estimate any impact, pursuant to the adoption of this new standard.
- (g) IFRS 16 (new), 'Leases'** (effective for annual periods beginning on or after January 1, 2019). This standard is still subject to endorsement by European Union. IFRS 16 defines a single accounting model for leases by lessees, eliminating the distinction between finance and operating leases, from the perspective of the lessee. The impacts pursuant to the adoption of this new standard are being evaluated by Management.
- (h) IFRS 15 (amendment), 'Revenue from contracts with customers'** (effective for annual periods beginning on or after January 1, 2018). This standard is still subject to endorsement by European Union. These amendments impact pursuant to the adoption of this new standard are being evaluated by Management.

- (i) IFRS 2 (amendment) 'Classification and Measure of transitions of payments based in shares'** (effective for annual periods beginning on or after January 1, 2018). This standard is subject to European Union endorsement. These amendments to IFRS 2 are related with the classification and measuring in several issues which the presents orientation is not very clear. PHAROL does not estimate any impact, pursuant to the adoption of this new standard.
- (j) IFRS 4 (amendment) 'Applying IFRS 9 to financial instruments with IFRS 4 Insurance contracts'** (effective for annual periods beginning on or after January 1, 2018). This standard is subject to European Union endorsement. These amendments to IFRS 4 appear to address the concerns about the implementation of the new standard about financial tools (IFRS 9) before implementation of the standard about Insurance contracts that will replace IFRS 4, that still in the process of development. PHAROL does not estimate any impact, pursuant to the adoption of this new standard.
- (k) Annual Improvements 2014 – 2016**, (generally effective for annual periods beginning on or after January 1, 2017 or after January 1, 2018). These amendments are subject to European Union endorsement and affects: IFRS 12, IFRS 1 and IAS 28. The impacts pursuant to the adoption of these amendments are being evaluated by Management.
- (l) IFRIC 22 (new) 'Foreign Currency Transactions and Advance Consideration'** (generally effective for annual periods beginning on or after January 1, 2018). This interpretation is subject to European Union endorsement. IFRIC 22 establishes the exchange rate used in transactions involving a consideration received or payed in advance in foreign currency. PHAROL does not estimate any impact, pursuant to the adoption of this new standard.
- (m) IAS 40 (amendment) Transfers of investment property** (generally effective for annual periods beginning on or after January 1, 2018). These amendments are subject to European Union endorsement. Amendments to IAS 40 Investment Property clarify the application which provides guidance on transfers to, or from, investment properties. PHAROL does not estimate any impact, pursuant to the adoption of this new standard.

## 5. Exchange rates used to translate foreign currency financial statements

As at December 31, 2016 and 2015, assets and liabilities denominated in foreign currencies were translated to Euros using the following exchange rates to the Euro:

Currency	2016	2015
Real	3.4305	4.3117
USD	1.0541	1.0887

During the years 2016 and 2015, the financial statements, income statements and cash flows of subsidiaries and joint ventures denominated in foreign currencies were translated to euros using the following exchange rates to the Euro:

Currency	2016	2015
Real	3.8561	3.7004
USD	1.1066	1.1095

## 6. Wages and Salaries

The composition of this caption in the 2016 and 2015 financial years is as follows:

	2016	Euro 2015
Fixed and variable remuneration	1,566,291	2,670,066
Social security	393,420	540,590
Other	92,541	367,766
	<b>2,052,252</b>	<b>3,578,421</b>

## 7. Supplies and external services

The composition of this caption in the 2016 and 2016 financial years is as follows:

	2016	Euro 2015
Specialized work (i)	3,299,120	7,663,303
Insurance	323,982	397,065
Travel	151,528	363,973
Other	614,638	939,055
	<b>4,389,268</b>	<b>9,363,396</b>

(i) In 2016, this caption reflects mainly financial and legal services occurred in operational scope concerning the Oi investment in Brazil. In 2015, this caption reflects too mainly non-recurring financial and legal services associated with the business combination between PHAROL and Oi, and the tender offer to which PHAROL was subject.

## 8. Indirect taxes

The composition of this caption in the 2016 and 2015 financial years is as follows:

	2016	Euro 2015
VAT	559,845	4,257,791
Other	6,484	(1,030,585)
	<b>566,329</b>	<b>3,227,206</b>

## 9. Net interest income

The composition of this caption in 2016 and 2015 is as follows:

	2016	Euro 2015
<b>Interest income</b>		
Related to cash and cash equivalents (i)	(172,370)	(498,191)
Other	0	(2,280)
	<b>(172,370)</b>	<b>(500,471)</b>

(i) Interest income obtained in 2016 and 2015 essentially relates to cash amounts applied in term deposits by PHAROL and PHAROL Brazil.

## 10. Taxes and rates

In 2016, companies located in mainland Portugal are subject to Corporate Income Tax at a base rate of 21.0%, plus (1) up to a maximum of 1.5% of taxable income through a municipal tax, and (2) a state surcharge levied at the rates of 3.0% on taxable income between Euro 1.5 million and Euro 7.5 million, 5.0% on taxable income between Euro 7.5 million and Euro 35 million and 7.0% on taxable income in excess of Euro 35.0 million, resulting in a maximum aggregate tax rate of approximately 29.5% for taxable income higher than Euro 35 million. When calculating taxable income to which the above tax rate is applied, non-tax-deductible amounts are added to or subtracted from accounting records.

The composition of the corporate income tax for as at December 31, 2016 and 2015 is as follows:

	2016	Euro 2015
<b>Income tax</b>		
Income tax - current	21,550	59,096
Deferred taxes	-	-
	<b>21,550</b>	<b>59,096</b>

## 11. Earnings per Share

Earnings per share for 2016 and 2015 were as follows:

		2016	Euro 2015
<b>Net loss attributable to equity holders of Pharol</b>	(1)	<b>(75,077,177)</b>	<b>(693,892,303)</b>
<b>Weighted average common shares outstanding in the period (i)</b>	(2)	<b>870,760,000</b>	<b>875,872,500</b>
<b>Earnings per share from continuing operations</b>			
Basic and diluted	(1)/(2)	(0.09)	(0.79)

(i) In December 31, 2016, weighted average shares outstanding were calculated considering the 896,512,500 issued shares and considering the amount of 20,640,000 own shares on January 1, 2016 and adjusted for acquisitions in the period, culminating in a total of 30,865,000 owned shares.

In December 31, 2015, weighted average shares outstanding were calculated considering the 896,512,500 issued shares and considering the amount of 20,640,000 owned shares.

## 12. Taxes receivable and payable

On December 31, 2016 and 2015, this caption has the following composition:



	31 dec 2016		31 dec 2015	
	Receivable	Payable	Receivable	Payable
<b>Current taxes</b>				
Operations in Portugal				
Value-added tax		13,305	-	297,832
Income taxes		15,317	1,371	-
Personnel income tax withholdings		34,478	-	39,664
Social Security Contributions		68,045	-	48,126
Taxes in foreign countries	-	-	23,066	38,593
	-	<b>131,145</b>	<b>24,437</b>	<b>424,215</b>
<b>Non-current taxes</b>				
Taxes in foreign countries	67,747	6,696	0	0
	<b>67,747</b>	<b>137,841</b>	<b>24,437</b>	<b>424,215</b>

### 13. Investments in Joint Ventures and Associates

This line item corresponds to investments in joint ventures and associates, including investments in Oi and its controlling holding companies.

On September 8, 2014, as explained above, PHAROL entered into an Exchange Agreement with Oi, for the Exchange of a portion of Oi shares held directly by PHAROL for the Rio Forte Investment and the Call Option over the shares. The Exchange was completed on March 30, 2015, after obtaining all necessary approvals. Because of the Exchange, the portion of the investment in Oi delivered in connection with the Exchange was classified as a non-current asset held for sale and measured at fair value based on the price of Oi shares until the Exchange Agreement date. The remaining interest of 22.8%, including the interests of 15.9% and 3.0% held directly by PHAROL and Bratel Brasil, respectively, and the interest of 3.9% owned indirectly through the controlling holding companies of Oi, remained classified as an investment in joint ventures, measured according to the equity method of accounting. After the Exchange Agreement, on March 30, 2015, the interest was 27.5%.

As referred to above, leading up to the New Ownership Structure of Oi, the Shareholder Agreements through which Oi was jointly controlled were terminated on July 30, 2015. The simplification of the structure occurred on September 1, 2015, and led to the incorporation by Oi of several assets at fair value that were not previously booked by the holding companies.

As a result of the transaction, PHAROL's effective share in Oi reduced from 27.5% to 27.4%. Furthermore, during 2015, changes to Oi's bylaws were approved, which included a 15% limitation on the voting rights of any individual shareholder.

On October 8, 2015, Oi's Board of Directors homologated the voluntary conversion of Oi's preferred shares into common shares ("Voluntary Conversion of PSs"), approved the effective conversion of the preferred shares, object to the conversion manifestations in BM&FBovespa and in the Bank of Brazil, and accepted the conversion solicitations presented by the holders of American Depositary Shares ("ADSs") representative of preferred shares ("Preferred ADSs"). The ADSs representative of the new common shares, resulting from the Offer to Exchange, related with the Voluntary Conversion of PSs, were issued on October 13, 2015. Following this operation, PHAROL's effective stake in Oi decreased from 27.4% to 27.2%.

In accordance with IAS 28 – Investments in Associates and Joint Ventures, there is a presumption that significant influence exists when voting rights are higher than 20%. For voting rights less than 20%, there should be clear indications through which significant influence may be exercised. The limitation to 15% of

PHAROL's voting rights, considering the remaining available voting rights, represented as at December 31, 2016, an effective voting right of 18.83%. By analogy, IFRS 10 – Consolidated financial statements consider that control may occur when there is a concentration of significant voting rights, with the remainder of voting rights largely dispersed (“de facto control”). In Oi's shareholder structure, over 30% of ordinary shares are dispersed in free float, and two other shareholders besides PHAROL have voting rights of between 5% and 9% each.

As such, by analogy to the consideration of control in IFRS consolidated financial statements, PHAROL considers that it has significant influence over Oi, and as such, Oi is considered to be an associate. This investment is measured in accordance with the equity method, based on the economic share of Oi's earnings (27.2% as at December 31, 2016), reduced by any adjustments for impairment losses.

Accordingly, the company obtained from financial analyst an estimate of Oi's value in use, based on discounted in cash flows. It was determined that the market value corresponded to Oi's share price as at December 31, 2016. Thus, As a result of the analysis, the Oi investment, on December 31, 2016, was measured based on its stock exchange valuation, amounting to Euro 140.8 million, recognizing an impairment loss of Euro 361 million. Given the previous impairment recognized before in 2015, the net impact in the income statement was Euro 135 million.

### 13.1. Detail of investments in joint ventures and associates

As at December 31, 2016 and 2015, as described above and in accordance with IAS 28, PHAROL's investment in Oi as is measured in accordance with the equity method, reduced by any accumulated impairment losses.

The detail of these investments in joint ventures and associates was as follows:

	Euro million	
	2016	2015
<b>Investment in each associate entity</b>		
Oi - Equity method (i)	502	328
Oi - Impairment (i)	(361)	(226)
	<b>141</b>	<b>102</b>

(i) Following the simplification of the Oi shareholder structure, and the end of the Shareholder Agreements, this caption reflects the investment in Oi owned by PHAROL, 27.2%. As was previously commented, on December 31, 2015, an impairment analysis was carried out by an independent valuer, analysis which resulted in the measurement of the financial investment as its market value, corresponding to 183.7 million shares, R\$2.40 per share (Euro 0.56 per share), amounting to Euro 102.2 million. This valuation corresponds to the first fair value level of IFRS 13 – Fair value measurement. On December 31, 2016, and after applying the equity method, it was compare the historical cost, adjusted by equity method was compare with market value, which corresponded to 183.7 million shares, R\$2.6 per share (Euro 0.76 per share), representing Euro 141 million. In the light of Oi's stock exchange valuation, the Brazilian Real/Euro exchange evolution, as well the comprehensive income from Oi, this led to an increase of the previously recognized impairment.

The increase in value of the investment in Oi amounted to Euro 39 million is mainly explained by (1) the effective participation of PHAROL in the positive net income of Oi in 2016, which amounted to Euro 122 million, (2) the reversal of impairment from 2015 of Euro 226 million, that has been more than offset by the increase of Euro 361 million on December 31, 2016, resulting in a net impairment of Euro 135 million (3) the Euro 103 million positive impact of the real appreciation in 2016, and (4) the effective participation of

PHAROL in the net gains recorded by Oi directly in its shareholders equity during 2016, in the negative amount of Euro 51 million which mainly reflects the accumulated gains on the valuation of hedging derivatives amounting to Euro 28 million, which were more than offset by other changes in Oi's equity, including losses reflecting exchange rate adjustments amounting to Euro 80 million.

The detail of the assets and liabilities of Oi, for purposes of application of the equity method, is as follows:

<b>Oi, S.A.</b>		
<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>		
<b>31 DECEMBER 2016 AND 2015</b>		
	<b>Euro millions</b>	
	<b>2016</b>	<b>2015</b>
<b>Current Assets</b>	<b>7,785</b>	<b>8,829</b>
Cash and cash equivalents	2,205	3,455
Accounts receivable	2,433	1,943
Financial investments	34	418
Derivative financial instruments	-	141
Current assets held for sale	1,575	1,783
Judicial deposits	285	292
Other current assets	1,253	797
<b>Non-Current Assets</b>	<b>14,614</b>	<b>11,814</b>
Judicial Deposits	4,117	3,043
Derivative financial instruments	-	1,573
Deferred taxes	1,534	2,060
Other non-current assets	8,963	5,138
<b>Total assets</b>	<b>22,399</b>	<b>20,642</b>
<b>Current Liabilities</b>	<b>17,709</b>	<b>5,931</b>
Short-term debt	14,017	2,739
Accounts payable	1,854	1,161
Derivative financial instruments	31	461
Licenses and concessions payable	31	212
Provisions	223	237
Liabilities related to assets held for sale	159	173
Other liabilities	1,394	949
<b>Non-current Liabilities</b>	<b>2,614</b>	<b>13,228</b>
Debt	-	11,144
Derivative financial instruments	-	121
Licenses and concessions payable	1	2
Provisions	1,196	792
Other liabilities	1,416	1,170
<b>Total liabilities</b>	<b>20,322</b>	<b>19,159</b>
<b>Net Assets</b>	<b>2,077</b>	<b>1,483</b>
Share to non-controlling interests of Oi	231	276
<b>Net assets attributable to controlling interest of Oi</b>	<b>1,846</b>	<b>1,207</b>
Effective share of PHAROL in Oi	27.2%	27.2%
<b>Total Investment from Pharol in Oi</b>	<b>502</b>	<b>328</b>

As stated in Oi's Financial Statements, Note no. 2 (b), on December 31, 2016, "the financial statements for the year ended December 31, 2015, presented herein for purposes of comparison, were subject to adjustments aimed at retrospectively stating the effects of the net assets related to the accounting treatment of goodwill recognized in non-current assets of TmarPart, effective starting September 1, 2015, date of approval of the merger of TmarPart with and into Oi. The accounting treatment of goodwill was a material fact disclosed by the Company on August 1, 2016.

As regard TmarPart's net assets, it is worth mentioning that as at June 30, 2015 TmarPart's recognized in its balance sheet a property, plant and equipment and intangible assets appreciation amounting to R\$6,347 million, net of taxes. In light of the corporate events that occurred from June 30, 2015 and the merger date, September 1, 2015, notably the termination of the Shareholders' Agreement then in place involving TmarPart, and the approval, at the Company's Extraordinary Shareholders' Meeting held on September 1,

2015, the start of the period for the voluntary conversion of the Company's preferred shares into common shares, and the merger of TmarPart with and into the Company, the external technical opinions obtained by the Company, and taking into account the lack of a specific accounting standard on mergers of entities under common control in the International Financial Reporting Standards ("IFRSs") and the accounting practices adopted in Brazil, and the existence of interpretations indicating that upon a merger maintaining or reversing goodwill is an accounting policy option, the Company had not recognized said goodwill in its balance sheet.

As prescribed by ICPC 09 (R2), paragraphs 77 and 78 and CVM Instruction 319/1999, on December 7, 2015 the Company filed with the CVM a technical inquiry and on July 29, 2016 received Official Letter No. 149/2016-CVM/SEP/GEA-5 from the Exchange Commission's Department of Company Relations ("SEP") replying to the Company's inquiry on the treatment of goodwill. According to the SEP, "goodwill should not be derecognized by TmarPart but, instead, kept in the net assets to be merged with and into Oi, following the valuation basis of the net assets acquired as a result of the business combination between independent parties that took place at the time of the acquisition of Brasil Telecom S.A." The company filed an appeal with the CVM 's Board against the SEP's decision, pursuant to CVM Resolution 463/2003, of August 15, 2016.

During the 2016 annual closing process, the Company reassessed the situation at hand and taking into account the content of the conclusions laid down in said official letter, is restating its financial statements for the year ended December 31, 2015 (...)"

The impact of the recording of this adjustment on December 31, 2015, led to an increase in total assets and shareholders' equity of R\$5,993 million, and decrease of R\$234 million in net results of December 31, 2015, net of tax effects as a result of the amortization applicable in the year.

According to the Independent Auditors' Report on Oi's individual and consolidated financial statements, referring to December 31, 2015, there is an impairment loss associated with this goodwill that was not considered by the Company. This matter is also mentioned in the Independent Auditors' Report on Oi's individual and consolidated financial statements, regarding December 31, 2016.

Based in the above, PHAROL has consistently opted to disconsider this gain in its financial statements.

### 13.2. Detail of PHAROL's share in the earnings of joint ventures and associates

Gains/(losses) in joint ventures and associates were accounted for through the equity method of accounting - their composition for the years ended December 31, 2016 and 2015 is as follows:

	Euro million	
	2016	2015
<b>Joint ventures</b>		
<b>Effective share in the earnings of each entity</b>		
Oi (i)	-	(2)
Oi Holding companies (ii)	-	(1)
<b>Gain resulting from the increase in the interest held in Oi (iii)</b>	-	131
<b>Reversal of provision (iv)</b>	-	(141)
	-	<b>(13)</b>
<b>Associates</b>		
<b>Effective share in the earnings of each entity</b>		
Oi (v)	122	(356)
Oi Holding companies (vi)	-	(0)
Effective participation in Oi's Losses	-	(6)
<b>Impairment Reversel/(Loss) (viii)</b>	(135)	(226)
	<b>(13)</b>	<b>(587)</b>
<b>Earnings of joint ventures and associates</b>	<b>(13)</b>	<b>(600)</b>

(i) This caption reflects the effective participation of PHAROL in the Oi's results up to July 30, 2015. The breakdown of Oi's annual results that were used in the equity method are outlined below.

(ii) This caption reflects the effective participation of PHAROL in the Oi's controlling holding companies excluding these entities' share in the earnings of Oi, calculated through the equity method of accounting up to July 30, 2015.

(iii) This caption corresponds to the gains recorded directly and indirectly, through the controlling holdings of Oi, by PHAROL totaling Euro 131 million, relating to the increase in the stake held in Oi as a result of the reduction in the number of Oi's outstanding shares following the completion of the Exchange.

(iv) This cost of Euro 141 million corresponds to the estimated impact recorded on December 31, 2014 relative to the increase in the stake held in Oi, following the completion of the Exchange, which was deducted from the provision for the Exchange. This amount, net of the effective gain of Euro 131 million recorded in 2015, as mentioned above, resulted in a total net loss of Euro 10 million recorded in 1Q15, mainly associated with the reduction in Oi's shareholders equity between 4Q14 and 1Q15.

(V) This caption reflects the effective participation of PHAROL in the Oi's results from July 30, 2015 to December 31, 2015 and in 2016. The detail of Oi's annual results that were used for the application of the equity method is presented below.

(vi) This caption reflects the effective participation of PHAROL in the results of Oi's holding companies, deducted from the participation of these entities in the results of Oi calculated through the application of the equity method from July 30, 2015 to September 1, 2015. This caption relates essentially to PHAROL's participation in general and administrative expenses incurred by TmarPart.

(vii) This caption reflects the losses in participation, consequent to the incorporation transaction on September 1, 2015, and to the conversion of preferred shares to common shares.

(viii) As was previously commented, an impairment analysis was carried out by an independent valuer, analysis which resulted in the measurement of the financial investment as its market value, corresponding to 183.7 million shares, R\$2.63 per share (Euro 0.77 per share), amounting to Euro 140.8 million, leading to the recognition of an additional impairment loss of Euro 135 million.

The detail of the earnings and losses of Oi that were used for the application of the equity method of accounting, which were adjusted for the purchase price allocation, as well as other adjustments, to conform to PHAROL's accounting policies, are as follows:

	Euro millions	
	2016	2015
<b>Services rendered and sales (i) (ii)</b>	<b>6,742</b>	<b>7,392</b>
<b>Operating expenses excluding amortization (i)</b>	<b>3,010</b>	<b>5,286</b>
Interconnection (iii)	304	489
Personnel (iv)	740	735
Third-party services (v)	1,659	1,707
Grid maintenance service (vi)	399	514
Rentals and insurance (vii)	1,123	973
Other operating income (expenses), net	(1,216)	868
<b>Operating income excluding amortization</b>	<b>3,732</b>	<b>2,106</b>
Depreciation and amortisation	1,378	1,376
<b>Income from operations</b>	<b>2,354</b>	<b>730</b>
Financial expenses	855	2,271
<b>Income before taxes</b>	<b>1,499</b>	<b>(1,541)</b>
Income taxes	1,096	193
<b>Net income from continuing operations</b>	<b>403</b>	<b>(1,734)</b>
Net income from discontinued operations	0	289
<b>Net income</b>	<b>403</b>	<b>(1,445)</b>
Share to non-controlling interests	(46)	(112)
<b>Net income attributable to controlling interests</b>	<b>449</b>	<b>(1,334)</b>

(i) The y.o.y comparison of these captions is positively affected by the appreciation of the Real against the Euro. The explanation for the changes in these captions on a comparable basis is presented below.

(ii) Excluding the effect of the Real appreciation against the Euro and the consolidation of revenues from operations in Africa, Brazilian revenues would have decreased by 4.8% y.o.y, reflecting primarily lower revenues in the (1) Residential segment (-2.%), (2) Personal mobility (-6,5%), with a small impact from the decrease in customer revenue(-1.9%) and a larger impact from the decrease in network use revenues, which were impacted by MTR and resale goods reduction, as a result of the outsourcing of equipment sales, and (3) Enterprise/ SMEs (-4.7%). In the years ended December 31, 2016 and 2015, the breakdown of revenues by customer segment is as follows:

	Euro millions	
	2016	2015
Residential	2,432	2,643
Personal	2,035	2,278
Enterprise/Corporate	1,973	2,155
Others	302	316
	<b>6,742</b>	<b>7,392</b>

(iii) The decrease in interconnection costs reflects primarily a drop in MTR rates, in February 2016, partly offset by higher off-net traffic.

(iv) The decrease in personnel costs reflects the reduction in headcount, as well as the adoption of several optimization measures, undertaken to increase productivity and efficiency, overtime control and on-call hours, coupled with a more restrictive hiring policy.

(v) Third party service costs, were impacted by the increase in higher expenses with pay TV content and consulting services, partly offset by lower cost from electric energy, call center and legal advice.

(vi) Network maintenance services costs in Brazil decreased y.o.y, mainly due to internalization, delivered before by third parties, allowing for an improvement in network quality and maintenance, and consequently in a reduction in maintenance costs.

(vii) The increase in rental and insurance costs results from higher cost with vehicles in respect of maintenance services, and to the contractual increase in submarine cable capacity (Globenet).

The application of the equity method in the accounting of the Oi's Investment has been made historically with reference to Oi's adjusted balance sheet and equity, mainly due to the difference that existed between the book value presented and the respective market value, at the time of Oi capital increase on May 5, 2014.

In December 2016, taking into account that Oi's losses have confirmed the adjustment prudently made, it was considered to it will no longer be necessary (having actually been consumed) for the calculation of the equity method, starting from December 31, 2016, so that the statement of financial position was no longer adjusted in this respect.

PHAROL recorded its share in the earnings of Oi under the equity method of accounting based on its effective interest held during 2016 (27.2%) and 2015 (22.8% until March 30, 27.5% until September 1, 27.4% until September 30, and 27.2% until December 31).

#### **14. Other non-current assets**

The composition of this caption mainly comprises (1) an estimated future recovery of Euro 85.7 and Euro 134.6 million related to the debt securities issued by Rio Forte on December 31, 2016 and December 31, 2015, and (2) Euro 1.6 and 6.4 million related to the value of the Call Option on December 31, 2016 and December 31, 2015, respectively.

Regarding the debt securities issued by Rio Forte, after having been made aware of the Report of the Judicial Administrators in the Rio Forte insolvency case (Rapport n° 4 des Curateurs), dated August 31, 2016, available at [www.espiritosantoinsoleuvres.lu](http://www.espiritosantoinsoleuvres.lu), PHAROL began procedures to assess the financial, accounting and legal implications of the information contained in section 2.1.6., which is transcribed in a free translation as follows:

"Expected recovery

The information currently available to the Judicial Administrators does not allow an estimate of either the total recovery or the recovery to be made by the company currently in bankruptcy proceedings.

It cannot be excluded that judicial seizing and the eventual rights of third parties involved will prolong or even definitively prevent the bankrupt estate from recovering and distributing certain assets. In fact, it is not excluded that the judicial authorities have the objective of confiscating the assets now seized."

The Board of Directors of PHAROL, after taking appropriate measures and supported by the analysis of its advisers, concluded, based on the principle of prudence, that the expected recoverability of the insolvent estate and, consequently, PHAROL's expected recoverability of its debt instruments of Rio Forte, have

reduced. PHAROL's investment in the Rio Forte securities was initially valued at fair value upon initial recognition on March 30, 2015 and subsequently measured at amortized cost less any impairment losses. Based on the principles of IAS 39, taking into account available information, Management used its judgment in the definition of assumptions that culminated in a valuation of the amount due from Rio Forte at 85.7 million euros at December 31, 2016. This reflects an appraisal of some 9.5% of the nominal value, against approximately 15% of the nominal value at December 31, 2015, which resulted in the accounting for an impairment of € 48.8 million.

## 15. Accounts Payable

As at December 31, 2016 and 2015, the composition of this caption is as follows:

	<b>2016</b>	<b>Euro 2015</b>
<b>Current accounts payable</b>		
Current suppliers	31,993	1,367,580
Others	2,298,697	361,558
	<b>2,330,691</b>	<b>1,729,138</b>

## 16. Accrued Expenses

As at December 31, 2016 and 2015, the composition of this caption is as follows:

	<b>2016</b>	<b>Euro 2015</b>
Supplies and external services (i)	5,307,865	6,118,641
Vacation pay and bonuses	370,915	394,271
Others	37,848	26,684
	<b>5,716,629</b>	<b>6,539,596</b>

(i) This caption relates mainly to certain non-recurring financial consulting and legal fees incurred in connection with the business combination between PHAROL and Oi, which are completely recognized.

## 17. Provisions

As at December 31, 2016 and 2015, the composition of this caption is as follows:

	<b>2016</b>	<b>Euro 2015</b>
<b>Provisions for risks and costs</b>		
Litigation	73,500	73,500
Taxes	2,358	2,358
	<b>75,858</b>	<b>75,858</b>

## 18. Guarantees and financial commitments

As at December 31, 2016 and 2015, this caption has the following composition:



	<b>2015</b>	<b>Euro 2014</b>
Provisions for risks and costs	376,715,726	384,314,678
Litigation	-	12,843,050
	<b>376,715,726</b>	<b>397,159,742</b>

The bank and other guarantees presented to the tax authorities essentially include Euro 377 million related to the tax assessments received by PHAROL. The company presented legal challenges to these assessments and, in accordance with the Portuguese Law, provided collateral, in order to avoid the initiation of enforcement proceedings, which, in the absence of guarantee or payment of the contested tax, would continue until the request of a pledge of sufficient assets to cover the requested tax. The Portuguese Law, while always allowing for the appeal over taxes liquidated by the tax authorities, only suspends enforcement proceedings upon payment of the tax, or the provision of a guarantee. Providing a guarantee of security, thereby, avoids the payment of tax before the appeal decision or attachment of assets in enforcement proceedings. These guarantees were presented by PHAROL as the controlling company of the consolidated tax in the years in question, even though, as at December 31, 2016, the contingencies associated to these guarantees are not the Company's responsibility, having been contractually transferred to Oi, while PHAROL remains and severally liable for these contingencies. According to the agreements with Oi, Oi is obliged to substitute the bank guarantees provided by PHAROL to the tax authority for guarantees provided by Oi. In cases where this substitution is not possible, Oi has undertaken to provide guarantees with the same value in favor of PHAROL. As such, on December 31, 2016, a Pledge Agreement on the shares of Telemar Norte Leste with a maximum amount up to the limit of the potential liabilities currently.

## 19. Capital

### 19.1. Share capital

The share capital of PHAROL, which is fully subscribed and paid in, was as at December 31, 2016 and 2015, Euro 26,895,375, represented by 896,512,500 common shares, with a nominal value of three Euro cents each.

### 19.2. Treasury shares

As at December 31, 2016 and 2015, this caption is made up as follows:

	<b>2016</b>	<b>Euro 2015</b>
Shares held by PHAROL	179,675,995	178,071,827
	<b>179,675,995</b>	<b>178,071,827</b>

PHAROL, between February 1 and April 11, 2016, acquired 10,225,000 treasury shares, in the amount of Euro 1,603,908. After these purchase transactions, PHAROL held 30,865,000 treasury shares, corresponding to 3.44% of the share capital PHAROL

### 19.3. Legal reserve

Commercial law and PHAROL's articles of association provide that at least 5% of the net annual income must be appropriated to strengthen the legal reserve until this reserve represents 20% of the share capital. This

reserve is not available for distribution to shareholders, unless on company liquidation, but may be used to absorb losses, once all other reserves have been exhausted, or for incorporation in the share capital. As at December 31, 2016 and 2015, the legal reserve was Euro 6,773,139 and was already fully incorporated, corresponding to more than 20% of the share capital.

#### 19.4. Reserve for treasury shares

The reserve for treasury shares relates to the recognition of a non-distributable reserve equivalent to the nominal value of the cancelled shares, or to the acquisition cost of treasury shares held by PHAROL. This reserve has the same legal regime as the legal reserve. As at December 31, 2015 and 2014, this reserve relates to shares cancelled on December 20, 2007, March 24, 2008, and December 10, 2008, in the amount of Euro 6,970,320, as well as the treasury shares acquired between 2014 and 2016, amounting to Euro 179,675,995.

#### 19.5. Revaluation reserve, other reserves and accumulated earnings

As at December 31, 2016 and 2015, this caption was made up as follows:

	2016	Euro 2015
Retained earning	1,711,919,539	2,405,811,842
Net income	(75,077,177)	(693,892,303)
Free reserves	105,209,244	105,209,244
Cumulative foreign currency translation adjustments (i)	(992,004,140)	(1,014,350,423)
Income and expenses recognized directly in equity (ii)	(542,117,647)	(544,084,609)
	<b>207,929,819</b>	<b>258,693,752</b>

(i) The change in this caption reflect (1) The adjustments of the exchange rate applied to investments in Oi and its controlling shareholders in 2016 and 2015, as well as the foreign exchange rate adjustments related to international operations, from January 1 until April 30, 2014, which were transferred to Oi under the capital increase on May 5, 2014, in the total amount of Euro 160 million, and (2) the accumulated value of the foreign exchange rate adjustments related to discontinued activities in the amount of Euro 39 million, which was transferred to net income, on their date of contribution to the Oi capital increase carried out on May 5, 2014 (Note 1).

(ii) This caption relates to the accumulated amount of net losses recorded directly in own capital from March 2011, to December 31, 2014, under the application of the equity method to the Oi investment and to its controlling shareholders. The increase that occurred in 2015 is related to losses directly recorded by Oi against equity as explained in the Consolidated Statement of Comprehensive Income. On May 5, 2014, the Company transferred to accumulated earnings the losses related to subsidiaries that were transferred to Oi under the capital increase (Note 1).

## 20. Consolidated Statement of Cash Flows

### (a) Payments to suppliers

During 2016, payments to suppliers mainly reflect payments of as third party suppliers and consultants.

### (b) Dividend payment

In 2016, this item refers to the dividend payment of Euro 0.03 per share.

### (c) Acquisition of own shares

In 2016, this item includes the amounts spent on the acquisition of own shares by PHAROL.

### (d) Cash and cash equivalents at the end of the period

As at December 31, 2016 and 2015, the composition of this caption is as follows:

	2016	Euro 2015
Cash	4,426	1,080
Demand deposits	7,521,591	22,038,990
Time deposits	21,410,956	42,839,302
	<b>28,936,973</b>	<b>64,879,371</b>

## 21. Related Parties

### a) Associated Companies and Joint Ventures

The table below presents the transactions that occurred during the years ended December 31, 2016 and 2015.

Company	Euro	
	2016	Costs and losses 2015
Joint ventures	-	681,470
	-	<b>681,470</b>

### b) Other

During the years ended December 31, 2016 and 2015, the fixed remuneration of the Board members, which was established by the Remuneration Committee, amounted to Euro 0.88 million and Euro 1.6 million, respectively.

On December 31, 2016 and 2015, no share-based payment was in force, nor any termination benefit program.

## 22. Shareholders with Qualified Holdings

The Company believes that it is relevant to disclose outstanding balances and transactions with its main shareholders, namely those with a qualified holding of more than 2% in PHAROL's share capital, and with all the entities reported by these shareholders as being part of the respective economic groups. The tables below present the balances as at December 31, 2016 and 2015, and the transactions occurred in the years ended December 31, 2016 and 2015 between PHAROL and the entities that are identified as shareholders with qualified holding and respective economic groups:

	2016		Euro 2015	
Shareholder	Cash and cash equivalents	Accounts payable	Cash and cash equivalents	Accounts payable
Banco Comercial Português, S.A.	9,173,984	-	18,884,555	-
Novo Banco, S.A.	9,422,106	-	20,755,397	-
	<b>18,596,090</b>	<b>-</b>	<b>39,639,952</b>	<b>-</b>

	2016		Euro 2015	
Shareholder	Costs and losses	Net interest income	Costs and losses	Net interest income
Banco Comercial Português, S.A. (i)	3,678	20,149	-	-
Novo Banco, S.A.	405	27,343	1,152,712	25,293
	<b>8,168</b>	<b>47,492</b>	<b>1,152,712</b>	<b>25,293</b>

(i) There are only presented the transactions after the acquisition of a qualified holding.

## 23. Financial instruments

### 23.1. Financial risks

PHAROL is exposed basically to (i) market risks related with changes in currency exchange rates and interest rates, (ii) credit risks and (iii) liquidity risks. The main objective of risk management at PHAROL is to reduce these risks to an acceptable level.

#### 23.1.1 Currency exchange risk

Currency exchange risks are essentially related with PHAROL investments in Brazil. On December 31, 2016 and 2015, net exposure (assets less liabilities, net of non-controlling interests) in Brazil amounted to R\$487.7 million (Euro 142.2 million) and R\$468 million (Euro 108.5 million), respectively. Risks relative to Company investments in operations abroad basically concern joint venture investments and associates (Note 1). PHAROL does not have any contracted derivative instrument to hedge currency exchange risk associated with investments in foreign companies.

The effect on PHAROL's equity resulting from hypothetical changes in relevant risk variables is the impact of the valuation (devaluation) of the Real against the Euro in 0.1, from 3.43 to 3.33 (3.53), would be an increase (decrease) in net assets on December 31, 2016, of approximately Euro 4.3 million (Euro 4 million), corresponding to adjustments in currency exchange conversion for investments in Brazil.

#### 23.1.2 Credit risks

Credit risk is essentially associated with the risk of a counterpart defaulting on contractual obligations, resulting in a financial loss to the Group. PHAROL is essentially subject to credit risk in its operational and treasury activities.

Criteria used to calculate adjustments to accounts receivable are based on a recoverability analysis of accounts receivable on a regular basis.

On December 31, 2016, the receivables balance was not considered as significant.

Risks associated with treasury activities essentially result from investments made by the Group in cash investments. As mentioned before, in order to mitigate this risk, PHAROL put into place an investment diversification policy as of July 2014, so that investment in a financial institution is not greater than 34% of

the total treasury applications. Thus, it ensures that amounts are invested in short term applications in diverse and reputed financial institutions.

The Company is also subject to credit risk in its investment in Rio Forte Investments, but has adjusted the value accordingly.

#### 24. Subsequent events

Oi's stock price evolution between December 31, 2016, and March 31, 2017, is to be found below:

	<b>31 dez 2016</b>	<b>31 mar 2017</b>
Oi ON Share Price (real)	2.630	4.140
Oi PN Share Price (real)	2.250	3.920
Exchange Rate real/euro	3.431	3.380
Oi ON Share Price (euros)	0.767	1.225
Oi PN Share Price (euro)	0.656	1.160

# **PHAROL, SGPS S.A.**

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**REPORT AND OPINION OF THE FISCAL COUNCIL**

**REPORT AND OPINION**  
**OF THE FISCAL COUNCIL**  
**Financial Year of 2016**  
**(Consolidated accounts)**

To the Shareholders of  
PHAROL, SGPS S.A.

As required by Article 420.1 g) of the Portuguese Companies Code, it falls to us, as the members of the Fiscal Council of "PHAROL, SGPS, S.A." (referred to below as PHAROL) to issue our annual report on our audit activities and to issue our opinion on the management report and consolidated financial statements presented by the Board of Directors for the year ended December 31, 2016.

### **I. Introduction**

As the supervisory body, it is incumbent on us to mention that:

- i) On June 20, 2016, Oi, S.A. (referred to below as Oi), reported that, together with its wholly owned subsidiaries, direct and indirect, Oi Móvel S.A., Telemar Norte Leste S.A., Copart 4 Participações S.A, Copart 5 Participações S.A., Portugal Telecom International Finance BV, Oi Brasil Holdings Coöperatief U.A. ("Oi Companies"), the Company had filed a request for judicial recovery of the Oi Companies before the Court of the State of Rio de Janeiro;
- ii) Oi's performance is, presently, subject and dependent of the evolution of the judicial recovery process and, should the negotiations with creditors prove unsuccessful, Oi may face serious difficulties in the normal development of its activities.

### **II. Supervisory Activities**

1. The Fiscal Council carried out its functions on a regular basis, through periodic meetings with those responsible for each relevant area and also through obtaining information and complementary explanations. This includes the presentation of main trends and evolution in terms of developments in respect of the management of PHAROL's activities.
2. The Fiscal Council likewise proceeded to appreciate the financial information produced during 2016, having carried out the analysis and verifications judged to be convenient and necessary.

3. The Fiscal Council's work consisted, at all times, in complying with requirements established in law, permanent monitoring of PHAROL's affairs and checking that the valuation criteria adopted in preparing the accounts are in accordance with the International Financial Reporting Standards (IFRS) in force and adopted by the European Union. We also checked the financial information produced during the financial year of 2016, conducting the analyses we deemed useful and necessary.
4. The Fiscal Council met ten times during 2016, and has undertaken a range of tasks, most notably:
  - i) Monitoring the quality, integrity and effectiveness of the internal control and risk management systems;
  - ii) Oversight of the preparation of the consolidated financial information;
  - iii) Checking that accounting records are duly kept and that the consolidated financial statements and reports are accurate;
  - iv) Assessing the accounting policies and valuation criteria adopted by PHAROL, looking in particular at their adequacy and consistency, so as to ensure that they lead to a correct valuation of the company's assets and results;
  - v) Verifying that the consolidated financial statements comply with the applicable legal requirements;
  - vi) Analysis of the disclosed consolidated financial information.
5. In the course of its duties, the Fiscal Council exercised its powers to confirm and check the qualifications and independence of the external auditor and statutory auditor, and to oversee the exercise of their duties, holding regular meetings with the statutory auditor, who at all times provide full explanations of technical and accounting matters, as deemed necessary.

It also took note of the findings of internal and external audits of the consolidated financial statements for the financial year of 2016, which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity the consolidated statement of cash flows and respective notes.

The Statutory Auditor and External Auditor accompanied the preparation of the consolidated financial statements of PHAROL, having indicated to the Fiscal Council its conclusions and its agreement with the documents prepared by the Board of Directors.



Through the Additional report addressed to the Fiscal Council, the Statutory Auditor and External Auditor communicated the relevant aspects of the work performed and respective conclusions.

It assessed the Statutory and Auditors' Certification and Audit Report on the consolidated financial information, issued with reservations and with emphasis of matter paragraphs, by the statutory auditor and external auditor, which it endorsed.

It is the understanding of the Statutory Auditor and External Auditor that the following are Key Audit Matters:

- i) Measurement of the investment in Oi, S.A.
- ii) Measurement of the investment in debt instruments issued by Rio Forte Investments, S.A.
- iii) Measurement of the call option of Oi, S.A. shares

In these areas, the relevant audit procedures and testing was developed considering the circumstances.

6. In the course of its duties, the Fiscal Council confirmed that the Directors' report mentions the most significant administrative facts, complements the accounts and contains references to PHAROL's business activities, with adequate explanations of its management over the period.
7. In the exercise of its powers, and as required by Article 420.5 of the Portuguese Companies Code, the Fiscal Council also confirmed that the report issued on corporate governance structure and practices includes the disclosures required by Article 245-A of the Securities Code.

### **III. Responsibility statement**

The Fiscal Council hereby declares that, as far as it is aware, the information required in Article 245.1 a) of the Securities Code, for the consolidated accounts for the year ended on December 31, 2016:

- i) Was drawn up in accordance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, the financial situation and the results of PHAROL and the companies included in its consolidated accounts;
- ii) Accurately describes the evolution of the affairs, performance and position of PHAROL and the companies included in the consolidated accounts; and
- iii) Contains a description of the main risks and uncertainties faced by PHAROL in its business activities.

#### **IV. Opinion**

On the basis of the report set out above, our audit activities and the conclusions of the Statutory and Auditors' Certification and Audit Report on the consolidated financial information, and taking into consideration the information received from the Board of Directors, from PHAROL's services and from the Statutory Auditor and External Auditor, it is our opinion that the General Meeting of PHAROL should approve the management report and consolidated financial statements and reports for the financial year of 2016.

Lastly, the members of the Fiscal Council wish to acknowledge and express their appreciation for the assistance provided by the Board of Directors, the senior managers and other staff of PHAROL.

Lisbon, April 27, 2017

#### THE FISCAL COUNCIL

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José Maria Ribeiro da Cunha — Chairman

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Isabel Maria Beja Gonçalves Novo — Member

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Pedro Miguel Ribeiro de Almeida Fontes Falcão - Member

# **PHAROL, SGPS S.A.**

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**STATUTORY AUDITORS' CERTIFICATION AND AUDIT REPORT**

## STATUTORY AUDITORS' CERTIFICATION AND AUDIT REPORT

(free translation of the original issued in Portuguese)

### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### Qualified Opinion

We have audited the accompanying consolidated financial statements of Pharol, SGPS, SA Group (the Group), which comprise the consolidated statement of financial position as at December 31, 2016 (which presents a total of 257 832 993 euro and total equity of 248 568 653 euro, including a net loss of 75 077 177 euro), the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, along with the corresponding notes which include a summary of the significant accounting policies.

In our opinion, except for the possible effects of the matter described in the “Basis for qualified opinion” section of our report, the accompanying consolidated financial statements present fairly, in all material respects the financial position of the Group as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

#### Basis for qualified opinion

Bearing in mind the Independent auditors' report on the individual and consolidated financial statements for the year ended December 31, 2016 of the significant component Oi, SA, dated March 22, 2017, we highlight the following text included in the respective “Basis for Disclaimer of Opinion”, taking into account the note 13 to the present consolidated financial statements: *“Judicial reorganization plan and assets recoverable amount - According to explanatory note nº 1 to the financial statements, on June 29, 2016, Oi S.A. and certain direct and indirect subsidiaries joined on the Judicial Reorganization Process. On September 5, 2016 the Company's Board of Directors approved the Judicial Reorganization Plan (“Plan”), which have not been approved by the Creditors' General Meeting (“AGC” - Assembleia Geral de Credores) up to the date of completion of our work. There are still a number of ongoing discussions and inquires*

*about relevant conditions of the Plan, Therefore, we were currently unable to determine what the effects will be, if any, on the current Plan. Due to these issues, we are not able to conclude whether the use of the going concern assumption, which is the basis for the preparation of those financial statements for the year ended December 31, 2016, is appropriate, nor what the effects would be on the balances of assets, liabilities and on items comprising the statements of income, comprehensive income, changes in shareholders' equity and cash flows if the financial statements were not prepared under this assumption. In these uncertain context, which can significantly affect the Company's investment capacity in future operations, which in turn would result in a potential impairment of assets, management, until the date of completion of our work, had not completed the asset impairment testing as required by CPC 01 (R1) (IAS 36) - Impairment of assets. Therefore, we were unable to determine whether there would be any need to make adjustments in the balances of non-financial assets of the Company as of December 31, 2016, as well as the in the items of the statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended. (...)"*. Taking into account the note 13 to the present consolidated financial statements the investment in Oi, SA as at December 31, 2016 measured by the equity method, was adjusted by an impairment needed to reduce the respective carrying amount to the higher of its fair value and its value in use, by reflecting its market value at that date, determined using the closing stock exchange listed market price. As presented in note 24 to the consolidated financial statements, the listed market price of the shares of the significant component Oi, SA evolved from R\$ 2,63 (€ 0,767) as at December 31, 2016 to R\$ 4,14 (€ 1,225) as at March 31, 2017.

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the standards and technical and ethical guidelines issued by Order of Statutory Auditors (*Ordem dos Revisores Oficiais de Contas*). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Group under the law and we fulfil the ethical requirements under the code of ethics of the Order of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### **Emphasis of matter**

Bearing in mind the Independent auditors' report on the individual and consolidated financial statements for the year ended December 31, 2016 of the significant component Oi, SA, dated March 22, 2017, we highlight the following text included in the respective "Basis for Disclaimer of Opinion": *"(...) Additionally, our opinion on the financial statements for the year ended December 31, 2015 has a modification regarding the unrecognized impairment loss. Our auditor's report on the financial statements for the current year also includes a modification as a result of the impact of this matter on the comparability of the amounts of the current year and corresponding amounts."* Taking into account the note 13 to the present consolidated financial statements and highlighting the eventual need to adjust the impairment on the net gain to which refers the previous text, the Group Pharol, SGPS, SA maintained the no-recognition of the effects of that net gain, consistently with previous years.

As described in chapter 4 of the management report and in notes 3 and 14 to the consolidated financial statements, the measurement of the debt securities issued by Rio Forte Investments, SA reflects the management's best estimate concerning the recoverable amount of those securities.

Our opinion is not modified in respect of these matters.

### **Key audit matters**

Key audit matters are those matter that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. 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.

Key audit matters	Synthesis of audit response
<b><i>Measurement of Oi, SA investment</i></b>	
<p>The equity investment in Oi, SA (held in 27,18%) is classified as an associate and measured by the equity method, adjusted by the impairment loss needed to reduce the respective carrying amount to the higher of its fair value and its value in use.</p> <p>Oi, SA is a large entity with high public and media profile, being highly relevant to the Group's financial statements. Oi, SA is under a judicial reorganization process since June 2016. The respective financial statements were audited by other auditors.</p> <p>Related disclosures: Note 3 and note 13 of the notes to the consolidated financial statements as at December 31, 2016.</p>	<p>The audit response involved, in synthesis, the performance of the following procedures:</p> <p>Verification of the maintenance of significant influence in Oi, SA in face of the respective judicial reorganization process;</p> <p>Consultation of the working papers of the independent auditor of Oi, SA and realization of several meetings with that auditor in order to obtain clarifications about the most relevant issues;</p> <p>Procurement and analysis of the independent auditors' report on the individual and consolidated financial statements of Oi, SA;</p> <p>Analysis and validation of the calculations inherent to the equity method;</p> <p>Evaluation of the recoverable amount of the investment in Oi, SA and of the eventual need for an impairment loss;</p> <p>Evaluation of the reasonableness of the financial statements' disclosures.</p>
<b><i>Measurement of the investment in debt securities issued by Rio Forte Investments, SA</i></b>	
<p>At March 30, 2015 the debt securities issued by Rio Forte Investments, SA (Rio Forte) were returned to the Group, following the performance of the exchange contract signed on September 8, 2014 between Oi Group and Pharol, SGPS, SA Group.</p> <p>Rio Forte is under an insolvency process taking place in Luxembourg, with high public and media profile. This investment is relevant within the scope of the Group financial statements and the respective measurement involves significant judgements.</p> <p>Related disclosures: Note 3 and note 14 of the notes to the consolidated financial statements as at December 31, 2016.</p>	<p>The audit response involved, in synthesis, the performance of the following procedures:</p> <p>Analysis of the information present in the reports and releases issued by the Rio Forte insolvency curators;</p> <p>Analysis of the judgements made by the management in determining the recoverable amount of the debt securities at December 31, 2016;</p> <p>Circularization of the lawyers that handle the insolvency process;</p> <p>Circularization of the banks where the debt securities are deposited.</p>
<b><i>Measurement of the call option over Oi shares</i></b>	
<p>Following the previously mentioned performance of the exchange contract, Pharol, SGPS, SA was left with the right to repurchase shares of Oi, SA for a period of 6 years, at certain strike prices. The measurement of this asset is complex and</p>	<p>The audit response involved, in synthesis, the performance of the following procedures:</p> <p>Analysis and follow-up of the call option respective contractual terms;</p> <p>Involvement of specialists to perform an</p>

Key audit matters	Synthesis of audit response
<p>requires the use of specialists, since it is a derivative financial instrument.</p> <p>Related disclosures: Note 14 of the notes to the consolidated financial statements as at December 31, 2016.</p>	<p>independent appraisal of the call option;</p> <p>Analysis of the independent appraisal and comparison of the results with the carrying amount determined by the Group.</p>

### **Responsibilities of management and of the fiscal board for the consolidated financial statements**

Management is responsible for:

- (i) the preparation of consolidated financial statements that present fairly the Group’s financial position, consolidated financial performance and consolidated cash flows in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- (ii) preparation of the management report, including the corporate governance report, under the legal and regulatory applicable terms;
- (iii) setting-up and maintenance of an appropriate internal control system to allow the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error;
- (iv) the adoption of accounting policies and criteria that are adequate under the circumstances; and
- (v) assessing the Group’s ability to continue as a going concern, disclosing, as applicable, related matters that might give rise to significant doubts on the going concern basis.

The fiscal board is responsible for the oversight of the Group’s financial information preparation and disclosure process.

### **Auditor’s responsibilities for the audit of the consolidated financial statements**

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to



influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- (i) identify and assess the risks of material misstatements of the consolidated 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;
- (ii) 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;
- (iii) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- (iv) 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 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.
- (v) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (vi) 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 financial statements. We are responsible for the direction, supervision and performance of the Group Audit. We remain solely responsible for our audit opinion.

- (vii) communicate with those charged with governance, including the fiscal 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;
- (viii) from the matters communicated with those charged with governance, including the fiscal board, determine those matters that were of most significance in the audit of the consolidated 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;
- (ix) declare to the fiscal board that we have complied with relevant ethical requirements regarding independence and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the consolidated information contained in the management report is consistent with the consolidated financial statements, and the requirements contained in numbers 4 and 5 of article 451.º of Commercial Companies Code (*Código das Sociedades Comerciais*).

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **About the management report**

Complying with article 451.º, n.º 3, al. e) of Commercial Companies Code, it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements in force, the information in the management report is consistent with the audited consolidated financial statements and, considering our understanding and appraisal about the Group, we did not identified material misstatements.

#### **About the additional elements foreseen in article 10.º of Regulation (EU) n.º 537/2014**

In compliance with article 10.º of Regulation (EU) n.º 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters above presented, we report the following:

- We were elected as auditors of Pharol, SGPS, SA for the first time in the general shareholders' meeting held in May 29, 2015 for a term comprised between 2015 and 2017.
- The management has confirmed us that it has no knowledge of the occurrence of any fraud or suspected fraud with material effect on the financial statements. During the planning and execution of our audit in accordance with ISAs we kept professional scepticism and design audit procedures responsive to the possibility of a material misstatement in the consolidated financial statements due to fraud. As a result of our work we did not identified any material misstatement in the consolidated financial statements due to fraud.
- We confirm that the audit opinion issued is consistent with the additional report prepared and delivered to the Group's fiscal board in April 27, 2017.
- We declare that we did not provide any prohibited services under article 77.º, number 8, of the Order of Statutory Auditors Bill and that we have maintained our independence from the Group during the audit.
- We inform that, apart from the audit, we did not provide any other services to the Group.

#### **About the corporate governance report**

Complying with article 451.º, n.º 4, of the Commercial Companies Code, it is our opinion that the corporate governance report includes the elements required from the Entity under the terms of article 245.º-A of the Securities Code (*Código dos Valores Mobiliários*), and we did not identified any material misstatements in the information disclosed therein, complying with items c), d), f), h), i) and m) of the referred article.

Lisbon, April 27, 2017

Rui Lourenço Helena, as representative of  
BDO & Associados - SROC

**CORPORATE GOVERNANCE REPORT**  
**2016**



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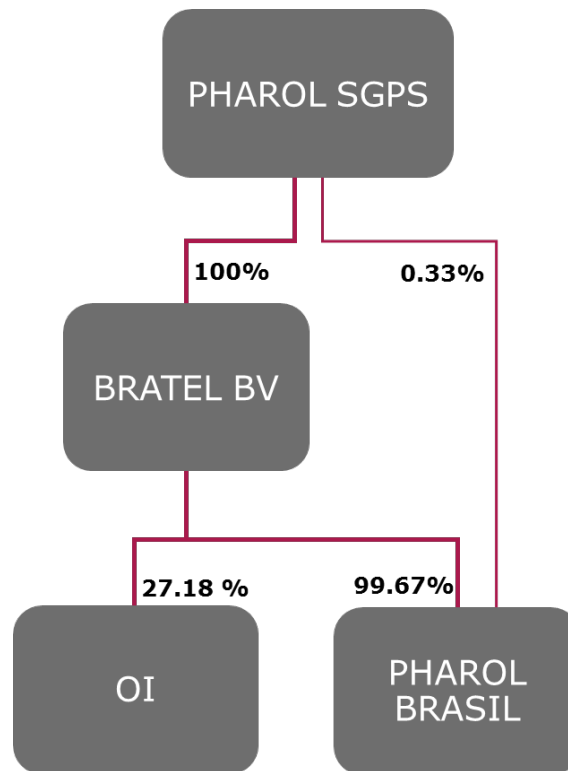


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## INTRODUCTION

**PHAROL, SGPS S.A. (“PHAROL” or “Society”)** is an open society, issuer of securities, admitted to trading on the Euronext Lisbon regulated market.

PHAROL investments and group structure as on 31 December 2016, was as follows:



## PART I – INFORMATION ON SHAREHOLDER STRUCTURE, ORGANIZATION AND CORPORATE GOVERNANCE

### A. SHAREHOLDER STRUCTURE

#### I. CAPITAL STRUCTURE

##### 1. CAPITAL STRUCTURE

The share capital in PHAROL is, as from 10 December 2008, 26,895,375 Euros, and it is fully paid up and represented by 896,512,500 common shares in the par value of three Euro cents each.

Until 29 May, 2015, there were 500 shares of Class A, that after the PHAROL's bylaw changes in that date, were converted in common shares.

After the deliberation of Euronext to admit to trading these 500 shares, on April 6, 2017, all PHAROL ordinary shares are admitted to trading on the Euronext Lisbon regulated market.

On 6 February 2015, PT SGPS was given notice by the New York Stock Exchange ("NYSE") that the Company was below the continuous trading criteria established under Section 802.01C of the NYSE Listed Company Manual as the average closing price of its American Depositary Shares ("ADSs") on the NYSE was below 1.00 dollar for a consecutive trading period of 30 days. In this way, considering such factors, as well as the possibility of achieving a reduction in the costs of the Company through the elimination of the charges associated to keep trading of ADSs on the NYSE, PT SGPS communicated, on 9 March 2015, that the Board of Directors had approved the withdrawal of PT SGPS' ADSs from trading on NYSE. PT SGPS kept its American Depositary Receipts programme, thus permitting investors to hold ADSs and trade the same in OTC transactions. The last day of trading for the Company's ADSs on the NYSE was 27 March 2015.

On July 26, 2016, PHAROL ended the reporting obligation with SEC, including the obligation to submit annual reports on Form 20-F and on Form 6-K.

##### 2. RESTRICTIONS TO SHARE TRANSFERABILITY, SUCH AS CONSENT CLAUSES FOR DISPOSAL, OR LIMITATIONS TO SHARE OWNERSHIP

The Company does not adopt any specific limitations as to share transferability. However, the Bylaws provide that shareholders carrying out, directly or indirectly, a business competing with the business of companies in a control relationship with PHAROL may not be the owners, without the prior authorisation of the General Meeting of shareholders, of ordinary shares representing more than 10% of the share capital in the Company.

### 3. NUMBER OF OWN SHARES, CORRESPONDING CAPITAL PERCENTAGE AND CORRESPONDING VOTING RIGHTS PERCENTAGE

On 31 December 2016, the Company held 30,865,000 own shares.

On 1 February 2016, PHAROL initiated a buyback program of own shares as approved at the General Meeting of Shareholders held on 4 November 2015 and communicated to the market in terms and for the purposes of paragraph b) of no.2 of article 11 and article 13 of CMVM Regulation 5/2008 (with the amend by CMVM Regulation No. 5/2010).

From that date until 11 April 2016, PHAROL acquired 10,225,000 shares and, after the purchase transactions, now holds 30,865,000 own shares corresponding to 3.44% share capital of PHAROL.

The voting rights inherent to the own shares are suspended, in accordance with the applicable legislation.

### 4. SIGNIFICANT AGREEMENTS INCLUDING CHANGE OF CONTROL CLAUSES

Under shareholders' agreement, in the event of a change of control in Portugal Telecom, Samba would have a put option to sell to PT SGPS its entire shareholding in Africatel, B.V. The 75% share previously held by PT SGPS in Africatel BV is currently held by Oi, through Africatel GmbH, following the contribution of PT Portugal, SGPS, S.A. ("PT Portugal") within the framework of the Oi Capital Increase.

In November 2014, Africatel GmbH and PT SGPS were informed that Samba, the holder of the remaining 25% in Africatel B.V., had commenced arbitration proceedings against Africatel GmbH and Portugal Telecom at the Arbitration Court of the International Chamber of Commerce in respect of its supposed put option to sell its share in Africatel B.V., among other allegations. This arbitration proceedings was concluded in 2016, with the signing of an agreement on January 2017.

There are no significant agreements entering into force in the event of change in control in PHAROL. Also, there are no measures requiring payment or assumption of fees by the Company in the event of change of control or change in the composition of the Board of Directors and which appear likely to impair the free transfer of shares and free assessment by shareholders of the performance of Board members. PHAROL therefore complies with CMVM Recommendation no. I.5.

### 5. RENOVATION / REVOCATION OF DEFENSIVE MEASURES, IN PARTICULAR THOSE PROVIDING FOR THE RESTRICTION OF THE NUMBER OF VOTES THAT MAY BE HELD OR EXERCISED BY A SINGLE SHAREHOLDER

PHAROL's Bylaws include a limitation on the counting of votes, whereby any votes in excess of 10% of the total voting rights corresponding to the share capital cast by a single shareholder of ordinary shares, directly or through a representative, in his own name or as a representative of another shareholder, shall not be counted (article 13, 10).

The Company's bylaws provide a limitation on the counting of votes. On 24 May, 2016 the discussion of this point was taken to the Shareholders' Meeting and it was decided to keep this limitation. Therefore, PHAROL complies with CMVM Recommendation I.4.

## 6. SHAREHOLDERS' AGREEMENTS OF WHICH THE COMPANY IS AWARE AND MIGHT LEAD TO RESTRICTIONS IN THE TRANSFER OF SECURITIES OR VOTING RIGHTS

The Company has no knowledge of the existence of any shareholders' agreements that might lead to restrictions in the transfer of securities or voting rights.

## II. SHAREHOLDINGS AND BONDS

### 7. OWNERS OF QUALIFIED HOLDINGS, PERCENTAGE OF CAPITAL AND VOTES ATTRIBUTABLE, SOURCE AND CAUSES FOR ATTRIBUTION

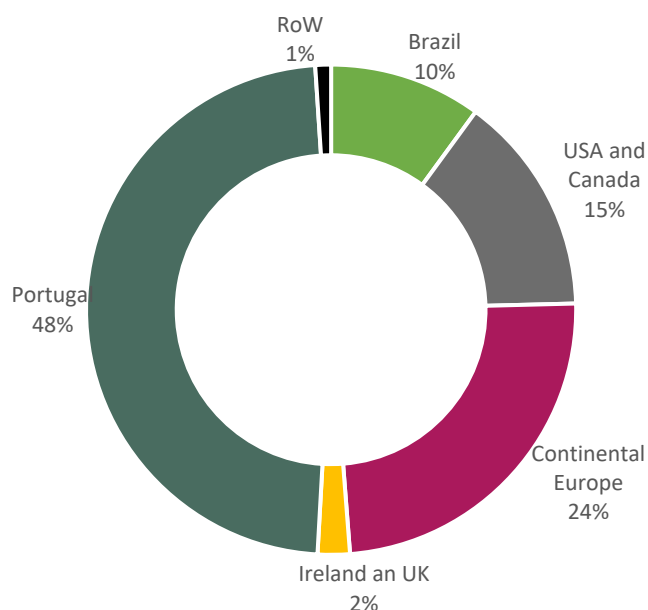
As at 31 December 2016, qualified holdings represented about 45% of PHAROL share capital, as follows:

DATE OF INFORMATION	ENTITIES	NO. OF SHARES	% OF CAPITAL	% OF VOTING RIGHTS
05/31/2012	Telemar Norte Leste S.A.	89,651,205	10.00%	10.00%
07/05/2016	Novo Banco S.A. (a)	85,665,125	9.56%	9.56%
08/14/2015	Banco Comercial Português, S.A.	55,304,969	6.17%	6.17%
12/05/2016	High Seas Investments LLC	46,657,016	5.20%	5.20%
11/22/2016	Hestia Investments DAC	43,476,423	4.85%	4.85%
07/26/2016	Norges Bank	37,183,570	4.15%	4.15%
01/02/2014	Grupo Visabeira	23,642,885	2.64%	2.64%
06/02/2016	Renaissance Technologies LLC	18,003,736	2.01%	0.00%

(a) This holding refers only to the shares holding by Novo Banco and do not included shares held by societies in a controlling relationship or group, leaders and members of the Governing Bodies of Novo Banco.

PHAROL has a diversified shareholder structure, with around 52% of its share capital held by foreign shareholders, essentially divided between Europe, North America (US and Canada) and Brazil, representing 24%, 15% and 10% respectively of the shareholder basis. The Portuguese market represents around 48% of the shareholder basis.

## GEOGRAPHICAL DISTRIBUTION OF SHAREHOLDER BASE



Source: Interbolsa (12/31/2016)

For further information on the source and cause of the qualified holdings, please refer to the section called "Qualified Holdings" on the annual management report.

Updated information on qualified holdings in the Company may be consulted at [www.pharol.pt](http://www.pharol.pt) and on CMVM website.

### 8. NUMBER OF SHARES AND BONDS HELD BY THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES

Regarding this matter, please see item 17 of Part I below.

Members of the supervisory bodies do not hold PHAROL shares.

### 9. SPECIAL POWERS OF THE MANAGEMENT BODY, NOTABLY AS REGARDS CAPITAL INCREASE RESOLUTIONS

The powers of PHAROL's Board of Directors are described in item 21 below.

PHAROL's Bylaws authorize the Board of Directors, upon a favourable opinion by the Fiscal Council, to increase the share capital, one or more times, through contributions in cash in up to the amount of 15,000,000 Euros, provided however that this decision is preceded by a resolution of the General of Shareholders establishing the parameters to which such increase or increases are subject, such definition to be made as provided for under the Bylaws. This authorization was renewed by the shareholders at the Annual Shareholders' General Meeting held on 27 April 2012 and shall be in force for the maximum term set forth in law, *i.e.*, 5 years.

## 10. SIGNIFICANT COMMERCIAL RELATIONSHIPS BETWEEN OWNERS OF QUALIFIED HOLDINGS AND THE COMPANY

On 8 September 2014, PT SGPS and Oi entered into a *Contrato de Permuta* ("Exchange Agreement") and a *Contrato de Opção de Compra* ("Call Option Agreement"), both subject to the laws of Brazil, the most relevant terms and conditions of which are as follows:

- An exchange between PT SGPS and Oi's wholly-owned subsidiaries PT Portugal and PTIF (both referred to as "Oi's Subsidiaries") whereby PT SGPS acquired a credit over Rio Forte, corresponding to all short-term applications subscribed for or acquired by Oi's Subsidiaries in the subscribed for the amount of €897 million ("Rio Forte Instruments"), in consideration of the delivery by PT SGPS of 47,434,872\* ordinary shares and 94,869,744\* preferred shares in Oi representing around 16.9% of the share capital in Oi and 17.1% of the voting share capital in Oi (Oi's own shares excluded) ("Oi Shares Subject to Exchange") ("Exchange");
- At the same time, PT SGPS was given an irrevocable non-transferrable call option ("Call Option") to repurchase the Oi Shares Subject to Exchange ("Oi Shares Subject to Option") with an exercise price of R\$20.104\* for ordinary shares and R\$18.529\* for preferred shares, which price will be adjusted by the Brazilian CDI rate added by 1.5% per year;
- The Call Option became effective on the date of execution of the Exchange (i.e. 30 March 2015) and will have a 6-year maturity. The number of Oi Shares Subject to Option available to the exercise of the Call Option will be reduced in 10% on the first anniversary of the effective date of the Call Option and 18% on the following anniversaries;
- Any amount received as a result of the monetization of the Call Option through the issue of derivatives or back-to-back instruments must be used for exercising the Call Option;
- During the validity of the Call Option, PT SGPS may purchase Oi or CorpCo shares only through the exercise of the Call Option;
- The Call Option may be extinguished on the initiative of Oi if (i) PT SGPS's bylaws are amended in order to suppress or change the provision establishing that the votes cast by a single holder of ordinary shares, directly or through a representative, in his own name or a representative of another shareholder, that exceed 10% of the total voting rights corresponding to PT SGPS' share capital shall not be counted, other than in compliance with a legal provision or relevant government order, (ii) PT SGPS carries out, whether directly or indirectly, any business that competes with any business kept by Oi or any of its controlled companies in countries where these latter operate, therefore compromising the purpose of the Business Combination between PT SGPS and Oi as originally established between the parties, or (iii) PT SGPS violates certain obligations derived from the Call Option Agreement (limitation to the purchase of shares in Oi/CorpCo only upon exercise of the Call Option; limitation to the transfer of the

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\* As a result of the grouping of Oi shares approved at the general meeting of shareholders held on 18 November 2014, the number of shares and the exercise price were adjusted.

Call Option and creation or assignment of any rights derived from the Call Option without Oi's prior authorisation; engagement to immediately allocate any resources obtained from the monetization of the Call Option to the purchase of shares in CorpCo by exercising the Call Option);

- Under the agreements, Oi and TmarPart have given PT SGPS and its directors, with the execution of the Exchange, acquaintance as to the subscription of the applications in Rio Forte Instruments, their subsequent use for the purpose of contributing to the Oi Capital Increase (settled on 5 May 2014) and any omissions or incompleteness in information specifically related to the Rio Forte Instruments, their position and any risks involved.

Taking into account that the Exchange implied the acquisition by the Oi Subsidiaries of Oi shares considered as own shares, the completion of the Exchange was submitted to the approval of the Brazilian Securities Commission (*Comissão dos Valores Mobiliários – "CVM"*), as well as keeping Oi shares (and after Oi's incorporation, of CorpCo shares) as own shares in a volume equivalent to the maximum number of Oi Shares Subject to Exchange, and the granting of the Call Option by the Oi Subsidiaries to PT SGPS in a volume equivalent to the maximum number of Oi Shares Subject to Option under the conditions provided for under the Call Option Agreement. On 4 March 2015, CVM authorised the Exchange and the Call Option in accordance with the terms of the agreements entered into on 8 September 2014, and the implementation of the Exchange and Call Option was subject to the following conditions: (i) the approval thereof by the general meeting of shareholders of Oi ("Oi GMS"), at which PT SGPS was not allowed to vote, and (ii) granting of voting rights to holders of preferred shares in Oi at the Oi GMS. The Oi GMS, which took place on 26 March 2015, approved the terms and conditions of the Exchange Agreement and Call Option Agreement entered into on 8 September 2014.

On 24 March 2015, Portugal Telecom entered into with Oi, the Oi Subsidiaries and CorpCo the *Instrumento Particular de Cessão de Direitos e Obrigações e Outras Avenças* (Private Act for Assignment of Rights and Obligations and Other Agreements) (the "Assignment Act") whereby PT Portugal transferred the Rio Forte Instruments held by PT Portugal to PTIF and assigned to PTIF all rights and obligations related thereto under the Exchange Agreement (the "Assignment").

The Assignment Act also provides that the delivery, upon the Exchange, of the Oi Shares Subject to Exchange could be implemented by means of transfer by PT SGPS of the Oi Shares Subject to Exchange or ADSs (American Depositary Shares) representing the Oi Shares Subject to Exchange, at the discretion of PT SGPS. Oi's ADR Programmes are governed (i) by the Deposit Agreement (Ordinary Shares) entered into on 27 February 2012, as amended, between Oi, the Bank of New York Mellon, in its capacity as depository (the "Depository") and all holders of ADSs ("ADSs ON") issued under the said Agreement; and (ii) by the Deposit Agreement (Preferred Shares) entered into on 27 February 2012, as amended, between Oi, the Depository and all holders of ADSs ("ADSs PN") issued under the said Agreement.

The Exchange was consummated on 30 March 2015, and thereby PT SGPS (i) deposited the Oi Shares Subject to Exchange with the Depository; and (ii) instructed the Depository to record the transfer to PTIF of 47,434,872 ADSs ON and 94,896,744 ADSs PN (jointly, the "ADSs Subject to Exchange") representing the Oi Shares Subject to Exchange.



In this way, on 30 March 2015, PT SGPS transferred the ADSs Subject to Exchange to PTIF, and PTIF transferred to PT SGPS the Rio Forte Instruments in the total amount of €897 million.

The *Primeiro Aditivo ao Contrato de Opção* ("1st Amendment to the Option Agreement"), dated 31 March 2015, established the possibility for PT SGPS to assign or transfer the option to purchase Oi shares, provided such assignment or transfer covers at least a quarter of the Oi Shares Subject to Option, regardless of prior consent by Oi (subject to the right of first refusal as described in the paragraph below), and use any resources derived from such transactions freely. On the other hand, PT SGPS cannot, without the express prior consent of Oi, either create or grant any rights derived from the Call Option or else grant any security over the Call Option.

Under the 1st Amendment to the Option Agreement, Oi will have a right of first refusal in the acquisition of any portion of the Call Option that PT SGPS may be interested in assigning or transferring. PT SGPS shall give notice to Oi in the event PT SGPS receives a binding offer from a third party to dispose of the Call Option. Oi shall reply within no more than 20 days as from receipt of such notice.

The effectiveness of the 1st Amendment to the Option Agreement would be subject to approval at a General Meeting of Shareholders of Oi, together with the granting of voting rights to holders of preferred shares.

The shareholders in TmarPart approved, also on 31 March 2015, an alternative structure for the Business Combination, which does not involve the incorporation of Oi's shares in CorpCo or the migration of CorpCo to the Novo Mercado segment of BM&FBOVESPA. The parties agreed upon a new shareholder and management structure for Oi (the "New Structure"), which is characterized by the fact that all the corporate organisation and governance transformation takes place in Oi, and the need for creation of CorpCo is eliminated.

Relevant transactions executed during 2016 with other owners of qualified holdings, who are not related parties, are described in Note 22 the consolidated financial statements included in the Report and Consolidated Accounts 2016. There are no other relevant commercial relations between owners of qualified holdings and the Company.

## **B. CORPORATE BODIES AND COMMITTEES**

### **I. GENERAL MEETING OF SHAREHOLDERS**

The General Meeting of shareholders, composed of shareholders with the right to vote, ordinarily meets once a year or whenever it is requested to the Chairman of Board of the General Meeting of shareholders by the Board of Directors, the Fiscal Council or by shareholders representing at least 2% of the share capital.

The meetings are held at the registered office or other location as chosen by the Chairman of the Board pursuant to the law. They cannot take place by remote-access telematics means. The General Meeting of shareholders is called and conducted by the Chairman of its Board or, in his absence or impossibility to conduct the works, by the Secretary that will invite a shareholder to assist.

Shareholders may participate directly in the General Meeting or appoint their representatives, within the broadest terms provided for under the Portuguese Companies Code. A duly signed letter addressed to the Chairman of the Board of the General Meeting of shareholders is a sufficient instrument of representation.

For such purpose, shareholders may access the representation letter form made available on the website [www.pharol.pt](http://www.pharol.pt) in accordance with information disclosed by the Company in the relevant General Meeting notice, in compliance with article 23 of the Portuguese Securities Code.

In carrying out their duties, notably in the preparation, call and conduction of General Meetings of shareholders, as well as in replying to queries raised or requests submitted by the shareholders, the Chairman of the Board of the General Meeting of shareholders, in addition to being assisted by the Secretary of the Board of the General Meeting of shareholders, has the support of the services of the Company's General Secretariat, which is provided with human and technical resources as required for the General Meeting to be appropriately held, taking into account, inter alia, the number of participants and the agenda of each meeting. The Chairman of the Board of the General Meeting of shareholders is also provided with logistic support as required to carry out his duties, and the shareholders may contact the Board of the General Meeting of shareholders as follows:

Presidente da Mesa da Assembleia Geral  
Rua Joshua Benoliel, 1, 2C, Edifício Amoreiras Square, 1250-133, Lisboa  
Tel. - + 351800207369  
Fax - + 351 212697949  
E -mail: [assembleia@pharol.pt](mailto:assembleia@pharol.pt)

The members of the Board of the General Meeting of shareholders comply with the independence requirements of article 414,5 and incompatibility rules of article 414A,1, both of the Portuguese Companies Code, applicable by virtue of the provisions of article 374A of that same Code.

#### *COMPOSITION OF THE BOARD OF THE GENERAL MEETING OF SHAREHOLDERS*

#### 11. IDENTIFICATION OF THE MEMBERS OF THE BOARD OF THE GENERAL MEETING OF SHAREHOLDERS, COMMENCEMENT AND EXPIRATION OF TERM OF OFFICE

##### Board of the General Meeting of Shareholders\*

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João Vieira de Almeida	Chairman
Sofia Barata	Secretary

\*The members of the Board of the General Meeting of Shareholders were elected on 29 May 2015 for the 2015-2017 three-year term of office, however both submitted the resignation on July 2016.

Pursuant to the Bylaws, the Chairman of the Fiscal Council assumed the position of Chairman of the Board of the General Meeting and according to the Bylaws, to be a General Shareholders' Meeting by a shareholder.

## *EXERCISE OF VOTING RIGHTS*

### 12. POSSIBLE LIMITATIONS ON VOTING RIGHTS

Under the Company's Bylaws, each share grants the right to one vote. Only shareholders entitled to vote on the record date (i.e., on the fifth trading day prior to the General Meeting) and in compliance with the procedures and periods set forth in the notice for such purpose (in relation to the shareholders as well as the financial intermediaries with whom the respective individual securities accounts are open) may attend, participate and vote in a General Meeting of shareholders.

Within the framework of American Depositary Receipts (ADR) or Global Depositary Receipts (GDR) programmes having as their object Company shares, the holders of ADR or GDR are deemed to be the shareholders, while the entity in whose name the shares are registered is deemed a simple representative of the shareholders, provided however that such shareholders comply with the conditions set forth in the Bylaws for the exercise of such right. These conditions are communicated to the holders of the right to vote in each notice for the General Meeting of shareholders.

According to article 13 of the Company's Bylaws, the votes cast by a single holder of ordinary shares, directly or through a representative, in his own name or as a representative of another shareholder, that exceed 10% of the total voting rights corresponding to the share capital shall not be counted. Shares held by a person in situations as provided for under article 20 of the Portuguese Securities Code shall be deemed to belong to the shareholder, and the limitation on the counting of votes cast by each person affected by the said provision shall be proportional to the number of votes held and cast.

There are no shares not granting voting rights, without prejudice to the limitations described above.

The Company Bylaws provide that the voting by correspondence or by electronic means may encompass all matters contained in the notice, under the terms and conditions set forth therein, and votes cast in this way shall be considered at the time of the counting by adding the same to the voting rights exercised in the course of the General Meeting.

The Bylaws further provide that the terms and conditions for voting by correspondence or by electronic means shall be defined by the Chairman of the Board of the General Meeting of shareholders in the notice, in order to ensure their authenticity, regularity, security, reliability and confidentiality up to the time of voting rights exercised in their course of the General Meeting.

Correspondence vote authenticity shall be ensured before the Chairman of the Board of the General Meeting of shareholders by means of a communication with a legally acknowledged signature, in the case of corporations, or, in the case of individuals, with

a simple signature together with a photocopy of the relevant identity card. In order to guarantee vote confidentiality, said communication shall be sent in a closed envelope that will only be considered at the time of vote counting.

In respect of voting by electronic means, and according to a practice implemented in the Company, shareholders may vote through the website [www.pharol.pt](http://www.pharol.pt) in observance of the requirements established thereon, provided that, by the time and date scheduled on the notice for the General Meeting of shareholders, they deliver to the Chairman of the Board of the General Meeting a communication, prepared in accordance with the form made available on that same website, with a legally acknowledged signature (or, for individuals, a simple signature together with a copy of the relevant identity card), and setting out the post address to where the email and password should be sent by the Company.

Additionally, the Bylaws provide that votes cast by correspondence or by electronic means are deemed as negative votes as to any resolution proposals submitted after such votes were cast. The presence at a General Meeting of a shareholder who had exercised his voting rights by correspondence or by electronic means, or of his representative, determines the revocation of the vote so cast.

According to PHAROL's practice, the procedure for voting by correspondence shall be as follows:

- Shareholders entitled to vote may, according to article 22 of the Portuguese Securities Code, exercise such vote by correspondence, provided that, by the time and date scheduled on the notice, a communication addressed to the Chairman of the Board of the General Meeting is delivered to the latter, such communication to be with a legally acknowledged signature (or, for individuals, a simple signature together with a copy of the relevant identity card), and set out the address to where voting papers and other documentation should be sent. In reply, the voting papers and other relevant documentation will be sent to such shareholders, who shall send to the Chairman of the Board of the General Meeting, in such a way as to be received by the time and date scheduled on the notice for the General Meeting a closed envelope containing another closed envelope with the duly filled in voting papers;
- Notwithstanding the possibility of downloading the voting papers from the Internet according to the next paragraph, there are voting papers available to shareholders at the offices of the Company, and the same may also be provided by hand delivery, by post or by electronic mail;
- As an alternative, shareholders may also download the voting papers from the website [www.pharol.pt](http://www.pharol.pt), and send the same, addressed to the Chairman of the Board of the General Meeting, duly filled in and in a closed envelope, in such a way as to be received, together with an envelope containing a copy of the identity card (or, for corporations, a legally acknowledged signature), by the time and date scheduled on the notice for the General Meeting.

The period of time implemented for receipt of declarations of vote by correspondence according to PHAROL practice is 3 business days prior to the date of the General Meeting.

PHAROL's Bylaws do not provide for any system of detachment of patrimonial rights pertaining to the shares.

Considering the above described mechanisms for the participation and vote at the General Meeting, PHAROL fully complies with CMVM Recommendation No. 1.1, promoting shareholder participation through voting by correspondence, by electronic means and by duly appointed representative in accordance with the legal and bylaw rules above.

13. MAXIMUM PERCENTAGE OF VOTING RIGHTS THAT MAY BE EXERCISED BY A SINGLE SHAREHOLDER OR BY SHAREHOLDERS CONNECTED TO THE FORMER THROUGH ANY OF THE RELATIONSHIPS SET FORTH IN ARTICLE 20.1 OF THE PORTUGUESE SECURITIES CODE

Regarding this matter, please see item 12 of Part I above.

14. SHAREHOLDER RESOLUTIONS WHICH, ACCORDING TO THE BYLAWS, CAN ONLY BE ADOPTED WITH QUALIFIED MAJORITY, APART FROM THOSE LEGALLY PROVIDED FOR

Under article 14 of the Company's Bylaws, the General Meeting of shareholders resolves, on a first or subsequent call, by a majority of votes cast, without prejudice to any qualified majority as required in cases as provided for by law.

In this way, the constitutive and resolute quorum of the General Meeting of shareholders established under PHAROL's Bylaws is no different from that established under the Portuguese Companies Code. PHAROL therefore complies with CMVM Recommendation No. 1.2.

## II. MANAGEMENT AND SUPERVISION

### COMPOSITION

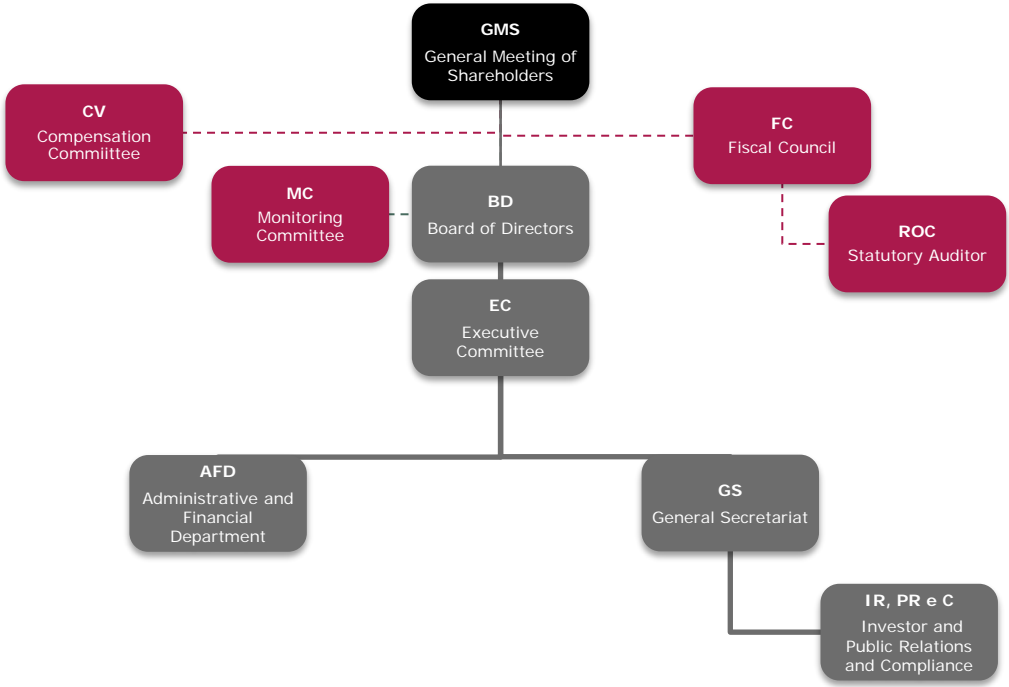
15. IDENTIFICATION OF THE CORPORATE GOVERNANCE MODEL

PHAROL follows a classic-type governance model, which is based on the existence of a Board of Directors and a Statutory Auditor ("ROC") elected by the General Meeting of shareholders upon a proposal by the Fiscal Council.

PHAROL's organisation structure further includes a Compensation Committee elected by the General Meeting of shareholders, which is responsible for determining the remunerations of the members of corporate bodies.

The members of the corporate bodies and of the Board of the General Meeting of Shareholders are elected for a three-year term of office, and they may be re-elected one or more times within the limits of the law.

On 31 December 2016, PHAROL' governance model could be schematised as follows:



Following the appointment of the new members of the corporate bodies of PHAROL for the term corresponding to the three-year period 2015-2017, a review of corporate governance mechanisms was made in order to adapt to the new reality of the Company, ensuring, on one hand, that the adopted governance model guarantees an effective performance and articulation of PHAROL's members of the corporate bodies and, on the other hand, contributes to the accountability of the Company and its management towards shareholders, investors and the market. In this way, the Board of Directors determined the PHAROL's governance structure should rely on an Executive Committee with powers delegated by the Board of Directors, which would act on a predominantly operational basis.

On 30 June 2015, the Board of Directors approved a Monitoring Committee and its functions. However, because the Board of Directors met regularly, analysing and discuss the issues that had been defined as the main attributes of the Monitoring Committee and because of the reduced size of the society, filling the posts of Monitoring Committee were not defined as a priority

Also, the costs associated with it were duly considered following the decision by the Compensation Committee which set certain compensation amounts for the performance of those places. The Board of Directors continues to assess this situation.

The Fiscal Council, together with the Statutory Auditor, perform the supervision functions set forth in the applicable laws and regulations.

PHAROL's General Meeting of shareholders, in its turn, resolves on matters as specially assigned by law or the Company's Bylaws, as well as on matters not comprised within the responsibilities of the other corporate bodies.

## 16. BYLAW RULES ON THE PROCEDURAL AND MATERIAL REQUIREMENTS FOR THE APPOINTMENT AND REPLACEMENT OF THE MEMBERS OF THE BOARD OF DIRECTORS

The members of the Board of Directors are elected by the General Meeting of shareholders as described in item 17 of Part I below.

The Bylaws determine that the absence of any director from more than half the ordinary meetings of the Board of Directors during one financial year, in a consecutive way or not, without a justification acceptable to the Board of Directors, shall be deemed as a definitive absence of such director. Such definitive absence shall be declared by the Board of Directors, and the director in question shall be replaced as provided for by law and the Bylaws.

## 17. COMPOSITION OF THE BOARD OF DIRECTORS

The members of the Board of Directors were elected on 29 April 2015 for the 2015-2017 three-year term of office.

On 31 December 2016, the composition of the Company's Board of Directors was as follows:

<i>Members (date of first appointment)</i>	<i>Board of Directors</i>	<i>Executive Committee</i>	<i>Independence (1)</i>	<i>No. of shares</i>
Luís Maria Viana Palha da Silva (2015)	President	President		200,000
Rafael Luís Mora Funes (2007)	Member	Member		
André Cardoso de Meneses Navarro (2015)	Member			397
João do Passo Vicente Ribeiro (2015)	Member		Yes	
João Manuel Pisco de Castro (2015)	Member			
Jorge Telmo Maria Freire Cardoso (2014)	Member			
José Manuel Melo da Silva (2016)				
José Mauro Mettrau Carneiro da Cunha (2015)	Member			
Maria do Rosário Amado Pinto-Correia (2015)	Member		Yes	40
Pedro Zañartu Gubert Morais Leitão (2015)	Member		Yes	

(1) Evaluation of independence made in accordance with internal regulation, article 414-5 of the Portuguese Companies Code and item 18 of the form attached to CMVM Regulation no. 4/2013, as the case may be.

The Board of Directors of PHAROL is composed of a minimum of 9 and a maximum of 11 members, who are elected by a majority of the votes cast at the General Meeting of shareholders.

Directors are appointed for a three-year term of office. and may be re-elected one or more times within the limits of the law.

The Board of Directors non-executive members are the majority of the directors in office.

Executive members report on all of the relevant matters to all other members of the Board of Directors. Thus, the Company substantially complies with CMVM Recommendations no. II.1.6 and II.1.8.

In accordance with the above-mentioned regulation, each Director shall timely inform the Chairman of the Board of Directors of any conflict of interest, being in such case restrained from discussing and voting the matters in question.

## 18. EXECUTIVE AND NON-EXECUTIVE BOARD MEMBERS AND INDEPENDENCE CRITERIA

As referred to in item 17 above, as at 31 December 2016 the Company distinguishes executive and non-executive directors. In the same item, those directors that are considered independent are identified.

As at 31 December 2016, the Board of Directors of PHAROL has 3 independent directors, from among 10 members of the Board.

All directors deemed independent by PHAROL, as of 31 December 2016, as set out in item 17 above, meet the conditions required for the performance of their duties and compliance with their obligations to act diligently and in the interest of the Company in an independent manner. Thus, the Board of Directors considers that the Company's management body includes a number of independent members that is appropriate to its size and shareholder structure.

According to Internal Regulation no. 2,14, the members of the Board of Directors of the Company, must send to the Chairman of the Board, within 10 business days as from their election or co-optation, and no later than 31 January of each year, declarations prepared in accordance with an Appendix to the said Internal Regulation.

Where the independence situation of any member of the Board of Directors is subsequently changed, the director in question must send to the Chairman of the Board an updated declaration, in the 10 business days following such subsequent change.

The Board of Directors assesses the independence of its non-executive members, on the basis of such declarations, as well as of any other information of which the Board may be aware.

Thus, it is considered to comply with CMVM Recommendations II.1.7.

## 19. PROFESSIONAL QUALIFICATIONS AND OTHER RELEVANT CURRICULUM ELEMENTS OF THE MEMBERS OF THE BOARD OF DIRECTORS

The *curricula* of PHAROL's directors are shown in Appendix I.



## 20. FAMILY, PROFESSIONAL OR COMMERCIAL RELATIONSHIPS, FREQUENT AND SIGNIFICANT, OF THE MEMBERS OF THE BOARD OF DIRECTORS WITH OWNERS OF QUALIFIED HOLDINGS ABOVE 2% OF THE VOTING RIGHTS

As at 31 December 2016:

- Luís Maria Viana Palha da Silva: he is a member of the Board of Directors of Oi, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.
- Rafael Luís Mora Funes: was a member of the Board of Directors of Oi, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL. Resigned to the office on 7 March 2017.
- André Cardoso de Meneses Navarro: he is a member of the Board of Directors of Oi, S.A and performs his professional duties in Millennium BCP, entities having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.
- João do Passo Vicente Ribeiro: was an alternate member of the Board of Directors of Oi, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL. After the resignation of Rafael Luis Mora Funes, became an effective member of the Board of Directors of Oi, S.A., on 7 March 2017.
- João Manuel Pisco de Castro: he is an alternate member of the Board of Directors of Oi, S.A., and he is Vice- President of Grupo Visabeira, entities having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.
- Jorge Telmo Maria Freire Cardoso: he is director for the financial area of Novo Banco, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.
- José Manuel Melo da Silva: he is an alternate member of the Board of Directors of Oi, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.
- José Mauro Mettrau Carneiro da Cunha: he is Chairman of the Board of Directors of Oi, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.
- Maria do Rosário Pinto Correia: she is an alternate member of the Board of Directors of Oi, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.
- Pedro Zañartu Gubert Morais Leitão: he is a member of the Board of Directors of Oi, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.

## 21. DISTRIBUTION OF POWERS AMONG THE VARIOUS CORPORATE BODIES, COMMITTEES AND/OR DEPARTMENTS OF THE COMPANY

### MANAGEMENT BODY

#### **Board of Directors**

Pursuant to the Bylaws, the Board of Directors is the corporate body responsible for

managing the Company's businesses and practicing all acts regarding the corporate scope that are not within the powers of other corporate bodies. It establishes the strategic orientation of PHAROL and monitors the day-to-day management of the Executive Committee.

In order to guarantee the existence of a structure as appropriate for PHAROL's management needs, the Board of Directors, at the beginning of the 2015-2017 term of office, delegated day-to-day management powers to the Executive Committee, and retained the duties of supervision and control. Within said delegation of powers, the Board of Directors assigned the Executive Committee all powers required for such purpose, without prejudice to the Board's authority to take on any of the delegated powers, other than those in respect of the matters listed hereinafter:

- a) Selection of the Chair of the Board of Directors;
- b) Co-opting directors;
- c) Request to convene General Meetings;
- d) Annual report and accounts, to be submitted to the General Meeting for approval;
- e) Acquisition, sale and disposal of real estate and capital holdings;
- f) Provision of real or personal sureties or guarantees by the Company, where the competence for this lies with the Board of Directors, without prejudice to the stipulations of sub-paragraph h) of article 15 of the Company's Articles of Association;
- g) Change in the location of the Company's registered offices;
- h) Projects for the merger, demerger or transformation of the company, to be submitted to the General Meeting, or any corporate acquisitions, disposals, mergers, demergers, strategic partnership agreements or other forms of long-lasting cooperation that involve the Company and/or its subsidiary(ies), whenever such operations do not constitute mere internal restructurings of the Company and/or its subsidiary(ies) that fall within the scope of the general objectives and fundamental principles approved by the General Meeting;
- i) Projects for increases in capital, to be submitted to the General Meeting;
- j) Changes to the articles of association, to be submitted to the General Meeting;
- k) Important extensions or reductions in the Company's business activities or important changes to the Company's organizational structure;
- l) Annual business plans, budgets or investment plans;
- m) Setting of the amount to be proposed each year to the General Meeting for the issue of bonds or other securities, where these might later be decided on by the Executive Committee.

The Board of Directors thus consider that CMVM Recommendation no. II.1.2 is complied with, as no authority of the Board of Directors is delegated as regards: (i) the determination of the Company's general strategy and policies, and strategic decisions due to their amount, risk or special features, notably, regarding this latter, as a consequence of such matters being reserved to the powers of the Board of Directors pursuant to its Internal Regulation.

Regarding the Monitoring Committee, as explained in item 15 the solution adopted.

Notwithstanding the Fiscal Council's powers, the Board of Directors is also responsible for ensuring the Company has implemented effective internal control and risk management procedures.

Other than any matters excluded by law, the Board of Directors is forbidden from passing resolutions on matters assigned by the Bylaws to the General Meeting of shareholders. Shareholders, in their turn, may only resolve on management matters at the request of the management body.

However, the Board of Directors is authorised to increase the share capital, following an opinion in favour issued by the Fiscal Council and a resolution approved by the General Meeting of shareholders, as described in item 9 of Part I of this report.

In addition to its strategy defining role, and according to its internal regulation, PHAROL's Board of Directors is responsible for ensuring the Company has implemented effective internal control and risk management procedures. The structures responsible for the implementation of these systems are described in C.III of Part I hereto.

The Chairman of the Board of Directors simultaneously served as Chairman of the Executive Committee. However, the Company believes that the effective monitoring of the matters covered by the charges attributed and the respective report to the Board of Directors by the administrators allows to ensure coordination of the work of non-executive members.

To the extent that this mechanism allows all members of the Board of Directors to make informed decisions on the matters before them, and is therefore considered appropriate and enough to ensure the objectives of the recommendation. II.1.10.

### **Powers of the Chairman of the Board of Directors**

Pursuant to the Bylaws and to the Board of Directors' internal operating rules, the Chairman of the Board of Directors is entrusted with the following duties:

- Convening and directing the meetings of the Board of Directors;
- Representing the Board of Directors in legal and non-legal matters
- Co-ordinating the activity of the Board of Directors and apportioning tasks among members when recommended on the basis of management expediency;
- Ensuring that the resolutions of the Board of Directors are properly complied with.

### **Executive Committee**

Until 31 December 2016, the Board of Directors delegated on an Executive Committee the daily management of the Company, while retaining supervision and control functions. This situation had change in 2017, after the nomination of a Managing Director.

Thus, it is considered to comply with CMVM Recommendations II.1.1.

## SUPERVISORY BODIES

### **Fiscal Council**

As a supervisory body, the Fiscal Council has, in addition to all other powers established in the law or the Bylaws, the following specific rules:

- a) Inspect the Company's management;
- b) Monitor compliance with the law and the Company's Bylaws;
- c) Confirm that the books, accounting records and their supporting documents are in due order;
- d) When it deems convenient and through the means it finds adequate, confirm available cash and the existence of any type of goods or values belonging to the Company or received by it as a guarantee, deposit or other purpose;
- e) Confirm the accuracy of the accounting statements and, generally, supervise the quality and integrity of the financial information specified in the Company's accounting statements;
- f) Check whether the accounting policies and the valuation criteria applied by the Company result in a correct valuation of its assets and results;
- g) Prepare an annual report on its inspection activities and issue an opinion on the report, accounts and proposals presented by the board;
- h) Convene the General Meeting, when such is not performed by the respective Chairman of the Board of the General Meeting of Shareholders;
- i) Inspect the quality, integrity and effectiveness of the risk management system, internal control system and internal audit system, including the annual review of its adequacy and effectiveness, and generally supervise the performance of any duties carried out within the scope of the Company's internal audit and internal control system;
- j) Receive notifications of deficiencies, claims and/or complaints submitted by shareholders, Company employees or others, and implement procedures to receive, record and process those notifications when related with aspects of accounting, auditing and internal control procedures in these matters;
- k) Contract services provided by experts to assist the members of the Fiscal Council members in carrying out their duties, whereby contracting and remuneration of said experts shall take into account the importance of the issues for which they are responsible and the Company's economic situation;
- l) Inspect the process for preparing and disclosing financial information;
- m) Propose to the General Meeting the appointment of the Statutory Auditor;
- n) Inspect the review of the Company's accounts and the auditing of its accounting statements, and also supervise and evaluate internal procedures regarding accounting and auditing matters;
- o) Inspect the independence of the Statutory Auditor, in particular any provisioning of additional services by the said auditor;

Fiscal Council has also the following duties:

- To analyze and issue its opinion on relevant issues related with accounting and auditing aspects and the impact on the financial statements caused by alterations to accounting standards applicable to the Company and to its accounting policies;
- Direct and exclusive responsibility to appoint, contract, confirm or terminate duties and to stipulate the remuneration of the Company's independent auditors, as well as to inspect their qualifications and independence, and to approve the auditing services and/or other services to be rendered by the said independent auditors or by persons who are their associates;
- To settle any disputes between the Company's Board and the independent auditors indicated in the previous subparagraph, in regard to the financial information to be included in the accounting statements to be reported to the competent entities and in regard to the process of preparing the audit reports to be issued by the said independent auditors;
- To issue a statement and a prior opinion within the scope of its legal and statutory rules and, whenever it deems such necessary or convenient, about any reports, documentation or information to be disclosed or submitted by the Company to the competent authorities.

The Company therefore complies with CMVM Recommendations no. II.2.2 to II.2.5.

### **Statutory Auditor**

Under articles 420,1(c), (d), (e) & (f) and 446,3 of the Portuguese Companies Code, it is the duty of the Statutory Auditor to control the regularity of the books, accounting records and documents supporting the same, as the Statutory Auditor deems fit and appropriate, the extension of cash and inventory of any kind of assets or values owned or received as collateral, deposit or otherwise by the Company, and furthermore the accuracy of individual and consolidated financial statements, as well as that the accounting policies and criteria adopted by the Company lead to a correct assessment of its assets and results.

Following entry into force of Decree-Law no. 185/2009 of 12 August 2009, similarly to the Fiscal Council, it also became the duty of the Statutory Auditor to verify whether the Company's governance report disclosed each year includes all legally required data as regards, inter alia, qualified shareholdings in the Company capital, identification of shareholders of special rights and description of such rights, any restrictions in respect of voting rights, rules applicable to appointment and replacement of directors, Bylaw amendment and powers and resolutions of the management body, and the main constituents of the internal control and risk management systems implemented in the Company in connection with the financial information disclosure procedure.

## COMMITTEES AND SUPPORTING STRUCTURES

### *FUNCTION*

## 22. OPERATING RULES OF THE BOARD OF DIRECTORS

On 30 June 2015, the Board of Directors adopted its internal operation regulation. The full text of this regulation may be consulted on the Company's website, link:

[http://conteudos.pharol.pt/Documents/EN/Regulation/2015/06\\_June/Regulamento\\_CA\\_en.pdf](http://conteudos.pharol.pt/Documents/EN/Regulation/2015/06_June/Regulamento_CA_en.pdf)

Under the terms of article 24 of the Bylaws and the Board's Internal Regulation, the Board of Directors shall meet, at least, every three months of each year, and shall meet in extraordinarily sessions whenever convened by its Chairman, by two Directors or by the Fiscal Council.

The Board of Directors may not work without the presence of the majority of its members in office. The Chairman of the Board of Directors may, when clearly urgent, waive the presence of such majority if the same is ensured through voting by correspondence or through a power of attorney, although a director may not represent more than one other director.

The resolutions of the Board of Directors are passed by a majority of votes cast, and the Chairman has a casting vote.

## 23. NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS AND DEGREE OF ATTENDANCE OF EACH MEMBER

During the 2016 financial year, 13 meetings of the Board of Directors took place. The degree of attendance of directors at these meetings of the Board of Directors of PHAROL was 100%. The Chairman of the Board of Directors sends to the Board of Directors and to the Chairman of the Fiscal Council all notices and minutes of the Board and the Executive Committee meetings, in order to allow for the adequate information and disclosures. In this way, CMVM Recommendation no. II.1.9 – as well as evaluation of compliance in material terms – are understood as applicable to PHAROL' management body and its Chairman.

## 24. INDICATION OF THE CORPORATE BODIES EMPOWERED TO CARRY OUT THE PERFORMANCE EVALUATION OF EXECUTIVE DIRECTORS

The Compensation Committee determines the remunerations of the executive members of the management body based on objective criteria as approved by such Committee.

Furthermore, pursuant to the law, the General Meeting of shareholders makes an annual general appraisal of the management (and supervision) of the Company.

## 25. PRE-DETERMINED CRITERIA FOR THE PERFORMANCE EVALUATION OF EXECUTIVE DIRECTORS

On 24 May 2016, the General Meeting of Shareholders adopted the Declaration of the

Compensation Committee on the Remuneration Policy for the members of the management and supervisory bodies, included on Annex II.

In 2016, the Remuneration Committee decided on the basis of criteria defined at the General Meeting of Shareholders on 24 May 2016, does not assign any variable remuneration to executive directors.

This Declaration complies with CMVM Recommendations no. II.3.3.

26. AVAILABILITY OF EACH MEMBER OF THE BOARD OF DIRECTORS AND INDICATION OF FUNCTIONS EXERCISED SIMULTANEOUSLY IN OTHER COMPANIES, INSIDE AND OUTSIDE THE GROUP, AND OTHER RELEVANT ACTIVITIES EXERCISED BY THE MEMBERS OF THE BOARD OF DIRECTORS

The functions exercised by the Company' directors in other companies as well as their other relevant activities are shown in Appendix I, there being highlighted the duties performed and the attendance and active participation of the directors in the meetings of the Board of Directors (in respect of all its members) – see item 23 of Part I above – evidence the availability of each member of the Board of Directors to perform duties as director of the Company.

*COMMITTEES WITHIN THE MANAGEMENT OR SUPERVISION BODIES AND DELEGATED DIRECTORS*

27. COMMITTEE CREATED WITHIN THE BOARD OF DIRECTORS AND LOCAL FOR THE CONSULTATION OF ITS OPERATING RULE

The Regulation for the Monitoring Committee may be consulted on the Company's website, link:

[http://conteudos.pharol.pt/Documents/EN/Regulation/2015/06\\_June/RegulamentoComissaoAcompanhamento\\_en.pdf](http://conteudos.pharol.pt/Documents/EN/Regulation/2015/06_June/RegulamentoComissaoAcompanhamento_en.pdf)

28. COMPOSITION OF THE EXECUTIVE COMMITTEE AND/OR IDENTIFICATION OF MANAGING DIRECTORS

According to the Bylaws, the Board of Directors appoints the Chief Executive Officer ("CEO") and all other members of the Executive Committee.

The Executive Committee shall schedule the dates and periodicity of its own ordinary meetings, and shall meet extraordinarily whenever called upon by its Chief Executive Officer.

The Executive Committee may not deliberate without the presence or representation of the majority of its members and, in case it is composed of two members, without being present or represented by all of its members. During 2016, Executive Committee sought 40 times.

As of 31 December 2016, the composition of the Executive Committee was as follows:

### Composition

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Luís Maria Viana Palha da Silva	President
Rafael Luís Mora Funes	Member

#### 29. DUTIES OF EACH COMMITTEE CREATED WITHIN THE BOARD OF DIRECTORS AND SUMMARY OF THE ACTIVITIES DEVELOPED IN THE EXERCISE OF SUCH DUTIES

Regarding this matter, please see items 21 and 27 of Part I above.

### III. SUPERVISION

#### COMPOSITION

#### 30. IDENTIFICATION OF THE SUPERVISORY BODY

The supervisory body is the Fiscal Council.

#### 31. COMPOSITION OF THE FISCAL COUNCIL

The Fiscal Council is composed of three effective members and an alternate member. Effective member were appointed by the General Meeting of shareholders and one of them as a Chairman. The alternative member was not filled, is expected to happen on the General Meeting of shareholders on 2017.

As at 31 December 2016, the Company's Fiscal Council was composed as follows:

### Composition

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José Maria Rego Ribeiro da Cunha	Chairman
Isabel Maria Beja Gonçalves Novo	Member
Pedro Miguel Ribeiro de Almeida de Fontes Falcão	Member

#### 32. IDENTIFICATION OF THE MEMBERS OF THE FISCAL COUNCIL COMMITTEE CONSIDERED INDEPENDENT UNDER ARTICLE 414,5 OF THE PORTUGUESE COMPANIES CODE

The Fiscal Council members meet the requirements on incompatibilities, independence and specialization arising from legal and regulatory requirements and other market rules to Corporate issuers of securities admitted to trading on a regulated market.

The Company therefore complies with CMVM Recommendations no. II.2.1.



### 33. PROFESSIONAL QUALIFICATIONS AND OTHER RELEVANT CURRICULUM ELEMENTS OF THE MEMBERS OF THE FISCAL COUNCIL

The *curricula* of the members of PHAROL's Fiscal Council are shown in Appendix I.

#### OPERATION

### 34. OPERATING RULES OF THE FISCAL COUNCIL

The Fiscal Council adopted its Internal Regulation, which may be consulted on the following electronic address:

[http://conteudos.pharol.pt/Documents/EN/Regulation/2015/10\\_October/Regulament\\_o\\_Conselho\\_Fiscal\\_en.pdf](http://conteudos.pharol.pt/Documents/EN/Regulation/2015/10_October/Regulament_o_Conselho_Fiscal_en.pdf)

According to such Regulation, the Fiscal Council meets at least once every three months, on the day and at the place established by its Chairman, although extraordinary meetings may be called upon by its Chairman or at the request of a majority of its members.

The Fiscal Council shall not function without the presence of the majority of its members in office. Its Chairman may, when clearly urgent or there is a justified impossibility, waive the presence of that majority if the same is ensured through voting by correspondence or by power of attorney.

The Fiscal Council's resolutions are approved by a majority of the votes cast, and its Chairman has a casting vote.

### 35. NUMBER OF MEETINGS OF THE FISCAL COUNCIL AND DEGREE OF ATTENDANCE OF EACH MEMBER

During the 2016 financial year, 10 meetings of the Fiscal Council took place. The degree of attendance of each member to these meetings was 100%.

### 36. AVAILABILITY OF EACH MEMBER OF THE FISCAL COUNCIL AND INDICATION OF FUNCTIONS EXERCISED SIMULTANEOUSLY IN OTHER COMPANIES, INSIDE AND OUTSIDE THE GROUP, AND OTHER RELEVANT ACTIVITIES EXERCISED BY THE MEMBERS OF THE FISCAL COUNCIL

The functions exercised by the members of PHAROL's Fiscal Council in other companies as well as their other relevant activities are shown in Appendix I.

#### COMPETENCES AND DUTIES

**37. PROCEDURES AND CRITERIA APPLICABLE TO THE INTERVENTION OF THE SUPERVISORY BODY WHEN HIRING ADDITIONAL SERVICES FROM THE EXTERNAL AUDITOR**

In the year 2016, PHAROL did not contract to the external auditor or any entity with a group relationship or that incorporate the same network, for any other services than audit services.

Therefore, PHAROL believes that it complies with CMVM Recommendation no. IV.2.

**38. OTHER DUTIES OF THE SUPERVISORY BODIES**

Regarding this matter, please see item 21 of Part I above.

**IV. STATUTORY AUDITOR (*REVISOR OFICIAL DE CONTAS / ROC*)**

**39. IDENTIFICATION OF THE STATUTORY AUDITOR AND OF ITS REPRESENTING PARTNER**

The 2015-2017 three-year term of office of the Statutory Auditor commenced on 29 May 2015, its effective member being the firm BDO & Associados, SROC. Lda., registered in the Statutory Auditor's Professional Association ("OROC") under no. 29 and at CMVM under no.20161384, represented by its partner and manager Rui Carlos Lourenço Helena, registered at OROC as Statutory Auditor, under no. 923.

**40. NUMBER OF YEARS DURING WHICH THE STATUTORY AUDITOR PERFORMS DUTIES CONSECUTIVELY IN THE COMPANY AND/OR GROUP**

The firm BDO & Associados, SROC. Lda., performs duties as Statutory Auditor in the Company since 29 May 2015.

Pursuant to its duties, PHAROL's Fiscal Council confirmed the independence of the Statutory Auditor, and appraised its work during the 2016 financial year.

**41. OTHER SERVICES RENDERED TO THE COMPANY BY THE STATUTORY AUDITOR**

In 2016, the Statutory Auditor also rendered the external audit service to PHAROL and thereis no other services rendered.

**V. EXTERNAL AUDITOR**

**42. IDENTIFICATION OF THE EXTERNAL AUDITOR AND OF ITS REPRESENTING PARTNER, AS WELL AS THEIR RESPECTIVE REGISTRY NUMBER BEFORE THE CMVM**

PHAROL's current External Auditor, appointed in 2015 for the purposes of article 8 of the Portuguese Securities Code, is BDO & Associados – SROC, Lda., registered at OROC

under no. 29 and at CMVM under no. 20161384, and it is represented by its partner and director Rui Carlos Lourenço Helena, registered at OROC as Statutory Auditor under no. 923.

**43. NUMBER OF YEARS DURING WHICH THE EXTERNAL AUDITOR AND ITS REPRESENTING PARTNER PERFORM DUTIES CONSECUTIVELY IN THE COMPANY AND/OR GROUP**

PHAROL's current External Auditor, appointed in 2015 for the purposes of article 8 of the Portuguese Securities Code, is BDO & Associados – SROC, Lda., registered at OROC under no. 29 and at CMVM under no. 20161384, began its functions in March 2015.

**44. POLICY AND PERIOD FOR THE ROTATION OF THE EXTERNAL AUDITOR AND OF ITS REPRESENTING PARTNER**

There is no internal policy for the External Auditor's mandatory rotation, apart from the one legally applicable to public interest entities. The mandatory rotation period applicable to the Statutory Auditor that represents the External Auditor in the performance of its duties results from article 54,2 of the OROC Statutes (7 years).

**45. CORPORATE BODY RESPONSIBLE FOR THE EVALUATION OF THE EXTERNAL AUDITOR AND FREQUENCY FOR SUCH EVALUATION**

The Fiscal Council annually evaluates the External Auditor's performance and independence, as described in the annual Report of the Fiscal Council's activities.

Pursuant to its duties and in line with CMVM Recommendation no. II.2.3, the Company's Fiscal Council assessed and confirmed the independence of BDO & Associados, SROC, Lda., and appraised its work relating to the Company's 2016 financial audit.

**46. SERVICES, OTHER THAN AUDITING SERVICES, PROVIDED BY THE EXTERNAL AUDITOR TO THE COMPANY AND/OR ENTITIES IN A CONTROL RELATIONSHIP, AS WELL AS INDICATION OF INTERNAL PROCEDURES FOR THE PURPOSES OF APPROVING THE HIRING OF THOSE SERVICES AND REASONS FOR SUCH HIRING**

There were no services other than auditing services provided to the Company and to companies in a control relationship with PHAROL by the External Auditor and entities in a holding relationship with or incorporated in the same network beyond the role of the Statutory Auditor.

47. INDICATION OF THE AMOUNT OF ANNUAL REMUNERATION PAID TO THE AUDITOR AND OTHER INDIVIDUALS OR CORPORATIONS IN THE SAME NETWORK SUPPORTED BY THE COMPANY AND OR BY CORPORATIONS IN A CONTROL OR GROUP RELATIONSHIP, AS WELL AS SPECIFICATION OF THE PERCENTAGE OF EACH TYPE OF SERVICE

BDO & Associados, SROC, Lda. for the external audit and Statutory Auditor simultaneously will represent a total cost of 274,106 euros to which VAT is added at the legal rate, referring to 2016.

## C. INTERNAL ORGANIZATION

### I. BYLAWS

48. RULES APPLICABLE TO AMENDMENT TO THE BYLAWS OF THE COMPANY

#### **Constitutive quorum for the General Meeting of Shareholders**

Where an amendment to the Bylaws is at issue, the General Meeting of shareholders may only resolve, on a first call, if shareholders owning shares corresponding to at least one-third of the share capital are present or represented. On a second call, no such requirement exists, and the General Meeting may resolve on any matter whatever the number of shareholders present.

#### **Resolution quorum for the General Meeting of Shareholders**

Where an amendment to the Bylaws of the Company is at issue, the General Meeting of shareholders resolves by a majority of two-thirds of the votes cast.

However, if shareholders holding at least half the share capital are present or represented at a General Meeting held on second call, an amendment to the Bylaws may be resolved by a majority of the votes cast, and no two-third majority is therefore required.

Thus, PHAROL's Bylaws establish no quorum other than established by the law for the General Meeting to be held or to approve resolutions.

The Board of Directors is, however, authorised to increase the share capital, subject to an opinion in favour issued by the Fiscal Council and following a resolution of the General Meeting of shareholders, fixing the parameters to which the increase or increases of capital are subject to. The Board of Directors may also move the registered office of the Company within the national territory.

### II. WHISTLEBLOWING

49. WHISTLEBLOWING

In December 2016, PHAROL revised a set of procedures called regarding to the rules and the procedimiento to adopte in the System for Qualified Communication of Undue

Practices or Whistleblowing.

Within Whistleblowing, “undue practices e/ou irregularities” mean all acts or omissions, wilful or negligent, performed within the activities of the companies pertaining to PHAROL, that may have an impact on the financial statements or information sent to the Portuguese regulatory authority, CMVM, or those that cause damage to PHAROL’s assets and reputation.

Suitable safety measures were implemented for the protection of information and data contained in communications. In particular, restricted access will be guaranteed, from a physical and logical perspective, to the System servers, and the means for gathering and filing information must be exclusive to the System.

Both confidentiality of the communication and anonymity of the person reporting will be ensured at all times, unless the person concerned unequivocally intends and declares otherwise.

In no case is any kind of retaliation against those that make the said communications tolerated.

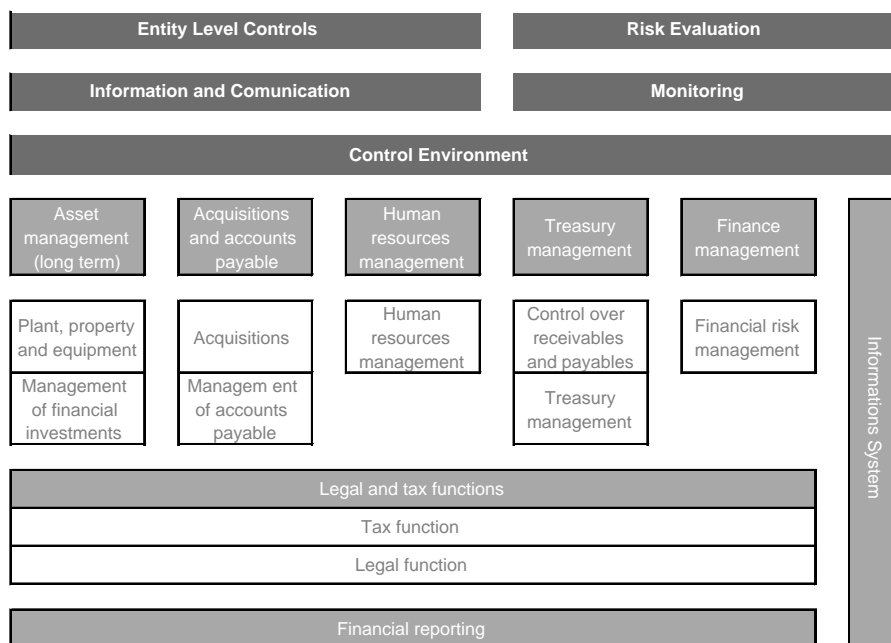
### III. INTERNAL CONTROL AND RISK MANAGEMENT

#### **Internal Control System**

The Internal Control System implemented at PHAROL was based on an internationally acknowledged model – COSO (Committee of Sponsoring Organisations of the Treadway Commission) – making use of the layers established according to such model, notably: (i) Entity Level Controls; (ii) IT Level Controls; and (iii) Process Level Controls.

PHAROL designed a manual and implemented controls for the most representative business cycles within the Company. As to lesser business cycles, and within the framework of improvement of internal control and risk management environment, PHAROL defined a set of minimum internal control requirements.

PHAROL’s internal control manual and most relevant business cycles may be summarised in the table below:



The identification and design of the controls that are relevant to financial reporting, whether preventive, detective or corrective, are documented in the proper manual according to the layers established by COSO. The manual is revised where changes in the processes occur or periodically, in order to attest their adhesion to the reality of PHAROL's operations.

Currently, PHAROL has already identified around 62 controls, of which 39 are considered as key controls.

The internal control system is checked by the External Auditors and in full compliance with the CMVM Recommendation no. IV.1, the External Auditors also verify the implementation of remuneration policies and systems in force in the Company.

#### 50. PERSONS, BODIES OR COMMITTEES RESPONSIBLE FOR INTERNAL AUDITING AND/OR IMPLEMENTATION OF INTERNAL CONTROL SYSTEMS

The Fiscal Council monitors PHAROL permanently as follows:

- a) evaluate internal procedures for accounting and auditing matters;
- b) assess the effectiveness of the Risk Management System regarding tax, legal, economic and financial aspects;
- c) evaluate the effectiveness of the internal control system;
- d) review the External Audit function.

The internal control system is monitored by the Board of Directors, which identifies the risks of the company, the results of the risk management process, the materiality level of financial reporting and proposes the implementation of measures.

## 51. HIERARCHICAL AND/OR FUNCTIONAL DEPENDENCE RELATIONS VIS-À-VIS OTHER CORPORATE BODIES OR COMMITTEES

The annual plan in respect of the External Audit and Risk Management function is annually approved by the Executive Committee and informed to the Fiscal Council of PHAROL, wherein are defined the audits to be performed and the scope of internal control reviews. The objective of these procedures is to ensure that internal control mechanisms are in place to ensure the reliability and integrity of financial and operational reports, operational efficiency and compliance with applicable laws and regulations.

The progress of the execution of the annual audit plan as defined, as well as the aggregate results of audits carried out, are reported to the Fiscal Council for the follow-up of the progress of the internal control and risk management system and definition of action plans for mitigation and resolution of risks detected.

As referred to above, the Company considers itself to comply with CMVM Recommendations no. II.2.4 and no. II.2.5.

## 52. OTHER FUNCTIONAL AREAS HAVING RISK CONTROL POWERS ROLE

Risk Management is promoted by the Board of Directors and the Executive Committee in such a way as to identify, assess and manage uncertainties, threats and opportunities that might affect the pursuance of the plan and strategic goals, to decide on the level of exposure and overall risk limits to be undertaken by PHAROL in its different activities and to ensure that management risk policies and procedures are followed.

PHAROL risk level results from the degree of the Board's acceptance for risk, which is kept within limits according to criteria as agreed between the Board of Directors, the Executive Committee and the Fiscal Council, this latter under legal terms, responsible for evaluating the effectiveness of the Risk Management System under the fiscal, legal, economic and financial viewpoint.

Risk Management is entrusted to the Board of Directors, performed by the Executive Committee, although it depends on the supervision of the Fiscal Council.

## 53. MAIN ECONOMIC, FINANCIAL AND LEGAL RISKS TO WHICH THE COMPANY IS EXPOSED IN THE CONDUCT OF ITS BUSINESS

Among the various risks that may adversely affect the business of PHAROL, the following should be highlighted:

Relevant Risks		
<b>Economic Risks</b>	<b>Oi's Performance</b>	<p>The main risk to which PHAROL is subject derives from Oi's operational and financial performance, notably Oi's ability to generate profits and cash flow and pay dividends.</p> <p>Oi's performance is also dependent on the performance of the Brazilian economy and, at this time in particular, the evolution of</p>

		<p>the judicial recovery process that the Company has adopted. Despite the fact that this process can bring financial and operational stability to the Company, it depends on numerous wills not fully controlled by Oi.</p> <p>In the event of failure in negotiations with creditors, Oi may face serious difficulties in the normal development of their activities.</p>
<b>Financial Risks</b>	<b>Exchange Rates</b>	<p>Foreign currency exchange rate risks relate mainly to PHAROL's investment in Oi (Brazil). Any exchange rate fluctuations of the Real against the Euro affect the translation of the results attributable to PHAROL, and therefore impact PHAROL's results and financial position.</p> <p>The Company does not have a hedging policy regarding the value of these investments.</p>
	<b>Interest Rate</b>	<p>Interest rate risks basically relate to financial expenses and the floating interest rate debt and cash applications. PHAROL is indirectly exposed to this risk specially in Brazil. It is important to point out that, at December 31, 2016 PHAROL has no debt.</p> <p>Regarding debt, Oi is consolidated by the equity method in PHAROL's Financial Statements.</p> <p>Market interest rates also affect the discount rates used for impairment testing to the various assets of the entity.</p>
	<b>Treasury Applications</b>	<p>PHAROL is mainly subject to credit risks in its treasury applications.</p> <p>In order to dilute these risks, in July 2014 the Board of Directors defined a policy for treasury applications.</p>
	<b>Default by Rio Forte as to the reimbursement of the instruments that PHAROL holds following the execution of the Exchange</b>	<p>The Rio Forte Instruments currently held by PHAROL, are not guaranteed by assets. Therefore, even though there may exist amounts available for reimbursement to Rio Forte's creditors the right to reimbursement of PHAROL will be shared pro rata with the other unsecured creditors of Rio Forte and only after the repayment of all debts to any secured creditors, and after confirmation of the validity of the credits.</p>
	<b>Exercise of the call option on Oi's shares</b>	<p>The value of the Call Option on Oi's shares will depend primarily on the market price for Oi's ordinary and preferred shares, the price of which will depend, in its turn, on Oi's performance, including its operations, financial position, business outlook and its judicial reorganization develop.</p> <p>The Board of Directors of PHAROL closely monitors Oi's business on regular basis and is further engaged in periodically following up the Call Option for purposes of financial statement recording, as well as the price of Oi's shares.</p>
<b>Legal Risks</b>	<b>Court proceedings</b>	<p>The Board of Directors subcontracts the risk analysis as to court proceedings to external lawyers and consultants, so as to know, for each claim, their assessment as to PHAROL's liability (probable, possible and remote occurrence), the status of the proceedings, the amounts involved, provisioned and paid, and what steps should be taken to defend PHAROL's interests.</p>
	<b>Tax contingencies</b>	<p>PHAROL may incur future liabilities under its tax obligations with the Tax Authorities. In the context of the agreement with Oi, where Oi</p>



	has been assuming responsibility for the payment of all contingencies until May 5, 2014, PHAROL remains and severally liable for these contingencies.
<b>Disputes or investigations triggered under the Rio Forte Instruments or the Business Combination</b>	PHAROL may incur in liability under disputes and other future proceedings and incur in legal costs in such disputes or other proceedings. Any liability incurred may adversely affect PHAROL's financial position and the capacity to fully implement the Business Combination.

## 54. RISK IDENTIFICATION, ASSESSMENT, MONITORING, CONTROL AND MANAGEMENT PROCEDURE

### Risk Management Procedure

The Risk Management procedure implemented in PHAROL is based on an internationally acknowledged methodology – COSO II, developed by the Committee of Sponsorship Organisations of the Treadway Commission. This approach is based on the identification and analysis of key value drivers and uncertainty factors that might affect value generation and compliance with the plan and strategic goals.

PHAROL's priority commitment consists in the implementation of mechanisms for assessment and management of risks that might affect its operations. Such mechanisms are based on an integrated transversal risk management model, which seeks to ensure, implementation of good corporate governance practices and transparency in communication to the market and shareholders.

The whole process is monitored and supervised by the Fiscal Council. Within the functions of this body regarding the supervision of the efficiency of the risk management system, we point out the analysis of the quality, integrity and effectiveness of the risk management system and internal control system, including the annual review of its adequacy and effectiveness, and generally supervise the execution of the functions performed by the Executive Committee.

### *Risk Management Methodology*

Considering PHAROL's need for clear assessment and management mechanisms for the risks affecting its businesses, the following components were defined in the implementation of the risk assessment and management procedure:

- **Risk Typology**, which defines the risk factors that might generally affect PHAROL.
- **Economic Risks:** reflect the risks from the macroeconomic environment as well as the impact of entities and assets not controlled by PHAROL;
- **Financial Risks:** associated to the PT SGPS' financial performance and to the transparency in its communication to the market;
- **Legal Risks:** result of past situations, current and future associated with hiring, assumption of rights and responsibilities and relationships with regulators and authorities.

- **Risk Management**, which formalises the analysis of processes and procedures, the mitigation and reporting of relevant risks.

### ***Identified risks***

The table below shows the risks currently identified at the level of the Risk Management Model of PHAROL on which all risk management procedures are developed.

<b>Economic Risks</b>	Oi's Performance
<b>Financial Risks</b>	Exchange rates Interest rates Credit Liquidity Default by Rio Forte as to the reimbursement of the instruments that PT SGPS holds following the execution of the Exchange Exercise of the call option on Oi's shares
<b>Legal Risks</b>	Agreements with Oi / Business Combination Court proceedings Disputes or investigations triggered under the Rio Forte Instruments or the Business Combination

### ***Risk assessment***

In its risk assessment, the Board of Directors and Executive Committee considers the existence of predictable and unpredictable events. While most events are recurrent and have already been dealt with in already prepared management programs and budgets, there are events that are often unpredictable. The Board of Directors and Executive Committee assesses the risks that may cause a significant impact on the Company, taking into account both the inherent risk of materialization of the risk and the residual risk (the risk that still exists after measures have been taken by the Board of Directors and the Executive Committee).

### **Risk monitoring, control and management**

The Board of Directors allocates responsibilities to the Executive Committee in order to formalise procedures that are aligned with the strategy and exposure level/risk tolerance determined for PHAROL, in such a way as to identify:

- Monitoring procedures to mitigate for each risk, according to the risk management strategy adopted by the Board of Directors and supervised by the Fiscal Council;
- Disclosure and reporting procedures for information issued regarding the risk management procedure.

Operational implementation of the risk management methodology is an interactive cyclical process that may be summarised in the following table:

<b>Risk Management Methodology</b>
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<b>Board of Directors</b>	Identifies main risks affecting PHAROL; Decides on action and prioritisation of mitigating actions.
<b>Executive Committee</b>	Implement policies and controls in accordance with the strategy set by the Board of Directors. Monitors the implementation of controls.
<b>Fiscal Council</b>	Supervises and evaluates risk management model; Proposes improvements & changes to model; Reviews the main risks.

#### 55. MAIN ELEMENTS OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IMPLEMENTED IN THE COMPANY IN CONNECTION WITH THE FINANCIAL INFORMATION DISCLOSURE PROCEDURE

The wider scope of the internal control system implemented by PHAROL includes existing controls both as to the accuracy and completeness of disclosures and as to compliance thereof with the Company's financial information. At the beginning of the process, the Executive Committee, together with the Company services, the External Auditor and the Statutory Auditor, establish a timeline for the process and identify the participants/responsibility aimed at the preparation/disclosure of the financial information.

Before approval by the Board of Directors, financial information disclosures are submitted to the Fiscal Council within the context of the Company's governance model. Both the Board's approval and the Fiscal Council's opinion are preceded by a set of validation and accuracy procedures carried out by the Company services.

The Company therefore complies with CMVM Recommendations no. II.1.5.

#### IV. INVESTOR SUPPORT

##### 56. INVESTOR SUPPORT OFFICE, COMPOSITION, DUTIES, INFORMATION PROVIDED BY THE SAME AND CONTACT DETAILS

It is PHAROL's policy to supply clear and transparent information, on a regular basis, to its shareholders and other members of the financial community.

The purpose of the Investor Relations Office consists in ensuring adequate relations with shareholders, investors, analysts and financial markets in general, in particular with the Markets and Stock Exchanges where PHAROL is listed and the respective regulatory entitie: CMVM.

PHAROL regularly prepares communications and press releases on quarterly, interim and annual results, as well as any inside information affecting the Company. It also provides all sorts of clarifications to the financial community in general – shareholders, investors and analysts.

Any interested party may have access to the Investor Relations Office through the following contacts:

Luís Sousa de Macedo

Investor Relations Director

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Telephone:	+351.212.697.698
Fax:	+351.212.697.949
E-mail:	<a href="mailto:ir@pharol.pt">ir@pharol.pt</a>
Address:	Rua Joshua Benoliel, 1, 2C - Edifício Amoreiras Square 1250-133 Lisboa - Portugal
Company Switchboard:	+351.212.697.690
Website:	<a href="http://www.pharol.pt">www.pharol.pt</a>

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In addition to other information, PHAROL keeps the following information updated on its website, in Portuguese and in English, fully complying with CMVM Recommendation no. VI.1:

- Company name, its nature of public company, registered office and other data pursuant to article 171 of the Portuguese Companies Code;
- The Bylaws;
- Operating rules of the corporate bodies and of the committees created within the Board of Directors;
- The identity of the members of the corporate bodies and of the representative for relations with the market;
- Duties of and access means to the Investor Relations Office as described above;
- For a period of five years, the annual, interim and quarterly financial statements;
- A schedule of corporate events, which includes, among other information, scheduled General Meetings of shareholders and disclosure of annual, interim and quarterly accounts;
- Notices of the General Meetings of shareholders, as well as proposals to be submitted to discussion and voting by the shareholders, at least 21 days in advance of the meeting date;
- Historical collection with the resolutions passed at the Company's General Meetings of shareholders, the share capital therein represented and the voting results, regarding the previous three years;
- In general, information allowing an updated knowledge about the Company's evolution and reality in economic, financial and corporate governance terms.

## 57. REPRESENTATIVE FOR RELATIONS WITH THE MARKET

Regarding this matter, please see item 56.

## 58. INFORMATION ON RESPONSE PROPORTION AND PERIOD TO INFORMATION REQUESTS MADE DURING THE YEAR OR PENDING FROM PREVIOUS YEARS

The Investor Relations Office regularly receives calls with various questions, including clarifications on dividends, General Meetings of shareholders and others, typically answered immediately, when the information is public.

In addition, the Investor Relations Office regularly receives requests by e-mail or post, and depending on the technical complexity of the query it may take longer to answer, but typically it takes less than five business days.

Therefore, PHAROL believes that its Investor Relations Office ensures a permanent contact with investors, analysts and the market in general as well as a treatment of investors' requests in compliance with CMVM Recommendation no. VI.2.

## V. INTERNET WEBSITE

### 59. ADDRESS

PHAROL makes available, through its website, [www.pharol.pt](http://www.pharol.pt), all information of a legal nature or on corporate governance, updates on the conduct of the business of the Company, as well as a complete set of Company financial and operational data, in order to facilitate inspection and access to such information by PHAROL's shareholders, financial analysts and other parties concerned.

### 60. LOCATION OF INFORMATION ON THE COMPANY NAME, ITS NATURE OF PUBLIC COMPANY, REGISTERED OFFICE AND OTHER DATA PURSUANT TO ARTICLE 171 OF THE PORTUGUESE COMPANIES CODE

All information pursuant to article 171 of the Portuguese Companies Code may be found on PHAROL website at:

<http://pharol.pt/en-us/a-empresa/pages/informacao-corporativa.aspx>

### 61. LOCATION OF INFORMATION ON THE BYLAWS AND OPERATING RULES OF THE CORPORATE BODIES AND/OR COMMITTEES

The bylaws and operating rules of the corporate bodies and of the committees created within the Board of Directors may be found on PHAROL' website at:

<http://pharol.pt/en-us/governo-sociedade/pages/estatutos.aspx>

<http://pharol.pt/en-us/governo-sociedade/comissoes-internas/pages/enquadramento.aspx>

62. LOCATION OF INFORMATION ON THE IDENTITY OF THE MEMBERS OF THE CORPORATE BODIES, THE REPRESENTATIVE FOR RELATIONS WITH THE MARKET, THE INVESTOR RELATIONS OFFICE OR EQUIVALENT, THEIR DUTIES AND ACCESS DETAILS

The identity of the members of the corporate bodies, the representative for relations with the market, the Investor Relations Office or equivalent, their duties and access details may be found on PHAROL' website at:

<http://pharol.pt/en-us/governo-sociedade/pages/conselho-administracao.aspx>

<http://pharol.pt/en-us/governo-sociedade/pages/conselho-fiscal.aspx>

<http://pharol.pt/en-us/contactos/pages/relacao-investidores.aspx>

63. LOCATION WHERE THE COMPANY MAKES AVAILABLE THE FINANCIAL STATEMENTS, WHICH MUST BE ACCESSIBLE FOR FIVE YEARS AT LEAST, AS WELL AS A SCHEDULE OF CORPORATE EVENTS, DISCLOSED AT THE BEGINNING OF EACH HALF-YEAR, INCLUDING, AMONG OTHERS, GENERAL MEETINGS OF SHAREHOLDERS, DISCLOSURE OF THE ANNUAL, HALF-YEAR AND, IF APPLICABLE, QUARTERLY FINANCIAL STATEMENTS

The financial statements, as well as the schedule of corporate events may be found on PHAROL' website at:

<http://pharol.pt/en-us/informacao-financeira/relatorios/pages/20156.aspx>

<http://pharol.pt/en-us/informacao-financeira/calendario-financeiro/Pages/calendario-financeiro.aspx>

64. LOCATION WHERE THE COMPANY MAKES AVAILABLE NOTICES OF THE GENERAL MEETING OF SHAREHOLDERS AND ALL PREPARATORY AND SUBSEQUENT INFORMATION RELATED TO THE SAME

Notices of the General Meeting of Shareholders and all preparatory and subsequent information related to the same may be found on PHAROL's website at:

<http://pharol.pt/en-us/governo-sociedade/assembleia-geral-acionistas/Pages/assembleia-geral-acionistas.aspx>

65. LOCATION WHERE THE COMPANY MAKES AVAILABLE THE HISTORICAL COLLECTION WITH THE RESOLUTIONS PASSED AT THE GENERAL MEETINGS OF SHAREHOLDERS, THE SHARE CAPITAL THEREIN REPRESENTED AND THE VOTING RESULTS, REGARDING THE PREVIOUS THREE YEARS

The historical collection with the resolutions passed at the Company's General Meetings of shareholders, the share capital therein represented and the voting results may be found on PHAROL' website at:

<http://pharol.pt/en-us/governo-sociedade/assembleia-geral-acionistas/Pages/assembleia-geral-acionistas.aspx>

## D. REMUNERATION

### I. COMPETENCE FOR DETERMINATION

#### 66. COMPETENCE FOR THE DETERMINATION OF THE REMUNERATION OF CORPORATE BODIES, MEMBERS OF THE EXECUTIVE COMMITTEE OR MANAGING DIRECTOR AND COMPANY OFFICERS

The Compensation Committee is elected by the shareholders at a General Meeting and serves the purpose of defining the remuneration policy of the members of the corporate bodies, determining the remunerations applicable taking into consideration the performance and the economic position of the Company.

For the completion of this task, the Compensation Committee continuously follows up and evaluates the directors' and the Company's performance, checking the extent to which the proposed targets have been achieved. The Compensation Committee meets whenever necessary.

The remuneration policy applicable to the PHAROL's officers other than those incorporating the management and supervisory bodies, is determined by the Executive Committee.

### II. COMPENSATION COMMITTEE

#### 67. COMPOSITION OF THE COMPENSATION COMMITTEE, INCLUDING THE IDENTIFICATION OF THE PERSONS OR CORPORATIONS HIRED TO SUPPORT IT AND INDEPENDENCE STATEMENT REGARDING EACH OF ITS MEMBERS AND CONSULTANTS

The current members of the Compensation Committee, elected for the 2015-2017 three-year term of office, are the following:

##### Composition

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Álvaro Pinto Correia

Francisco de Lacerda

António Sarmento Gomes Mota

Notwithstanding the necessary articulation of this Committee with the Board of Directors, the composition of the Compensation Committee seeks to obtain the highest possible level of independence of its members from the members of the management body. No member of the Compensation Committee is a member of any corporate body or committee within the Company, and no member of the Compensation Committee has any family connection to any member of the management body by way of marriage, kindred or affinity in a direct line and up to and including the third degree. PHAROL therefore complies with CMVM Recommendation no. II.3.1.

#### 68. KNOWLEDGE AND EXPERIENCE OF THE MEMBERS OF THE COMPENSATION COMMITTEE IN THE MATTER OF REMUNERATION POLICY

All members of the Compensation Committee have knowledge and experience in the matter of remuneration policy. Some of them belong or have belonged to compensation committees of other listed companies. Appendix I hereto sets out the most relevant curriculum elements of the members of the Compensation Committee.

### III. REMUNERATION STRUCTURE

#### 69. DESCRIPTION OF THE REMUNERATION POLICY FOR THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES AS REFERRED TO UNDER ARTICLE 2 OF LAW NO. 28/2009 OF 19 JUNE 2009

The remuneration policy for executive and non-executive members of the Board of Directors (such policy including the members of the supervisory body) in force during the 2016 financial year is described on the declaration by the Compensation Committee on this matter as approved by the 2014 Annual General Meeting of Shareholders on 24 May 2016, pursuant to article 2,1 of Law no. 28/2009, of 19 June 2009. Such declaration is reproduced in Appendix II hereto.

However, for the reasons set out above in point 25, the Remuneration Committee, during 2016, does not assign any variable remuneration to its executive directors.

At the same time, the remuneration policy applicable to non-executive members of the Board of Directors does not include any variable component, -i.e - the value of which dependant on the performance of the Company or its value. Therefore PHAROL complies with CMVM Recommendation no. III.1 and III.2.

#### 70. INFORMATION ON HOW THE REMUNERATION IS STRUCTURED IN ORDER TO PERMIT THE ALIGNMENT OF THE DIRECTORS' INTERESTS WITH LONG TERM INTERESTS OF THE COMPANY, AS WELL AS HOW THE REMUNERATION IS BASED ON PERFORMANCE AND DISINCENTIVES EXCESSIVE RISK TAKING

As results from the remuneration policy approved at the General Meeting of 24 May 2016 and contained in Annex II, the remuneration was based on a fixed and variable component. As already mentioned in paragraphs 25 and 69, in 2016, the Remuneration Committee decided, to not allocate any variable remuneration to the executive directors.

The information provided in **itens 71 to 74** of the form attached to CMVM Regulation No. No. 4/2013 is not applicable to PHAROL, as during the 2016 financial year, as stated in points 25 and 69, the remuneration policy in force does not include the allocation of variable remuneration.



75. MAIN PARAMETERS OF AND GROUNDS FOR ANY ANNUAL BONUS SYSTEM AND ANY OTHER NON-PECUNIARY BENEFITS

In 2016, there were no bonus, annual bonus or non-pecuniary benefit systems of any nature whatsoever in force in PHAROL.

76. MAIN CHARACTERISTICS OF COMPLEMENTARY PENSION OR EARLY RETIREMENT SYSTEMS FOR DIRECTORS, SPECIFYING WHETHER THE SAME WERE SUBJECT TO APPRAISAL, IN INDIVIDUAL TERMS, BY THE GENERAL MEETING OF SHAREHOLDERS

No PHAROL director is covered by complementary pension or early retirement system.

IV. REMUNERATION DISCLOSURE

77. REMUNERATION INDIVIDUALLY AND GLOBALLY EARNED BY THE MEMBERS OF THE COMPANY'S MANAGEMENT BODY

Pursuant to Law no. 28/2009 of 19 June 2009, individual and global gross remunerations paid to the members of the management body shown hereinafter:

Board of Directors (year of designation)		Remunerations 2016 (euro)
André Cardoso de Meneses Navarro (2015)		35,000
Francisco Ravara Cary (2014)	(1)	22,350
João do Passo Vicente Ribeiro (2015)		35,000
José Manuel Melo da Silva (2016)	(2)	15,257
João Manuel Pisco de Castro (2015)		35,000
Jorge Freire Cardoso (2014)		35,000
José Mauro Mettrau Carneiro da Cunha (2015)		35,000
Luís Maria V. Palha da Silva (2015)		294,000
Maria do Rosário Pinto Correia (2015)		35,000
Pedro Zañartu Gubert Morais Leitão (2015)		35,000
Rafael Luís Mora Funes (2007)		267,359
Ricardo Malavazi Martins (2015)	(3)	32,185
<b>Total</b>		<b>876,151</b>

(1) He resigned on 25 July 2016.

(2) Cooptaded on 25 July 2016.

(3) He resigned from his duties in PHAROL on 21 October 2016.

78. AMOUNTS PAID, FOR ANY REASON WHATSOEVER, BY OTHER COMPANIES IN A CONTROL OR GROUP RELATIONSHIP OR SUBJECT TO COMMON CONTROL

During 2016, no amounts were paid to PHAROL's members of the Board of Directors by companies in a control or group relationship or subject to common control.

79. REMUNERATION PAID IN THE FORM OF PROFIT SHARING AND/OR BONUS PAYMENT, AND THE REASONS WHY SUCH BONUSES AND/OR PROFIT SHARING WERE GRANTED

The remuneration policy of the members of the Board of Directors in 2016, which will be presented to the General Meeting of shareholders, does not provide for the

allocation, in general terms, of this type of remuneration.

#### 80. COMPENSATIONS PAID OR DUE TO FORMER EXECUTIVE DIRECTORS IN RESPECT OF TERMINATION OF OFFICE DURING THE FINANCIAL YEAR

During the year 2016, there is no compensation paid for the contract termination of executive directors.

#### 81. REMUNERATION INDIVIDUALLY AND GLOBALLY EARNED BY THE MEMBERS OF THE COMPANY'S SUPERVISORY BODY

The remuneration of the Supervisory Board is composed of a fixed annual amount based on the Company's situation and market practices and there is no variable remuneration.

The gross remuneration of the Fiscal Council for the year 2016 was as follows:

<b>Fiscal Council</b>	<b>Remunerations 2016 (euro)</b>
José Maria Rego Ribeiro da Cunha	49.000
Isabel Maria Beja Gonçalves Novo	31.500
Pedro Miguel Ribeiro de Almeida Fontes Falcão	31.500
<b>Total</b>	<b>112.000</b>

#### 82. INDICATION OF THE REMUNERATION OF THE CHAIRMAN OF THE BOARD OF THE GENERAL MEETING OF SHAREHOLDERS

The net remuneration of the Chairman of the Board of the General Meeting of Shareholders for the year 2016 was Euro 4,000.

### V. AGREEMENTS WITH REMUNERATION IMPLICATIONS

#### 83. CONTRACTUAL LIMITATION AS ESTABLISHED FOR ANY COMPENSATION TO BE PAID UPON REMOVAL WITHOUT JUST CAUSE OF A DIRECTOR, AND ITS RELATIONSHIP WITH THE VARIABLE COMPONENT OF THE REMUNERATION

There are no agreements that establish a right to compensations upon removal without just cause of a director, other than as provided for by law.

#### 84. AGREEMENTS WITH MEMBERS OF THE BOARD AND OFFICERS PROVIDING FOR COMPENSATION IN THE EVENT OF TERMINATION OF OFFICE FOLLOWING A CHANGE OF CONTROL

There are no agreements between PHAROL and the members of the management body or officers providing for compensation in the event of resignation, removal without just cause or termination of employment relationship following a change of control in the Company.

## VI. SHARE ALLOTMENT OR STOCK OPTION PLANS

The information set forth in **items 85 to 87** of the form attached to CMVM Regulation no. 4/2013 is not applicable to PHAROL, as during the 2016 financial year, the Company did not adopt any share allotment or share call option plans, nor did any such plans remain in force, regarding PHAROL directors or employees or any third parties.

### 88. CONTROL MECHANISMS PLANNED FOR ANY EMPLOYEE CAPITAL HOLDING SYSTEM TO THE EXTENT THAT VOTING RIGHTS ARE NOT EXERCISED BY SUCH EMPLOYEES

Not applicable, since there is no system specifically providing for any share capital holding by employees in the Company.

## E. RELATED PARTY TRANSACTIONS

### I. CONTROL MECHANISMS AND PROCEDURES

#### 89. MECHANISMS IMPLEMENTED BY THE COMPANY TO CONTROL RELATED PARTY TRANSACTIONS (IAS 24)

According to the current Regulation, notwithstanding its exclusion of certain transactions (notably if not exceeding certain amounts), in case of transactions between PHAROL, or any of its subsidiaries, and related parties (as redefined exclusively by reference to the concept in IAS 24), or any renewals thereof, the aggregate amount per party of which is in excess of 100,000 Euros (one hundred thousand Euros), the execution of the same may be approved only upon a prior favourable opinion by the supervisory body.

For such purpose, the supervisory body shall be provided with relevant information on the transaction as to which it has to give its opinion, including sufficient information on the characteristics of the transaction in question, notably under the strategic, financial, legal and fiscal viewpoint, information on the nature of the relationship existing between PHAROL and the other party in question, and the impact of the transaction on the financial position of the Company.

The following related party transactions are excluded from the scope of the mentioned internal regulation:

- a) Purchases of goods or provision of services agreed in compliance of the internal rules relating to purchases, suppliers and service providers in force at the time of the agreement;
- b) Banking operations of PHAROL and its subsidiaries, including collection, payment, deposits and other financial applications, short- and mid-term financing operations, issue of commercial paper, exchange transactions, hedge derivatives and obtaining of bank guarantees, provided that they do not exceed the aggregate amount of 300,000 Euros per year;

- c) Made between companies in a control or group relationship with PHAROL or between these and PHAROL;
- d) In which the consideration is based on official price quotations (e.g., exchange-rate or interest-rate contracts and commodities), in case the intervals agreed correspond to normal market practices;
- e) In which the consideration is based on tariffs or rates determined by the competent regulatory authorities;
- f) The payment by PHAROL of the remuneration of the Key Corporate Members and Employees (as defined in the Service Order) for the performance of their duties;
- g) Operations available to all employees or shareholders of the PHAROL in equivalent conditions;
- h) The hiring of technical services, notably legal or tax consultancy, whenever the respective approval procedure may compromise the timely provision of such services, given the specificity of the services to be provided, notably considering the qualifications and the level of knowledge required for the provision of the services in question, as well as the timeframe for their execution;
- i) Operations consisting on the execution of transactions already agreed upon under general contracts already in force in the PHAROL.

As a result of the definition of the concept of “Related Parties” for the purposes of the respective internal regulation – which no longer includes the owners of qualified holdings in PHAROL share capital, as opposed to what happened before, and now adopts the criterion resulting from IAS 24 – the Company considered it was convenient to create specific rules applicable to transactions with owners of qualified holdings, as detailed in item 91 below.

As such, PHAROL considers that CMVM Recommendation No. V.2 is complied with.

## 90 and 91. TRANSACTIONS SUBJECT TO CONTROL AND INTERVENTION OF THE SUPERVISORY BODY IN THE PRIOR EVALUATION OF TRANSACTIONS WITH OWNERS OF A QUALIFIED HOLDING

Under the normative, currently under review, the execution of transactions with owners of qualified holdings or entities related to them under article 20 of the Portuguese Securities Code, with an aggregated amount per entity above 100,000 Euros, can only be approved after PHAROL supervisory body has issued a prior favourable opinion.

In addition, the execution of transactions with owners of qualified holdings or entities related to them under article 20 of the Portuguese Securities Code, with an aggregated amount per entity above 1,000,000 Euros per year, are subject to approval by the Board of Directors, after the supervisory body has issued its prior favourable opinion.

Currently, the following situations are excluded from the rules applicable to transactions with owners of qualified holdings:

- a) Purchases of goods or provision of services agreed in compliance of the

internal rules relating to purchases, suppliers and service providers in force at the time of the agreement;

- b) Banking operations of PHAROL, including collection, payment, deposits and other financial applications, short- and mid-term financing operations, issue of commercial paper, exchange transactions, hedge derivatives and obtaining of bank guarantees, provided that they do not exceed the aggregate amount of 300,000 Euros per year;
- c) In which the consideration is based on official price quotations (e.g., exchange-rate or interest-rate contracts and commodities), in case the intervals agreed correspond to normal market practices;
- d) In which the consideration is based on tariffs or rates determined by the competent regulatory authorities;
- e) Operations available to all employees or shareholders of the PHAROL in equivalent conditions;
- f) The hiring of technical services, notably legal or tax consultancy, whenever the respective approval procedure may compromise the timely provision of such services, given the specificity of the services to be provided, notably considering the qualifications and the level of knowledge required for the provision of the services in question, as well as the timeframe for their execution;
- g) Operations consisting on the execution of transactions already agreed upon under general contracts already in force in the PHAROL

On 2016, there were no transactions between the Company and owners of qualified holdings or entities related to them under article 20 of the Portuguese Securities Code which have not been demonstrably made under normal market conditions. Thus, PHAROL considers CMVM Recommendation No. V.1 complied with in respect of the fiscal year ended on 31 December 2016.

## II. TRANSACTION DETAILS

### 92. LOCATION, IN THE ANNUAL FINANCIAL STATEMENTS, WHERE INFORMATION ON RELATED PARTY TRANSACTIONS, IN ACCORDANCE WITH IAS 24, IS AVAILABLE

Information on related party transactions is available on Note 21 to the consolidated financial statements for the year 2016. There are no transactions with related parties' shareholders to disclose in respect of the fiscal year ended on 31 December 2016.

Information on the transactions executed during the fiscal year ended on 31 December 2016 with owners of qualified holdings who are not related parties in accordance with IAS 24 is available in Note 22 to the consolidated financial statements for the year of 2015.

## PART II – CORPORATE GOVERNANCE EVALUATION

### 1. IDENTIFICATION OF THE CORPORATE GOVERNANCE CODE ADOPTED

PHAROL complies with a high proportion the recommendations set out on CMVM Corporate Governance Code as published in July 2013 (“CMVM Code” or “CMVM Recommendations”)<sup>1</sup> – which assessment is set out on this report –, which are reflected on its Classic-type corporate governance model as provided for under article 278,1(a) of the Portuguese Companies Code.

The Board of Directors approved on 28 March 2016 the deregistration of its securities registered at SEC as a foreign private issuer. On 26 April 2016, PHAROL filed with on the SEC the Form 15F to implement the deregistration, and by the rules of the SEC, PHAROL's obligations to file annual reports (Form 20-F) and type Form reports 6-K with the SEC are immediately suspended from that date. After 90 days, the deregistration of securities to PHAROL the SEC become effective, and PHAROL is no longer be subject to a set of rules on corporate governance.

PHAROL is also subject to other rules adopted at internal level, which are relevant in its corporate governance structure.

Additionally, PHAROL complies with several internal conduct and transparency rules, namely the Code of Ethics, the Code of Ethics for Senior Financial Officers, rules on Officer Transactions, rules on Transactions with Related Parties and rules on Transactions with Owners of Qualified Holdings. A short description of all these rules is attached hereto as Appendix III. PHAROL further adopts rules and structures for internal control, risk management and whistleblowing.

PHAROL, for the 2015-2017 three-year term, following the Annual General Meeting of Shareholders held in 2015, returned to its former management model, namely delegating functions in an Executive Committee. In 2017, the Director Board decided to delegate the day-to-day management to Managing Director.

Additionally, are in force a set of internal rules that determine, notably (i) the obligation of dispersion of cash availabilities over several banks, (ii) the limitation of the kind of applications to term deposits, and (iii) the establishment of maximum quantitative limits within the scope of the delegation of certain binding powers, thus amending the previous situation under which certain transactions (as, for instance, short-term applications) were subject to delegation with no quantitative limit.

### 2. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE ADOPTED

PHAROL feels it is appropriate to maintain a certain stability regarding recommendations which serve as a reference for the declaration of compliance to be included in this report referring to 2016, thus following to this end the CMVM Code.

Within this context, PHAROL's corporate governance model and principles:

- Observe all legal rules of a binding content applicable to the Classic-type corporate governance model as provided for under article 278,1(a) of the Portuguese

Companies Code;

- Take in a significant set of recommendations and best practices in this field as established under the CMVM Code.
- When it was applicable, PHAROL complied with mandatory rules and best practices applicable to foreign private issuers registered with SEC under US laws.

PHAROL adopts the CMVM Recommendations, available here:

[http://www.cmvm.pt/en/Legislacao/National\\_legislation/Recommendations/Documents/Final.trad.Cod.Gov.Soc.09.10.2013.MM.pdf](http://www.cmvm.pt/en/Legislacao/National_legislation/Recommendations/Documents/Final.trad.Cod.Gov.Soc.09.10.2013.MM.pdf)

The items in Part I of this Corporate Governance Report that contain a description of the measures taken by the Company for compliance with the CMVM Recommendations are identified hereunder.

CMVM RECOMMENDATION		COMPLIANCE	REPORT
<b>I. VOTING AND CORPORATE CONTROL</b>			
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.	Yes	Item 12
I.2.	Companies shall not adopt mechanisms that hinder the passing of resolutions by shareholders, including fixing a quorum for resolutions greater than the one provided for by law.	Yes	Item 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.	Yes (a)	Item 5
I.4.	The 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 jointly with other shareholders, shall also foresee for a resolution by the General Meeting (5 year intervals), on whether that statutory provision 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 are to be counted without applying said restriction.	Yes (a)	Item 5
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.	Yes	Item 4
<b>II. SUPERVISION, MANAGEMENT AND OVERSIGHT</b>			
<b>II.1 SUPERVISION AND MANAGEMENT</b>			
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	Yes	Item 21
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) decisions considered strategic due to the amount, risk and particular characteristics involved.	Yes	Item 21

II.1.3	The General and Supervisory Board, in addition to its supervisory duties, shall take full responsibility at corporate governance level, whereby through the statutory provision 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	Not Applicable	
II.1.4	Except for small-sized companies, the Board of Directors and the General and Supervisory Board, depending on the model adopted, shall create the necessary committees in order to: (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; and (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.	Yes	Items 21 and 27
II.1.5	The Board of Directors or the General and Supervisory Board, 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.	Yes	Items 50 to 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.	Yes	Item 17
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 Fiscal Council 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: a. Having been an employee at the company or at a company holding a controlling or group relationship within the last three years; b. Having, in the past three years, provided services or established commercial relationship with the company or company with which it is in a control or group relationship, either directly or as a partner, board member, manager or director of a legal person; c. Being paid by the company or by a company with which it is in a control or group relationship besides the remuneration arising from the exercise of the functions of a board member; d. Living with a partner or a spouse, relative or any first degree next of kin and up to and including the third degree of collateral affinity of board members or natural persons that are direct and indirectly holders of qualifying holdings; e. Being a qualifying shareholder or representative of a qualifying shareholder	Yes	Item 18
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.	Yes	Item 17



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 Fiscal Council, 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.	Yes	Item 23
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 these can make independent and informed decisions or to ensure the existence of an equivalent mechanism for such coordination	Yes	Item 21
<b>II.2 SUPERVISION</b>			
II.2.1	Depending on the applicable model, the Chairman of the Supervisory Board, the Fiscal Council 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.	Yes	Item 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, <i>inter alia</i> , for proposing the relevant remuneration and ensuring that the proper conditions for the provision of services are provided within the company.	Yes	Item 21
II.2.3	The supervisory board shall assess 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 its services when there is a valid basis for said dismissal.	Yes	Items 21 e 45
II.2.4	The supervisory board shall assess the functioning of the internal control systems and risk management and propose adjustments as may be deemed necessary	Yes	Items 21 e 51
II.2.5	The Fiscal Council, the General and Supervisory Board and the Supervisory Board 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 matters related to accountability, identification or resolution of conflicts of interest and detection of potential improprieties are concerned	Yes	Items 21 e 51
<b>II.3 REMUNERATION SETTING</b>			
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.	Yes	Item 67 e 68
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 its duties. This recommendation also applies to any natural or legal person that is related by employment contract or provision of services with the above.	Yes	Item 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:  a) Identification and details of the criteria for determining the remuneration paid to the members of the corporate bodies; b) Information regarding the maximum potential, in individual terms, and the maximum potential, in aggregate form, to be paid to members of corporate bodies, and identify the circumstances whereby these maximum amounts may be	Yes	Items 25 and 69

	payable; d) 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 assess said plan.	Not Applicable	
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 assess said scheme.	Not Applicable	
<b>III. REMUNERATION</b>			
III.1.	The remuneration of the executive members of the board shall be based on actual performance and shall discourage excessive risk-taking.	Yes	Item 69
III.2.	The remuneration of non-executive board members and the remuneration of the members of the supervisory board shall not include any component whose value depends on the performance of the company or of its value	Yes	Items 69 and 77
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	Not Applicable	Items 25, 69 and 75
III.4.	A significant part of the variable remuneration should be deferred for a period not less than three years, and the right to receive it shall depend on the continued positive performance of the company during that period	Not Applicable	Items 25, 69 and 75
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.	Yes	Items 25 and 69
III.6.	Executive board members shall maintain the company's shares that were allotted to them 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 term of office.	Not Applicable	Items 25 and 69
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.	Not Applicable	Items 25 and 69
III.8.	When the removal of a board member is not due to serious breach of his duties nor to his unfitness for the normal exercise of his functions but is yet due to 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.	Yes	Item 83
<b>IV. AUDITING</b>			
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	Yes	Part I C.III
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 supervisory board 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.	Yes	Item 37

IV.3.	Companies shall support auditor rotation after two or three terms of office, depending on the term of office being of four or three years, respectively. Its continuance beyond this period must be based on a specific opinion of the supervisory board that explicitly considers the conditions of the auditor's independence and the benefits and costs of its replacement.	Yes	Item 44
<b>V. CONFLICTS OF INTEREST AND RELATED PARTY TRANSACTIONS</b>			
V.1.	The company's business with holders of qualified holdings or entities with which they are in any type of relationship pursuant to article 20 of the Portuguese Securities Code shall be conducted in normal market conditions.	Yes	Item 91
V.2.	The supervisory or oversight board shall establish the necessary procedures and criteria to define the relevant level of significance of business with owners of qualified holdings or entities with which they are in any of the relationships described in article 20.of the Portuguese Securities Code. Execution of significant relevant business shall be dependent on prior opinion of said body.	Yes	Item 89
<b>VI. INFORMATION</b>			
VI.1.	Companies shall provide, via their websites in both Portuguese and English language, access to information on their progress as regards the economic, financial and governance state of play.	Yes	Items 56 and 59
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.	Yes	Items 56 and 58

a) As the Company's Bylaws considers a limitation on the counting of votes, this issue was taken to the shareholder's consideration in General Meeting on 24 May 2016. Was decided to keep this limitation.

## APPENDIX I

### Functions performed by members of the management body in other companies

The functions performed by each director in companies other than PHAROL are as follows:

#### ***Luís Maria Viana Palha da Silva (Chairman of the Board of Directors and the Executive Committee)***

Member of Board of Directors of Oi S.A.  
Chairman of the Fiscal Council of Seguradoras Unidas  
Director of Bratel B.V.

#### ***André Cardoso de Meneses Navarro (Director)***

General Manager of Millennium Investment Bank  
Non-Executive Board of Member of Oi S.A.  
Board of Member of Interoceânico, SGPS S.A.

#### ***João do Passo Vicente Ribeiro (Director)***

Alternate Member of the Board of Directors of Oi S.A.  
Member of the Corporate Governance and Finance Committee of Oi S.A.  
Member of the Risks and Contingence Committee of Oi S.A.  
Member of the Fiscal Council of Bensaúde Holding  
Member of the Fiscal Council of Vila Galé Gest, a real estate funds management company  
Member of the Project Evaluation Committee of Naves, a venture capital company

#### ***João Manuel Pisco de Castro (Director)***

Full member of the Board of Directors of Oi S.A.  
Vice-President of Grupo Visabeira, SGPS S.A.  
President of Visabeira Indústria, SGPS, S.A.  
Chairman of Vista Alegre Atlantis, SGPS S.A.  
Chairman of Vista Alegre USA  
President of MOB – Indústria de Mobiliário, S.A.  
President of Faianças da Capoa – Indústria de Cerâmica, S.A.  
President of Cerexport – Cerâmica de Exportação, S.A.  
President da Pinewells, S.A.  
President da Real Life – Tecnologias de Informação, S.A.

President of Visagreen, S.A.  
Director of Gevisar, SGPS, S.A.  
Director of Visacasa S.A.  
Director of Constructel (Bélgica)  
Director of Constructel Sweden AB

Director da Constructel (Rússia)  
Director of Construtel (UK)  
Director of Constructel GmbH  
Director of Constructel (France)

***Jorge Telmo Maria Freire Cardoso (Director)***

Member of the Board of Directors and CFO of Novo Banco, S.A.  
Member of the Board of Directors of NB Finance, Ltd.  
Member of the Board of Directors of Banque Espírito Santo et de la Vénétie, S.A.  
Chairman of the Board of Directors of E.S. Teach Ventures, SGPS S.A.  
Non-Executive Member of the Board of Directors of Enternext, S.A.

***José Manuel Melo da Silva (Director)***

Alternate Member of the Board of Directors of Oi S.A.  
Senior Manager of Parvalorem, S.A.

***José Mauro Mettrau Carneiro da Cunha (Director)***

Chairman of the Board of Directors of Oi S.A.  
Full Member of the Board of Directors of Santo António Energia S.A.

***Maria do Rosário Amado Pinto-Correia (Director)***

Alternate Member of the Board of Directors of Oi S.A.  
Teacher on Católica Lisbon School of Business and Economics  
Executive Consulting of CEA / Católica Lisbon

***Pedro Zañartu Gubert Morais Leitão (Director)***

Member of the Board of Directors of Oi S.A.  
Chairman of the Board of Directors of Prio Energy SGPS  
Chairman of the Board of Directors of MoteDALma SGPS  
Non-Executive Director of Quifel Natural Resources, SGPS  
Non-Executive Director of Villas Boas ACE, S.A.  
Managing Partner of Ficonline Lda

***Rafael Luís Mora Funes (Director and Member of the Executive Committee)***

Member of the Board of Directors of Oi S.A.  
Chairman of Comité of Engenharia of Oi S.A.  
Chairman of the Board of Directors of Webspectator Corp.  
Member of the Advisory Board of ISCTE Business School

## **Professional qualifications and professional activities performed during the last 5 years**

*Luís Maria Viana Palha da Silva (Chairman of the Board of Directors and the Executive Committee)*

*Portuguese, 61 years old*

Vice Chairman of the Board of Directors da Galp Energia, SGPS, S.A. | Member of the Board of Directors of Petróleos de Portugal – Petrogal, S.A. | Member of the Board of Directors of Galp Exploração e Produção Petrolífera, S.A. | Member of the Board of Directors of GDP – Gás de Portugal, SGPS, S.A. (redenominated Galp Gas & Power, SGPS, S.A. in February 12, 2015) | Member of the Board of Directors of Galp Gás Natural Distribuição, S.A. | Member of the Board of Directors of Galp Energia, S.A. | Member of the Board of Directors of Galp Energia España, S.A. | Member of the Board of Directors of Galp Energia E&P B.V. | Member of the Board of Directors of Galp Exploração e Produção (Timor-Leste), S.A. | Chairman of the Board of Directors of Galp Marketing International, S.A. | Chairman of the Management Board of Petrogal Angola, Lda. | Chairman of the Management Board of Petrogal Guiné-Bissau, Lda. | Chairman of the Management Board of Petrogal Moçambique, Lda. | Chairman of the Executive Board of Galp Moçambique, Lda. | Chairman of the Board of Directors of Galp Gambia, Limited | Chairman of the Board of Directors of Galp Swaziland, Limited | Chairman of the Board of Directors of CLC – Companhia Logística de Combustíveis, S.A. | Director of Galp Sinopec Brazil Services B.V. | Member of the Board of Directors of Petrogal Brasil, S.A. | Member of the Board of Directors of Galp Energia Brasil, S.A. | Member of the Board of Directors of Fima – Produtos Alimentares, S.A. | Member of the Board of Directors of Victor Guedes Indústria e Comércio, S.A. | Member of the Board of Directors of Indústrias Lever Portuguesa, S.A. | Member of the Board of Directors of Olá – Produção de Gelados e Outros Produtos Alimentares, S.A. | Manager of Unilever Jerónimo Martins, Lda. | Manager of Gallo Worldwide, Lda. | Member of the Technologic and Scientific Committee of ISPG – Instituto de Petróleo e Gás, Associação para a Investigação e Formação Avançada | Chairman of APETRO – Associação Portuguesa de Empresas Petrolíferas | Chairman of the Board of AEM – Associação dos Emitentes Portugueses | Member of the Board of Directors (non executive) of NYSE Euronext and Member of Audit Committee of NYSE Euronext | Chairman of the Fiscal Council of the Companies Tranquilidade Vida, Logo e Açoreana | Chairman of the Fiscal Council of Fórum para a Competitividade | Chairman of the Fiscal Council of Fundação Francisco Manuel dos Santos | Chairman of the Board of the General Meeting of Gesbanha – Gestão e Contabilidade, S.A. | Chairman of the Board of EPIS - Empresários pela Inclusão Social | Chairman of the Fiscal Council of Companhia de Seguros Tranquilidade, S.A. | Member of the Strategy Council of Faculdade de Ciências Económicas e Empresariais of Universidade Católica Portuguesa | Degree in Economics from Instituto Superior de Economia | Degree in Business Management from Universidade Católica Portuguesa | AMP – University of Pennsylvania – Wharton School of Economics.

*André Cardoso de Meneses Navarro (Director)*

*Portuguese, 53 years old*

Chief Executive Officer of Banco Privado Atlântico – Europa, S.A. from 2008 to 2014 | Chief Executive Officer of Societé Générale – Corporate and Investment Bank (Lisbon, Portugal) from 2002 to 2008 | Non-Executive Board Member of Crediagora (Lisbon

Portugal) from 2006 to 2008 | Law Degree from Universidade Estadual Rio de Janeiro (Rio de Janeiro, Brasil) | Pos Graduation in Finance from Fundação Getúlio Vargas (Rio de Janeiro, Brasil) | MBA from Thunderbird, American Graduate Scholl of International Business (Arizona, EUA).

*João do Passo Vicente Ribeiro (Director)*  
*Portuguese, 68 years old*

Chairman of the Board of Directors of AMP - Sociedade Gestora de Fundos de Investimento Mobiliários from 2014 to 2015 | From November 2011 till March 2012 he coordinated the Working Group on Financial Mechanisms to support Tourism Companies, appointed by the Secretary of State of Tourism of the Portuguese Government | From 2008 till 2009 he was a Board Member of SLN – Sociedade Lusa de Negócios, as well as President of several sub-holdings | In 2008 we was an Executive Board Member of the Portuguese bank BPN – Banco Português de Negócios (Presidency of Miguel Cadilhe) | From 2007 to June 2008 he was President and CEO of Quadrantis Capital, a Portuguese venture capital company that he founded | From 2004 till 2007 he was the President and CEO of PME Investimentos, a Portuguese state vehicle for venture capital funding of SME,s and new companies | Prior to this, and for over most of his 30 years of professional experience, he has enjoyed a number of senior positions at both the private and state Portuguese banking institutions. The most relevant by inverse chronological order are Chairman of the Portuguese Association of Asset and Portfolio Management Companies, Executive Director of AF Investimentos (Group Millennium BCP), General Manager of the International and Domestic Private Banking Departments (Group Millennium BCP), General Manager of Corporate Banking of Banco Português do Atlântico. Member of the Board of Leasing Atlântico and General Manager of Retail Banking department of Banco Português do Atlântico | Internationally, João Vicente Ribeiro held the positions of Deputy General Manager of the London and Paris Branches of Banco Português do Atlântico and that of Manager of the International department of Instituto de Crédito de Angola in Luanda | Graduated in Finance from Instituto Superior de Economia, Lisbon, where he also lectured, 1973, and a MBA graduate of INSEAD (Fontainebleau) 1979.

*João Manuel Pisco de Castro (Director)*  
*Portuguese, 62 years old*

President of Instituto de Gestão Financeira e de Infra-Estruturas da Justiça, I.P. from 2007 to 2009 | Member of the Board of Directors of Grupo Visabeira from 2002 to 2007 | Member of the Board of Directors of Visabeira Telecomunicações e Construção, SGPS S.A. from 2002 to 2006 | Director of Visabeira Serviços SGPS, S.A. from 2003 to 2005 | Graduated in Electrotechnical Engineering, Telecommunications and Electronics track from Instituto Superior Técnico (1983) | MBA from Faculdade de Economia, Universidade de Lisboa (1990).

*Jorge Telmo Maria Freire Cardoso (Director)*  
*Portuguese, 45 years old*

Non-Executive Member of the Board of Directors of Visabeira from April 2014 to September 2014 | Non-Executive Vice Chairman of the Board of Directors of Banco Caixa Totta Angola, S.A. from April 2014 to September 2014 | Non-Executive Chairman

of the Board of Directors of Caixa Capital – Sociedade de Capital de Risco, S.A. from March 2014 to September 2014 | Non-Executive Chairman of the Board of Directors of Caixa Desenvolvimento, SGPS, S.A. from March 2014 to September 2014 | Non-Executive Vice Chairman of the Board of Directors of Banco Caixa Geral Brasil, S.A. from September 2013 to September 2014 | Non-Executive Chairman of the Board of Directors of Caixa – Banco de Investimento, S.A. from August 2013 to September 2014 | Non-Executive Member of the Board of Directors of Caixa Seguros e Saúde, SGPS, S.A. from August 2013 to September 2014 | Non-Executive Member of the Board of Directors of Gerbanca, SGPS, S.A. from August 2013 to September 2014 | Non-Executive Member of the Board of Directors of Partang, SGPS, S.A. from September 2013 to September 2014 | Non-Executive Chairman of the Board of Directors da Wolfpart, SGPS, S.A. from November 2013 to September 2014 | Member of the Board of Directors and Member of the Executive Committee of Caixa Geral de Depósitos, S.A. from July 2013 to September 2014 | Non-Executive Chairman of the Board of Directors of CGD Investimentos Corretora de Valores e Câmbio, S.A. from May 2012 to April 2014 | Director of CaixaBI Brasil – Serviços de Assessoria Financeira Ltda. from May 2012 to November 2013 | Chairman of the Executive Board of Caixa – Banco de Investimento, S.A. from May 2011 to August 2013 | Non-Executive Vice Chairman of the Board of Directors do Banco Nacional de Investimento, S.A. from May 2012 to December 2012 | Non-Executive Member of the Board of Directors of ZON Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, S.A. from January 2008 to July 2012 | Non-Executive Member of the Board of Directors da Dornier, S.A. from February 2010 to July 2012 | Non-Executive Member of the Board of Directors of Empark Portugal – Empreendimentos e Exploração de Parques, S.A. from February 2010 to June 2012 | Graduate in Economics by Universidade Nova de Lisboa | MBA by Insead.

*José Manuel Melo da Silva (Director)*  
*Portuguese, 58 years old*

Senior Manager of Banco Português de Negócios, S.A. from 2010 to 2012 | Head of Treasury of Banco Efisa S.A. from 1997 to 2010 | Degree in Economics from Instituto Superior de Economia | Post-Graduation in Banking Management by ISGB/Universidade Católica Portuguesa, Lisboa.

*José Mauro Mettrau Carneiro da Cunha (Director)*  
*Brazilian, 67 years old*

Chairman of Board of Directors of Tele Norte Leste Participações S.A. (“TNL”) since 2007 to 2012 | Chairman of Board of Directors of Telemar Norte Leste S.A. since 2007 to 2012 | Chairman of Board of Directors of Tele Norte Celular Participações S.A. since 2008 to 2012 | Chairman of Board of Directors of Coari Participações S.A. since 2007 to 2012 | Chairman of Board of Directors of TNL PCS S.A. since 2007 to 2012 | Chairman of the Board of Directors of Dommo Empreendimentos Imobiliários since 2007 to 2016 | Full Member of the Board of Directors of Telemar Participações S.A. since 2008 to 2015 | Full Member of the Board of Directors of Vale S.A. since 2010 to 2015 | Full Member of the Board of Directors of Log-In Logística Intermodal S.A. since 2007 to 2011 | Full Member of the Board of Directors of Lupatech S.A. since 2006 to 2012 | Full Member of the Board of Directors of Braskem S.A. since 2007 to 2010 |



Degree in Mechanical Engineering from Universidade Católica de Petrópolis, Rio de Janeiro, December 1971 | Executive Program in Management from Anderson School, University of Califórnia, Los Angeles, EUA, December 2002.

*Maria do Rosário Amado Pinto-Correia (Director)*  
*Portuguese, 58 years old*

Chairman of Ferreira Marques & Irmão / Topázio from 2012 to 2016 | Senior Advisor at Bewith and CEA/CLSBE from 2008 to 2012 | Director of Gestão do Conhecimento of PT Comunicações, Director of Qualidade e Satisfação do Cliente in Grupo Portugal Telecom, Board Member of PT Asia, Chairman da CTTC – Archway (Pequim) and CEO da Macau Cable TV from 2003 to 2008 | Head of Office da OgilvyOne from 1994 to 2002 | Publisher of the Marie Claire magazine from 1992 to 1994 | Director of Client Service at McCann – Erickson from 1987 to 1992 | Financial Products Manager, Director of the Direct Mail in CTT – Correios de Portugal from 1981 to 1987 | Degree in Economics by Universidade Católica de Lisboa | Master of Business by Universidade Nova de Lisboa | MBA by Wharton School.

*Pedro Zañartu Gubert Morais Leitão (Director)*  
*Portuguese, 51 years old*

Chairman of the Board of Directors of ONI, SGPS from 2012 to 2013 | Director of Unyleya Brasil and Unyleya Portugal from 2010 to 2011 | Graduated in Business Management from Universidade Católica Portuguesa de Lisboa | Masters in Business Management from Kellogg Graduate School of Management at Northwestern University in Chicago, EUA.

*Rafael Luís Mora Funes (Director and Member of the Executive Committee)*  
*Spanish, 51 years old*

Vice Chairman of the Board of Directors of Ongoing Strategy Investments, SGPS S.A. | Chairman of the Board of Directors of Realtime Corp. | Managing Partner of Heidrick & Struggles | Associate Partner of Accenture | Graduate in Economics and Management by Malaga University.

## **CV data of the members of the Compensation Committee**

*Álvaro João Duarte Pinto Correia (Chairman of the Compensation Committee)*

Member of the Compensation Committee since 2007.

Graduate in Civil Engineering by Instituto Superior Técnico, where he was an assistant professor.

Engineer at Sonfe in Portugal and Angola (Cambambe Dam) | State Secretary for Civil Construction and Housing and Urban Planning | Manager at Caixa Geral de Depósitos | Chairman of Banco Totta & Açores and Companhia de Seguros Fidelidade | Chair of the Negotiation Committee for the Debt of Angola | Director of Hidroeléctrica de Cahora Bassa | Chairman of the Fiscal Council of Montepio Geral – Associação Mutualista.

Chairman of Fundação Cidade de Lisboa since July 2000 | Chairman of the Inspection Board of Autoridade de Supervisão de Seguros e Fundos de Pensões de Portugal (ASF) since December 2004 | Chairman of INAPA – Investimentos e Participações e Gestão, S.A: since May 2010 | Chairman of the General and Supervisory Board of Caixa Económica Montepio Geral since October 2015 | Member of Portuguese Honour Orders: *Comendador da Ordem de Mérito Industrial* and *Grande Oficial da Ordem do Infante D. Henrique*.

*Francisco de Lacerda (Member of the Compensation Committee)*

Member of the Compensation Committee of PHAROL, SGPS S.A. (ex- Portugal Telecom, SGPS S.A.) since 2009 (suspended his office between August 2012 and March 2014).

Graduate in Business Administration and Management, Universidade Católica Portuguesa (1982).

Chairman and CEO of CTT – Correios de Portugal since August 2012, Chairman of Banco CTT, S.A. since 2015, Non-Executive Director of Endesa Energia and Chairman of Cotec Portugal since 2015. All along 25 years up to 2008, he held various positions in investment, corporate and retail banking, including CEO of Banco Mello and Executive Member of the Board of Directors of Millennium BCP, a Portuguese listed bank with relevant operations in Central and Eastern Europe, for which he was responsible, upon which he performed duties in also listed Portuguese organisations, such as CEO of Cimpor – Cimentos de Portugal SGPS, S.A., an international cement group operating in 12 countries and one of 5 largest companies on the NYSE Euronext Lisbon securities market, and Non-Executive Director and Member of the Audit Committee of EDP Renováveis, the third largest renewable energy company in the world.

| Chairman of CTT Expresso – Serviços Postais e Logística, S.A. since 2014 | Chairman of Tourline Express Mensajería, S.L.U. since 2014 | Non-Executive Director of Norfin – Portuguese Property Group, S.A. from May to October 2014 | Chairman and CEO of CTT - Correios de Portugal, S.A. since 2012 | CEO of Cimpor – Cimentos de Portugal SGPS, S.A. from 2010 to 2012 | Chairman of Cimpor Inversiones, S.A. from 2010 to 2012 | Chairman of Sociedade de Investimento Cimpor Macau, S.A. from 2010 to 2012 | Non-Executive Director of EDP Renováveis, S.A. from 2008 to 2012 and Member of the Audit Committee from 2008 to 2011 | Managing Partner of Deal Winds – Sociedade Unipessoal, Lda. from 2008 to 2012 | Director of International Post Corporation since 2014 | Member of the Directorate of AEM - Associação de Empresas Emitentes de Valores Cotados em Mercado since 2014 | Chairman of the Board of the General Meeting of Shareholders of Correio Expresso de Moçambique, S.A. since 2013 | Member of the Advisory Board of Nova School of Business & Economics since 2011 | Member of the Advisory Board of the Finance Master of Católica Lisbon School of Business & Economics since 2006 | Member of the General Council of Clube Naval de Cascais since 2006., Vice-Commodore since 2016.

*António Sarmento Gomes Mota (Member of the Compensation Committee)*

Member of the Compensation Committee since 2013.

Graduate in Business Organisation and Management, ISCTE - Instituto Universitário de Lisboa (1981). MBA, Universidade Nova de Lisboa (1984). Doctor in Business Management, ISCTE (2000).

He has a corporate career of over 20 years in management positions in the banking, consulting and financial services fields. He was Director of ISCTE Business School from 2003 to 2012 and President of INDEG/ISCTE from 2005 to 2012. He is a Professor at ISCTE Business School since 2005. He has a large experience as consultant in the areas of strategy, corporate assessment and risk management for Portuguese and international corporations. He is the author of various reference works in the financial field. He has held leadership positions in various Boards of Directors and Supervisory Boards in Portuguese listed corporations.

Vice Chairman (non-executive) of the Board of Directors of CTT, S.A., Lead Independent Director and Chairman of the Audit and Corporate Governance, Evaluations and Appointments Committees since 2014 | Vice Chairman of the Board of Directors (non-executive) of Soares da Costa Construção SGPS, S.A. from 2014 to 2015 | Chairman of the Board of Directors (non-executive) of Soares da Costa Investimentos, SGPS, S.A. from 2013 to 2016 | Chairman of the Instituto Português de Corporate Governance since 2016 | Member of the General and Supervisory Council; Member of the Audit Committee (2009/2015) and Performance and Competition (2012/2015) and Chairman of the Committee of EDP - Energias de Portugal, S.A. since 2015 | Non-Executive Member of the Board of Directors and Chairman of the Appointments and Remunerations Committee of CIMPOR – Cimentos de Portugal SGPS, S.A. from 2009 to 2012.

## **CV data of the members of the Fiscal Council**

*José Maria Rego Ribeiro da Cunha (Chairman of the Fiscal Council)*

Degree in Finance from Instituto Superior de Ciências Económicas e Financeiras (ISCEF – 1972)

Between 1975 and 1977 worked as auditor at the international company Arthur Andersen & Co.

Between 1977 and 1981 worked as auditor manager at the Statutory Auditor company “António Almeida e Augusto Martins Moreira”.

In 1981, after become Statutory Auditor, he entered as a member of the Ordem dos Revisores Oficiais de Contas (the professional body) in which has the number 497.

In 1981 he joined and has become partner of “Amável Calhau, Ribeiro da Cunha e Associados”, having been managing partner in the company since that date, performing several professional works within the following areas: auditing, evaluation of companies and consulting, among others.

Since 1981, also, he has been working as Statutory Auditor in representation of the above mentioned company, either as Statutory Auditor or integrating Supervisory Boards or Audit Committees, in a great deal of companies covering several business activity sectors, such as: Financial Institutions and Insurance, Industry and Construction, Public Entities, Services, Tourism, Commerce, etc.

On a personal basis, also, he carries out positions in governing bodies, in compliance with the professional Knowledge required to the members of those corporate bodies or Supervisory Boards: President of Supervisory Board at GNB Seguros de Vida, S.A., Member of Supervisory Board at GNB Companhia de Seguros, S.A., President of Supervisory Board at Novo Banco dos Açores, S.A..

*Isabel Maria Beja Gonçalves Novo (Member of the Fiscal Council)*

#### Educational background and professional training

International Management Programme – INSEAD, Fontainebleau  
Post graduation in Finance (European Business Certificate) – South Bank University, Londres  
Graduated in Organization and Business Management – Instituto Superior de Ciências do Trabalho e da Empresa (ISCTE)  
Managing for Success – BNP Paribas, Bruxelas  
Leadership for Growth – Fortis Bank, Mello  
Analysis and Credit Risk Control – NPF Pesquisa e Formação  
Introduction of the International Accounting Standards – Instituto de Formação Bancária  
Account Consolidation Course II – Centro Internacional de Formação e Apoio à Gestão  
Certificate of Proficiency in English – Universidade de Cambridge, Lisbon  
Diplôme Supérieur d'Études Françaises Modernes – Alliance Française, Lisbon  
Pedagogical Skills Certificate – F607896/2013, Lisboa

#### Professional activity in the past five years

##### Current Positions:

Member of the Fiscal Council of Best – Banco Eletrónico de Serviço Total, S.A. (since December 2016)  
Member of the Fiscal Council of PHAROL, SGPS S.A. (May 2015 to present)  
Financial and Business Advisory (April 2013 to present)

##### Past Positions:

Director of the Credit Analysis Department, BNP Paribas Fortis – Portuguese Branch (September 2010 – October 2012)  
Director of the Risk and Credit Analysis Department, Fortis Bank – Portuguese Branch (October 1995 – September 2010)  
Vice-Chairman of Federação de Triatlo de Portugal (December 2012 - January 2017).

*Pedro Miguel Ribeiro de Almeida Fontes Falcão (Member of the Fiscal Council)*

#### Educational background and professional training

Graduated in Business Management (Universidade Católica Portuguesa, Lisbon)  
MBA (Harvard Business School)  
PhD in Management (ISCTE)

#### Professional activity in the past five years

Current Positions:

Member of the Fiscal Council of PHAROL, SGPS S.A. | Visiting Assistant Professor in ISCTE since 2005 | Associate Dean of ISCTE Business School since 2014 | Executive Director of the Executive MBA of INDEG – IUL since 2004 | Visiting Lecturer in INDEG – IUL and in Instituto Superior Técnico since 2005.

Past Positions:

| Non-executive Member of the Board of Directors of Caixa Geral de Depósitos from July 2013 to August 2016 | Member of the Audit Commission of Caixa Geral de Depósitos from July 2013 to August 2016 | Member of the Remuneration Committee of Caixa Geral de Depósitos from 2015 to August 2016 | Advisory in management (until 2013).

## APPENDIX II

Declaration by the Wages Committee about the Remuneration Policy applicable to members of the management and audit bodies of PHAROL, SGPS, S.A.

Taking into account that:

1. Pursuant to Law no. 28/2009, of 19 June (“Remuneration Law”) and to Decree-Law no. 225/2008, of 20 November, the management body or the Wages Committee, if it exists, of companies issuing securities admitted to trading on a regulated market (“Issuing Companies”) shall annually submit to the General Meeting a declaration on the remuneration policy applicable to members of management and audit bodies (“Remuneration Policy Declaration”);
2. Moreover, numbers 69 to 76 of section D. III. of the “Corporate Governance Report Model” approved in an annex to CMVM (Securities Market Commission) Regulation no. 4/2013 (“CMVM Governance Code”) stipulates that the Corporate Governance Report of Issuing Companies include the Remuneration Policy Declaration and other information about, in particular, the remuneration structure and its alignment with the company’s long-term interests, the performance evaluation and dissuasion of excessive risk taking, the relation between the performance evaluation and the variable remuneration component, payment deferral of the variable component, among other aspects.
3. At the General Meeting of 29 May 2015 the Wages Committee submitted the remuneration policy applicable to members of the management and audit bodies for the 2015-2017 three-year period to be assessed by the shareholders who approved the said policy.

This Remuneration Policy Declaration is submitted to the General Shareholders Meeting to be held on 24 May of 2016 which essentially establishes the principles defined by the said remuneration policy approved at the General Meeting of 29 May 2015, and which merely makes some adjustments to the definition of the variable remuneration of executive directors, based on experience obtained in the first year in which the said remuneration policy was in effect for the 2015 – 2107 three-year period.

## I – Remuneration policy for non-executive directors and for Audit Board members:

The remuneration of non-executive members of the Board of Directors and of Audit Board members shall comply with an unvarying model, consisting of a fixed annual remuneration defined by the Wages Committee (broken down into 14 payments per year), without attendance fees, whereby the remuneration shall be aligned with the average remuneration of non-executive directors at companies with a similar market capitalisation listed on EURONEXT Lisbon.

The fixed remuneration takes into account the fact that some directors also perform duties in one/some of the delegated committee(s) of the Board of Directors providing assistance to its operation and also carrying out their own non-delegable duties.

This remuneration policy is structured to allow an alignment with the company's interests and a remuneration level that promotes adequate performance. No means of variable remuneration are stipulated for non-executive members of the management body or for members of the audit body.

## II. Remuneration policy for executive directors:

Remuneration for executive directors includes a fixed and a variable component, the latter consisting of a part that remunerates short-term performance and another part to remunerate long-term performance. This approach creates a reasonable balance between the dissuasion of taking excessive risks and an effective alignment between management interests and the interests of the company's shareholders.

### A) Fixed remuneration

The fixed remuneration component takes into account market competitiveness, such that it must be aligned with the average remuneration of executive directors at companies with a similar market capitalisation listed on EURONEXT Lisbon and also aligned with the nature and complexity of duties and expertise required. The fixed component is stipulated based on the definition of a monthly salary paid 14 times per year. The following complementary benefits shall be added to the said amount according to practices in effect: option to use a company car (including fuel and toll payments),

life and personal accident insurance, and use of a credit card for company representation expenses.

## B) Variable remuneration

The variable remuneration is linked to the performance of the executive directors and shall be paid according to the different fulfilment levels of specific and previously approved goals associated to objective, simple, transparent and measurable performance indicators. The Wages Committee analysed changes in the company's economic, organisational and operational setting and in which the executive directors have carried out their activities and took into account that, in view of the changes in this setting, an adjustment is justified in the model for determining the variable remuneration for the remaining years of the mandate in progress and to thereby provide a better solution to a fair evaluation of performance by executive directors. The model amended shall continue to include the TSR criterion, but now applied to PHAROL, which will reflect the success in the management of OI, in which it has a stake, and in the process of recovering the Rio Forte credit, criteria defined in the remuneration policy declaration approved at the General Meeting of 29 May 2015, and also adds a criterion of measuring the company's operating efficiency. Therefore, the variable remuneration for the years 2016 and 2017 is determined based on 2 indicators:

- i) The Total Shareholder Return (TSR) of the company's shares (75%)
- ii) The company's operating efficiency, measured by the relation between budgeted and actual costs (25%)

The variable remuneration value may vary between zero and a maximum that shall never exceed twice the annual fixed remuneration.

The variable remuneration shall be paid in cash, 50% in the month subsequent to the date on which the accounts are approved by the General Shareholders Meeting, and 50% within a 3-year deferral period and subject to confirmation of the company's positive performance in the period taken into account, as judged by the Wages Committee that shall take into account the financial sustainability and the economic situation of the company and of its sector, in addition to exceptional factors that cannot be controlled by the management but may affect the company's performance.



These principles and indicators determining the variable remuneration component aim to ensure a clear alignment between the interests of the executive directors and the company's interests, thereby promoting the pursuit and fulfilment of objectives, through quality, work capacity, dedication and business know-how, and an incentive and compensation policy that will make it possible to attract, motivate and maintain the best professionals.

The Wages Committee is also of the opinion that, due to the company's nature and objectives, if any extraordinary event representing an undeniable creation of value for shareholders takes place, the payment of an equally extraordinary premium may also be considered, within the terms to be defined and according to the concrete characteristics of the said event.

### III – Assignment of shares and options

The company currently has no plans to assign shares or stock option plans for staff.

### IV – Termination of duties by executive directors

If an executive director terminates his/her duties for any reason whatsoever other than dismissal for just cause, payment of the determined variable remuneration that has been deferred may be paid only at the time of termination of management duties if, until that date, there is sufficient and sustained evidence that the company's performance will be foreseeably positive in the remaining period within terms that, with all probability, would permit the payment of the said deferred component.

### V – Alignment of the directors' interests with the company's interests

Consequent to the aforementioned, the variable remuneration of the company's executive directors depends on their performance and on the company's sustainability and capacity to attain specific strategic objectives.

The current remuneration policy will also create a reasonable overall balance between

the fixed and variable components and the deferral of a significant part of the variable remuneration, payment of which, in accordance with the previously described terms, will therefore depend on the company's positive performance during that period. As such, the policy aims to contribute to maximising long-term performance and to dissuade decisions of excessive risk.

Additionally, with the aim to reinforce the component of evaluating the performance of the directors, save for agreement or deliberation by the Wages Committee to the contrary, the company and its directors shall act in accordance with the following principles:

- i) Directors shall not sign contracts, either with the company or third parties, that mitigate the risk inherent to the variability of the remuneration stipulated by the company;
- ii) In case of dismissal or resignation from management duties upon agreement, no compensation shall be paid to directors when the said dismissal or resignation has proven to have resulted from their inadequate performance.

#### VI – Remuneration policy for the Statutory Auditor

The company's statutory auditor is remunerated according to normal remuneration practices and conditions for similar services, consequent to the signing of a services rendering contract and through a proposal by the company's Fiscal Council.

The Compensation Committee of PHAROL, SGPS SA

## APPENDIX III

### **Code of Ethics**

PHAROL's Code of Ethics approved in 2016 and applies to all employees of the Company in order to guarantee a set of common ethical standards. Its implementation is permanently monitored by the management bodies.

The full text of the PHAROL's Code of Ethics is available for consultation on the Company's official website ([www.pharol.pt](http://www.pharol.pt)) and may also be made available through the Investor Relations Office.

### **Code of Ethics for Senior Financial Officers**

PHAROL approved in 2016 a new Code of Ethics for Senior Financial Officers. This Code applies to all for Senior Financial Officers that collaborate with the company, who are thus obliged to act in accordance and perform their duties with high standards of diligence, competence and professionalism.

This Code is also available on the Company's website ([www.pharol.pt](http://www.pharol.pt)).

### **Procedures implemented by PHAROL for compliance with the rules applicable to Officer Transactions, Related Party Transactions and Transactions with Owners of Qualified Holdings**

Following the appointment of new members of PHAROL corporate bodies for the 2015-2017 three-year term of office and in the context of the intended revision of the corporate governance structures currently in force, the rules for Officer Transactions, Related Party Transactions and Transactions with Owners of Qualified Holdings are being revised.

## **Contacts**

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Shareholders, investors, analysts and other interested parties should send their requests for information and clarifications (annual, half year, and quarter reports, press releases, etc.).

### **Depository bank**

Deutsche Bank Trust Company Americas  
ADR Division  
Floor 27  
60 Wall Street  
New York 10005-2836  
Fax: +1(732)544-6346

Holders of ADRs may also request additional information directly from PHAROL's depository bank for ADRs in New York.

### **Website**

All publications and communications, as well as information regarding the businesses performed by the Company, are available on PHAROL's Internet page, at the following address: [www.pharol.pt](http://www.pharol.pt)

### **Registered Office**

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