

ANNUAL REPORT

2016

PHAROL, SGPS S.A.

ANNUAL REPORT 2016

01 MANAGEMENT REPORT	3
02 STANDALONE FINANCIAL STATEMENTS	7
03 QUALIFIED HOLDINGS	36
04 INFORMATION TO BE PRESENTED UNDER THE TERMS OF THE ARTICLE 447 OF THE CODE FOR COMMERCIAL SOCIETIES	39

“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 MANAGEMENT REPORT

INTRODUCTION

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 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.

BUSINESS OVERVIEW

Apart from managing its investments, the Company did not directly conduct any other business activity.

LEGAL INFORMATION

There are no outstanding amounts overdue to the Portuguese State and the Portuguese Social Security System.

The Company did not enter into any material businesses or transactions with the members of its Board of Directors and the Fiscal Council, except for those mentioned in Note 21 to the Consolidated Financial Statements as at December 31, 2016.

2016 EVENTS AND RECENT DEVELOPMENTS

The main events of the year ended December 31, 2016 and recent developments are described in the Consolidated Annual Report of PHAROL.

PROPOSAL FOR APPLICATION OF PROFITS

Considering that in the year ended December 31, 2016 a negative net result of Euros 75,077,177 was obtained, the Board of Directors of PHAROL proposes that they be transferred to the Company's Retained Earnings.

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

02 STANDALONE FINANCIAL STATEMENTS

BALANCE SHEET

PHAROL, SGPS, S.A.

BALANCE SHEET
31 DECEMBER 2016 AND 31 DECEMBER 2015

	Notes	2016	Euro 2015
ASSETS			
Non-Current Assets			
Tangible assets		214,245	351,546
Intangible assets		13,429	21,911
Financial investments - equity method of accounting	6	141,244,557	103,855,812
Other financial assets	7	87,324,070	141,045,340
Total non-current assets		228,796,300	245,274,610
Current Assets			
State and other public entities	10	19,357	3,729
Other accounts receivable		391,943	671,326
Cash and bank deposits	4	28,291,217	63,175,283
Total current assets		28,702,518	63,850,338
Total assets		257,498,818	309,124,948
SHAREHOLDERS' EQUITY			
Share capital	11	26,895,375	26,895,375
Treasury shares	11	(179,675,995)	(178,071,827)
Legal reserve	11	6,773,139	6,773,139
Other reserves	11	264,281,624	290,251,390
Adjustments to financial assets	11	(1,506,547,853)	(1,558,435,034)
Retained earnings	11	1,711,919,540	2,405,811,843
Net income		(75,077,177)	(693,892,303)
Total equity		248,568,653	299,332,585
LIABILITIES			
Non-Current Liabilities			
Loans obtained		103,487	121,281
Total non-current liabilities		103,487	121,281
Current Liabilities			
Provisions	12	75,858	75,858
Loans obtained		8,430	15,851
Suppliers	13	2,323,182	1,852,839
Investment suppliers		7,670	7,669
Accrued expenses	14	5,404,487	6,474,334
State and other public entities	10	150,502	387,980
Other accounts payable	8	856,549	856,549
Total current liabilities		8,826,678	9,671,081
Total liabilities		8,930,164	9,792,362
Total liabilities and shareholders' equity		257,498,818	309,124,947

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

INCOME STATEMENT

PHAROL, SGPS, S.A.

INCOME STATEMENT
FOR THE PERIODS ENDED 31 DECEMBER 2016 AND 31 DECEMBER 2015

	Notes	2016	Euro 2015
Equity in earnings/(losses) of affiliated companies	15	(15,496,828)	(601,548,946)
Supplies and external services	16	(2,396,863)	(8,202,115)
Wages and salaries	17	(1,661,158)	(3,117,990)
Indirect taxes		(561,031)	(3,223,615)
Increases/(reductions) in fair value	18	(54,439,685)	(62,952,391)
Other income and gains		739,708	707,483
Other expenses and losses	19	(1,189,764)	(16,720,100)
INCOME BEFORE DEPRECIATION AND AMORTISATION, FINANCING EXPENSES AND TAXES		(75,005,622)	(695,057,674)
Depreciation and amortisation ((expenses)/reversals)		(83,638)	(103,507)
OPERATING INCOME (BEFORE FINANCING EXPENSES AND TAXES)		(75,089,260)	(695,161,180)
FINANCIAL LOSSES AND (GAINS)			
Interest and related income		63,990	1,496,090
Interest and related expenses		(17,233)	(165,435)
INCOME BEFORE TAXES		(75,042,503)	(693,830,526)
Income taxes	9	(34,674)	(61,777)
Net income (loss) from continuing operations		(75,077,177)	(693,892,303)
Earnings per share			
Basic	20	(0.09)	(0.79)
Diluted	20	(0.09)	(0.79)

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

									Euro
		Share capital	Treasury shares	Legal reserve	Other reserves	Adjustments to financial assets	Retained earnings	Net income	Total shareholders' equity
Balance as at 31 December 2014	A	26,895,375	(178,071,826)	6,773,139	290,251,390	(1,399,158,917)	2,580,894,821	(175,082,979)	1,152,501,003
Changes in the period:									
Foreign currency translation adjustments		-	-	-	-	(53,852,297)	-	-	(53,852,297)
Other changes recognized in shareholders' equity		-	-	-	-	(105,423,819)	-	-	(105,423,819)
	B	-	-	-	-	(159,276,116)	-	-	(159,276,116)
Net income	C	-	-	-	-	-	-	(693,892,303)	(693,892,303)
Comprehensive income	B+C	-	-	-	-	-	-	-	(853,168,418)
Operations with shareholders:									
Application of the previous year's earnings		-	-	-	-	-	(175,082,979)	175,082,979	-
	D	-	-	-	-	-	(175,082,979)	175,082,979	-
Balance as at 31 December 2015	E=A+B+C+D	26,895,375	(178,071,826)	6,773,139	290,251,390	(1,558,435,034)	2,405,811,843	(693,892,303)	299,332,586
Changes in the period:									
Foreign currency translation adjustments		-	-	-	-	103,110,793	-	-	103,110,793
Other changes recognized in shareholders' equity		-	(1,604,169)	-	(25,969,766)	(51,223,613)	-	-	(78,797,548)
	F	-	(1,604,169)	-	(25,969,766)	51,887,180	-	-	24,313,245
Net income	G	-	-	-	-	-	-	(75,077,177)	(75,077,177)
Comprehensive income	F+G	-	-	-	-	-	-	-	(50,763,932)
Operations with shareholders:									
Application of the previous year's earnings		-	-	-	-	-	(693,892,303)	693,892,303	-
	H	-	-	-	-	-	(693,892,303)	693,892,303	-
Balance as at 31 December 2016	I=E+F+G+H	26,895,375	(179,675,995)	6,773,139	264,281,624	(1,506,547,853)	1,711,919,540	(75,077,177)	248,568,653

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

STATEMENT OF CASH FLOWS

PHAROL, SGPS, S.A.

STATEMENT OF CASH FLOWS
FOR THE PERIODS ENDED 31 DECEMBER 2016 AND 31 DECEMBER 2015

	Notes	2016	Euro 2015
OPERATING ACTIVITIES			
Payments to suppliers		(4,197,091)	(37,853,288)
Payments to employees		(1,935,571)	(3,377,006)
Payments relating to income taxes		(23,869)	748,373
Other cash receipts, net		(181,450)	(143,429)
Cash flows from operating activities related to continuing operations (1)		(6,337,981)	(40,625,350)
INVESTING ACTIVITIES			
Cash receipts resulting from:			
Tangible and intangible assets		5,300	89,975
Interest and related income		64,145	278,482
		69,445	368,457
Payments resulting from:			
Financial investments	4.a.	(1,000,000)	-
Tangible and intangible assets		(979)	(349,683)
		(1,000,979)	(349,683)
Cash flows from investing activities related to continuing operations (2)		(931,534)	18,774
FINANCING ACTIVITIES			
Payments resulting from:			
Loans repaid		(27,048)	(202,541)
Interest and related expenses		(13,828)	(1,831,008)
Acquisition of Own Shares	4.b.	(1,603,908)	-
Dividends	4.c.	(25,969,766)	-
		(27,614,550)	(2,033,549)
Cash flows from financing activities related to continuing operations (3)		(27,614,550)	(2,033,549)
Cash and cash equivalents at the beginning of the period		63,175,283	105,815,419
Change in cash and cash equivalents (4)=(1)+(2)+(3)		(34,884,065)	(42,640,125)
Effect of exchange differences		0	(11)
Cash and cash equivalents at the end of the period	4.d.	28,291,217	63,175,283

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

NOTES TO THE STANDALONE FINANCIAL STATEMENTS

December 31, 2016

(Amounts in Euro, otherwise it will be referred)

1. Introduction

a) Company Identification

PHAROL, SGPS, S.A. ("PHAROL", "PHAROL SGPS" or "Company") was founded on June 23, 1994 pursuant to Decree -Law No. 122/94, through the merger of the following companies: Telecom Portugal, S.A., Telefones de Lisboa e Porto (TLP), S.A. ("TLP") and Teledifusora de Portugal, S.A. ("TDP"), with reference to January 1, 1994. As a result of the privatization process, between June 1, 1995 and December 4, 2000, PHAROL's share capital is mainly owned by private shareholders. On December 12, 2000, Portugal Telecom, S.A. changed its name to Portugal Telecom, SGPS, S.A. ("PT SGPS") and its operation to a capital management company. On May 29, 2015, the company changes its name to PHAROL, SGPS S.A.

b) Oi Cash Capital Increase

On May 5, 2014, Oi underwent a capital increase amounting to 13,960 million reais, composed of: (1) 5,710 million reais (Euro 1,750 million based on the exchange rate as of February 21, 2014) corresponding to 1,045,803,934 ordinary shares and 1,720,252,731 preferred shares subscribed by PHAROL, through a contribution in kind of the PT Assets, defined as the PHAROL's 100% stake in PT Portugal, which as of that date included all operational businesses of the PHAROL Group, with the exception of the subsidiaries Bratel BV, Bratel Brasil, PTB2 and PHAROL, and of the investment in Oi, Contax and their controlling shareholders; and 8,250 million reais in cash subscribed by investors other than PHAROL. The valuation of PT Assets of 5,710 million reais was determined on the basis of the valuation of PT Portugal by Banco Santander (Brasil), SA on the date of the share capital increase. As a result of PHAROL' contribution for the capital increase of Oi, PHAROL increased its effective interest in Oi from 23.2%, previously held through Bratel Brasil, to an economic interest of 39.7%, held through a total direct interest of 35.8% (32.8% in PHAROL and 3.0% in Bratel Brasil) and an indirect interest of 3.9% held by Bratel Brasil through the controlling shareholders of Oi.

c) Initial acquisition of investment in Oi

On March 28, 2011, PHAROL completed the initial acquisition of investments in Telemar Norte Leste, S.A. ("Telemar"), which belongs to the Oi Group, and Contax, for the amount of 8,437 million reais, and entered into several agreements with the controlling shareholders of these companies. As a result of this transaction, PHAROL acquired an effective stake of 25.3% in TmarPart (parent company of the Oi Group on that date) and 14.1% in Contax. Within the scope of this acquisition, PHAROL, AG Telecom Participações ("AG") and LF Tel, SA ("LF"), two of the main shareholders of TmarPart, the controlling shareholder of Oi, entered into a shareholders' agreement with unanimous voting procedures for their representatives in the Board of Directors of TmarPart regarding the strategic, financial and operating decisions relating to the activity of the Oi Group. Therefore, in accordance with the provisions of NCRF 13 Interests in Joint Ventures and Investments in Associates ("NCRF 13"), the Company concluded that it contractually shares the control of TmarPart, therefore the Oi investment was classified as a joint venture and thus accounted for in accordance with the equity method.

d) Investment in Rio Forte debt securities

On May 5, 2014, directly and indirectly, PHAROL held investments in debt securities issued by Rio Forte Investments, S.A. ("Rio Forte", a holding company of the Espírito Santo Group with registered address in Luxembourg essentially for their non-financial services) amounting to Euro 897 million, which formed part of the PT Assets and were contributed in the capital increase of Oi. The composition of the outstanding amount as of May 5, 2014 was as follows:

- Euro 200 million subscribed by PHAROL on April 15, 2014, and transferred to PT Portugal on May 5, 2014, in connection with the corporate reorganization of the Group, the maturity of which occurred on July 15, 2014;
- Euro 647 million subscribed by PT Finance on April 15, 2014, the maturity of which occurred on July 15, 2014;
- Euro 50 million subscribed by PT Finance on April 17, 2014, the maturity of which occurred on July 17, 2014.

On July 15 and 17, 2014 the maturity of these instruments occurred, but the issuer did not settle its obligations.

Rio Forte requested the adoption of the controlled management regime in accordance with the Luxembourg legislation, although it was their understanding that they did not have the financial capacity to meet their financial commitments, a situation which was thought to be the most protective of their creditors' interests, and that was rejected by the Luxembourg court. As a result of that rejection, Rio Forte was declared insolvent by the Luxembourg Court on December 8, 2014, and went into liquidation on the same date.

On July 28, 2014, following the default by Rio Forte, PHAROL and Oi agreed on the main terms for the exchange of debt securities of Rio Forte held on that date by PT Finance and PT Portugal, amounting to Euro 897 million for 47,434,872 common shares and 94,869,744 preferred shares of Oi (after the reverse stock split done by Oi in December 2014) held on that date by PHAROL. On September 8, 2014, this agreement was approved in the General Shareholders' Meeting of PHAROL and following such approval the parties involved concluded the respective final contracts, the terms of which established that:

- PHAROL would exchange with Oi the Rio Forte Instruments in exchange for 47,434,872 common shares plus 94,869,744 preferred shares of Oi, representing 16.9% of its share capital;
- An American non-transferable purchase option ("Call Option") would be attributed to PHAROL in order to reacquire the Oi Shares that are the Object of the Exchange (with the exercise price of 20.104 reais for common shares and 18.529 reais for preferred shares after the Oi reverse stock split), which would be adjusted by CDI plus 1.5% per year;
- The Call Option on the Oi Shares that are the Object of the Option would enter into effect on the date of the Exchange and would have a maturity of six years, with the possibility of exercising the option by PHAROL terminating at 10% at the end of the first year and 18% at the end of each subsequent year;
- Any amount received as a result of monetization of the Call Option through the issue of derivative instruments would have to be used for the exercise of the Call Option;
- PHAROL could only acquire Oi or TmarPart shares through exercise of the Call Option;
- The Call Option would be canceled if (i) the bylaws of PHAROL were to be voluntarily altered to remove the 10% vote limitation; (ii) PHAROL were to act as a competitor of Oi or (iii) PHAROL were to violate certain obligations arising from definitive documentation; and
- The contracts were signed on September 8, 2014, subject to approval by the CVM and would be executed by March 31, 2015.

On December 31, 2014, as stated above, execution of the exchanges and the purchase option were pending approval by the CVM. On March 4, 2015, the CVM approved the above contracts, conditional upon their approval at Oi's General Shareholders' Meeting, which occurred on March 26, 2015. The exchange was executed on March 30, 2015. On March 24, 2015, PHAROL came to an agreement with Oi, PT Portugal, PT Finance and TmarPart for the Private Instrument of Assignment of Rights and Obligations and Other Fees ("Assignment Agreement"), by means of which PT Portugal transferred the Rio Forte

Instruments to PT Finance, and conceded to PT Finance all pertaining rights and obligations in the terms of the Exchange Agreement ("Assignment").

On March 30, 2015, the Exchange was concluded, by means of which PHAROL (1) deposited Oi's shares object of the Exchange with the Depositary; and (2) instructed the Depositary to register the transfer of 47,434,872 ADSs ON and 94,896,744 ADSs PN to PT Finance, representing Oi's shares object of the Exchange. Therefore, on March 30, 2015, PHAROL transferred the ADSs Object of the Exchange to PT Finance, and PT Finance transferred to PHAROL the Rio Forte Instruments in the total main amount of Euro 897 million.

Additionally, on March 30, 2015, the Call Option was effective.

A change ("Amendment") was signed to the Share Purchase Option Contract and Other Agreements, entered into on September 8, 2014, such as mentioned above, which will enable PHAROL to liquidate its Oi share purchase option through sale on the market, giving Oi the right of first refusal in the acquisition of the Option if PHAROL should decide to sell it to third parties without previous consent by Oi. The Amendment is subject to approval of Oi's general shareholders' meeting and, if applicable, to the CVM's approval. Oi committed to convene a general meeting to discuss the Amendment, and the reference shareholders of Oi committed to vote in approval of the Amendment.

e) New model of Oi's corporate structure and governance ("New Structure")

On March 31, 2015, the Board of Directors of PHAROL concluded negotiations with the other shareholders pertaining to Oi to the extent of signing a new agreement between the parties in relation to the company structure and the administration of Oi. In view of the impossibility of implementing migration from CorpCo to the segment called Novo Mercado of the BM&FBovespa by March 31, 2015, the deadline stipulated in the agreements signed on September 8, 2014, it became essential to sign a new agreement, which allowed Oi to anticipate the principal benefits announced to shareholders at the time that Oi's capital increase was realized on May 5, 2014, without, however, failing to make every effort to migrate to the Novo Mercado. Thus, the parties agreed to a new company structure model and administration of Oi ("New Structure"), that in addition to the benefits and objectives disclosed before, are characterized by the following:

- All company and corporate administration transformation will be done at Oi with elimination of the necessity of creating CorpCo.
- Approval of new Corporate Bylaws for Oi, as well as signing of an amendment to the provisional voting commitment from its shareholders, in effect until implementation of the New Structure ("Vote Commitment") that will enable: (i) implementation of a voluntary conversion program for preferred shares to ordinary shares issued by Oi at a rate of 0.9211 ordinary share per each preferred share, subject to a minimum buy-in of 2/3 of the preferred shares in

order to give all of the shareholders the possibility of exercising the voting right and to maximize the possibility of existence of a single class of shares; (ii) implementation of the principle of one share, one vote. However, to preserve the equilibrium between shareholders and the distribution of desired control at the time of the Capital Increase of Oi, inclusion of a 15% limit on the voting right in Oi's Corporate Bylaws, applicable to all of its shareholders was agreed upon; this limitation will cease to exist through verification of certain events, namely in the case of capital increase, operation of company reorganization or public offering of shares, in any case that results in the dilution of the current shareholder base (or acquisition of a stake, where applicable) greater than 50%; (iii) leveraging increase in liquidity, eliminating subjection to lock-up agreements of any shareholder; (iv) the election of a new Board of Directors at Oi with significant participation of independents, where the previously existing parity in CorpCo between the PHAROL representatives and those of the Brazilian shareholders will be maintained; (v) extinction of TmarPart by incorporation into Oi, which will determine the end of the TmarPart and other controlling companies' shareholders' agreements, thus ensuring the distribution of Oi's shareholder control; (vi) possibility of using financial synergies through incorporation of Oi's controlling companies, directly and indirectly.

On July 22, the relevant documents for the implementation of the Oi's New Structure were signed and on September 1, 2015, Oi's General Assembly approved its implementation.

On September 30, 2015, after the implementation of the New Structure and prior to the voluntary conversion of preferred shares into common shares of Oi, PHAROL held, directly and through 100% subsidiaries held 84,167,978 company shares and 108,016,749 preferred shares of Oi.

On October 8, 2015, following the approval of voluntary conversion of preferred shares into common shares of Oi, the PHAROL held, directly and indirectly through 100% subsidiaries owned, 183,662,204 common shares of Oi, representing 27.2% of the total share capital of Oi (excluding treasury shares). PHAROL's right to vote in Oi is limited to 15% of the total common shares.

The shareholders' agreements through which joint control of Oi was exercised, ended on July 30, 2015 with the implementation of the New Structure. Until then PHAROL proceeded to recognize its participation in Oi as an investment in joint ventures. PHAROL considers that it currently has significant influence over Oi, which is considered an associate. Thus, from July 30, 2015 participation in Oi continued to be measured according to the equity method, less any impairment, reflecting the stake in Oi's financial statements (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).

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.

g) Bases of presentation

These financial statements are in respect of the Company individually and were prepared according to the generally accepted accounting principles in Portugal (Note 2). Financial investments are recorded according to the equity method, deducted of any eventual impairment losses, as referred to in Note 3.4. These individual financial statements consider the effect of the consolidation of the equity and results, of the company's subsidiaries as at December 31, 2016 and 2015, in PHAROL's equity and net profit for the fiscal years ended on those dates, based on the respective financial statements, but not the effect of full consolidation of assets, liabilities, expenses and income.

In accordance with current legislation, the Company prepared consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), published separately. These consolidated financial statements include the financial statements of the companies in which PHAROL holds management control.

The financial statements for the year ended December 31, 2016 were approved by the Board of Directors and authorized for issue on April 27, 2017 and are still subject to approval by the General Meeting of Shareholders under the commercial legislation in Portugal.

2. Accounting standards for preparing the financial statements

These financial statements were prepared based on Decree-law nº. 158/2009, dated 13 July, and in accordance with the Conceptual Framework, Accounting and Financial Reporting

Standards (“NCRF”) and Interpretative Standards, as approved by Notices nº 15652/2009, 15653/2009 and 15655/2009 of the General- Secretarat of the Ministry of Finance, dated August 27, which make up the New Portuguese accounting system, named “Sistema de Normalização Contabilística” (“SNC”).

The Company adopted NCRF for the first time in 2010 and applied for this purpose the “NCRF 3 Adoption For The First Time of NCRF” (“NCRF 3”), with the transition date being January 1, 2009 for the purposes of the presentation of these financial statements. As permitted by Decree-Law nº. 158/2009, the Company also applies the International Financial Reporting Standards (“IAS/IFRS”) and related interpretations (“SIC/IFRIC”) issued by the International Accounting Standards Board (“IASB”), in order to fill in the gaps or omissions in SNC regarding specific situations of certain transactions.

SNC was amended on July 29, 2015, with the publication of the Notice No. 8256/2015, applicable to periods beginning on January 1, 2016, which based on available information will not have significant impacts effects on the Company's financial statements.

The consolidated financial statements of PHAROL are prepared, since January 1, 2005, in accordance with IFRS as adopted by the European Union, which are applicable to listed companies in the European Union.

On December 31, 2016, there is no difference between equity and net income reported in these standalone financial statements and the equity attributable to the Company shareholders and net income reported in the consolidated financial statements.

3. Main Accounting Policies, judgments and estimates

These standalone financial statements were prepared on a going concern basis of accounting. The main accounting policies used in the preparation of these standalone financial statements are described below and were applied consistently.

3.1. Tangible fixed assets

Tangible fixed assets are recorded at acquisition cost, which includes the amount paid to acquire the asset and any expenses directly attributable to bringing the assets to the location and condition necessary for their operation.

Tangible fixed assets are depreciated on a straight-line basis from the month they are available for use. The depreciation rates reflect the useful life of each class of assets, as follows:

Asset class	Years of useful life
Transportation equipment	4
Administrative equipment	3 - 8
Other tangible fixed assets	4 - 8

The gains and losses resulting from any write-off or disposal are determined by the difference between the amount received and the carrying value of the asset, and are recognized in the income statement when the write-off or disposal occurs.

3.2. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. The remaining lease contracts are considered 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 liabilities are accounted for at the beginning of the contract as the lower amount between the fair value of the assets and the present value of minimum lease payments. Rents include the reimbursement of the liability and interest expense, with interest being recognized in the income statement based on a periodic interest rate over the remaining liability.

Under operating leases, rents are recognized on a straight-line basis during the period of the lease.

3.3. Financial investments

Subsidiaries are those entities over which the Company has the power to govern the financial and operating policies of the entity, generally represented by the majority of the voting rights. Associate companies are entities over which the Company has a significant influence but not control, generally represented by stakes between 20% and 50% of voting rights. Joint venture is an economic activity with the engagement of two or more partners subject to joint control based on a contractual agreement.

Financial investments in subsidiaries, associate companies and joint ventures are recorded under the equity method of accounting. Under this method, financial investments are initially recorded at acquisition cost and subsequently adjusted for the changes, after the acquisition date, in the Company's share in the net assets of those entities, deducted for eventual impairment losses. PHAROL's earnings include its share in the earnings of its subsidiaries and associate companies.

Financial investments in foreign entities are translated to Euros using the exchange rates prevailing at the balance sheet date, while the Company's share in the earnings of those entities is computed based on the average exchange rates for the reported period.

The effect of translation differences is recognized in shareholders' equity under the caption "Adjustments to financial assets", and is transferred to net income upon the disposal of a foreign entity or the transmission of the investment in another way. The exchange rates used in the translation of the main foreign entities (held directly or indirectly by PHAROL) are as follows:

Final		
Currency	2016	2015
Real	3.4305	4.3117
USD	1.0541	1.0887

Average		
Currency	2016	2015
Real	3.8561	3.7004
USD	1.1069	1.1095

Financial investments are evaluated whenever there is evidence that they may be impaired and the related impairment losses are recorded in the income statement.

Gains obtained in transactions with subsidiaries, associates companies and joint ventures are eliminated in proportion to the Company's share in those entities, against the financial investment.

Capital gains resulting from the disposal of subsidiaries and associated companies within the Group are deferred or reversed until the date these investments are disposed of to a third party. Whenever these gains are deferred, their recognition in earnings is made under the caption "Gains/(losses) of affiliated companies", in the proportion that goodwill or assets and liabilities identified in the allocation of the purchase price recorded by the acquirer is recognized in earnings.

Additional capital contributions and loans granted to subsidiaries, associates companies and joint ventures are recorded at nominal value, reduced by adjustments for estimated losses, if applicable.

3.4. Accrual basis of accounting

The Company records its revenue and expenses as they are generated or incurred, regardless of when they are received or paid, respectively.

With regard to the recognition of expenses with taxes on the purchase of external services (eg non-deductible value added tax), the amounts are classified as indirect taxes.

3.5. Income tax

Income tax expense corresponds to the sum of current and deferred taxes. Deferred taxes are recognized in earnings except when they relate to items recorded directly in shareholders' equity, in which case they are also recorded in shareholders' equity.

The current income tax is computed based on the estimated taxable income for corporate income tax purposes, based on the statutory tax rate in Portugal, which is increased by a municipal tax and/or by an additional state surcharge depending on the taxable profit of the year (Note 9).

The income tax expense recorded in the financial statements was determined in accordance with "NCRF 25 Income Taxes". In determining income tax expense for the year, besides the current tax based on profit before-tax adjusted in accordance with the tax legislation, it is also considered the effects of temporary differences between income before tax and taxable income originated in the year or in preceding years.

Deferred taxes correspond to the temporary differences between assets and liabilities for accounting purposes and the related amounts for taxable purposes. Deferred tax assets and liabilities are computed and evaluated annually, using the tax rates which are expected to be in force at the date of reversal of these temporary differences.

Deferred tax assets are recorded only when there is a reasonable expectation of sufficient future tax profits which allow for their use. As at the balance sheet date the Company conducts a reassessment of the temporary differences originating deferred tax assets, in order to record deferred tax assets not recognized previously and/or to reduce the amount of deferred tax assets that are recognized, based on the current estimate of its recoverable amount.

3.6. Accounts receivable

Accounts receivable are initially recognized at fair value, and subsequently measured at amortized cost, based on the effective interest rate method, reduced by impairment losses.

Impairment losses for doubtful accounts receivable are computed based on the evaluation of the estimated risks resulting from the non-collection of receivables and are recorded in the income statement.

3.7. Provisions and contingent liabilities

The Company recognizes provisions when there is 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 is not accomplished, the Company discloses the event as a contingent liability, unless the cash outflow is remote.

Provisions are recognized for an amount corresponding to the present value of the best estimate, at the reporting date, of the resources needed to settle the obligation. That estimate is determined considering the risks and uncertainties associated with the obligation. Provisions are reviewed at the end of each year and adjusted for in order to reflect the best estimate as of that date.

3.8. Loans obtained

Loans obtained are initially recognized at fair value, net of transaction costs incurred, and subsequently presented at amortized cost, based on the effective interest method.

3.9. Treasury shares

Own shares are accounted for at their acquisition value as a reduction of shareholders' equity in the caption "Own shares", and the gains or losses inherent to their disposal are recorded in "Retained earnings"

3.10. Balance sheet classification

Realizable assets and liabilities due over a period greater than one year from the balance sheet date are classified under non-current assets and non-current liabilities, respectively, at present value.

3.11. Foreign currency transactions and balances

Transactions denominated in foreign currencies (different from the Company's domestic currency) are translated to Euros at the exchange rates prevailing at the time the transactions are made. Assets and liabilities in foreign currency for which there is no agreement for fixing an exchange rate are translated to Euros using the exchange rates prevailing at the balance sheet date. Favourable or unfavourable exchange rate differences arising from the differences between exchange rates in force at the date of the respective transactions and those applying on the date of collection or payment or at the balance sheet date are recorded as gains and losses in the income statement.

Assets and liabilities as at December 31, 2016 and 2015 were translated into Euros using the following exchange rates to the Euro reported by the Portuguese Central Bank:

Currency	2016	2015
Real	3.4305	4.3117
USD	1.0541	1.0887

3.12. Financial Assets and Liabilities

Financial assets and liabilities are recognized in the balance sheet when the Company becomes part of the corresponding contractual terms, and are classified in the following categories: (a) at cost or amortized cost; and (b) at fair value, with the respective changes being recorded in the income statement.

a) Financial assets and liabilities at cost or amortized cost

Assets and liabilities are classified at cost or amortized cost if they: (a) have a defined maturity; (b) have a fixed or determined income; and (c) do not represent or include a derivative financial instrument.

Assets and liabilities classified in this category are measured at amortized cost reduced by accumulated impairment losses (for financial assets) and correspond primarily to the following asset and liability captions included in the Company's balance sheet:

- Debt
- Balances with Group companies
- Taxes
- Accounts receivable and payable
- Other financial assets and liabilities
- Cash and cash equivalents

Amortized cost is determined through the effective interest method. The effective interest rate is the one that discounts the estimated future payments and receipts, during the term of the financial instrument, to the carrying value of the financial asset or liability.

f) Financial assets and liabilities at fair value

All remaining financial assets and liabilities not included in the category "cost or amortized cost" are recognized at fair value. These financial assets and liabilities correspond primarily to interest and exchange rate derivative financial instruments.

The changes in the fair value of these derivatives are recognized through shareholders' equity or profit and loss, depending on whether those derivatives meet or not the criteria for hedge accounting, respectively. These changes in fair value are recorded under the caption "Increases/(reductions) in fair value" (Note 22).

g) Impairment of financial assets

Financial assets accounted for at "cost or amortized cost" are subject to impairment tests the end of each year. Such assets are impaired when there is clear evidence that, as a result of one or more events occurred after their initial recognition, their future estimated cash flows will be affected.

For assets measured at amortized cost, the impairment loss corresponds to the difference between the carrying amount of the asset and the present value of the revised future estimated cash flows discounted using the initial effective interest rate. For financial assets measured at cost, the impairment loss corresponds to the difference between the carrying amount of the asset and the best estimate of the asset's fair value.

Subsequently, if there is a reduction in the impairment loss as a result of an event occurred after the initial recognition of the loss, the impairment should be reversed through earnings. The reversal is recognized up to the limit of the amount that would be recorded (at amortized cost) if the loss had not been initially recognized.

h) Derecognition of financial assets and liabilities

The Company derecognizes financial assets when its contractual rights to obtain the asset's cash flows expire, or when it transfers to another entity all the significant risks and rewards associated with the ownership of those assets. The Company derecognizes financial liabilities only when the corresponding obligation is settled, cancelled or expires.

3.13. Main accounting estimates and judgments

When preparing the financial statements in accordance with the NCRF, the Company'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 historical experience and other factors, including expectations of future events that are considered probable under the circumstances on which the estimates are based, or as a result of new information or more experience. The most significant accounting estimates reflected in the 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. As at December 31, 2016, the measurement of the Company’s investment in Oi was based on its market value, namely the stock price as at December 31, 2016.
- (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, having reduced the notional amount of 9.56%. This valuation was maintained on December 31, 2016.
- (c) **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 20). 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.

Estimates used are based on the best information available during the preparation of financial statements, although future events, neither controlled nor foreseeable by the Company, could occur and have an impact on those estimates. In accordance with “*NCRF 4 Accounting Policies, Changes in Estimates and Errors*” (“NCRF 4”), changes to these estimates that occur after the date of the financial statements are recognized in net income, using a prospective methodology.

3.14. Events that occurred after the balance sheet date

Events occurred after the balance sheet date that provide additional information about conditions existing at the balance sheet date are reflected in the financial statements. Events occurred after the balance sheet date that provide information about conditions that occur after the balance sheet date are not reflected in the financial statements, but are disclosed in the notes to the financial statements, if material.

4. Cash Flows

The caption “Cash and cash equivalents” of the statement of cash flows includes cash on hand and bank deposits readily convertible to cash.

The Company is exposed to a liquidity risk if its sources of funding, including cash balances, operating cash inflows, divestments, credit lines and cash flows obtained from financing operations, do not match its financing needs, such as operating and financing outflows,

investments, shareholder remuneration and debt repayments. The Company understands that it has the ability to fulfill its obligations.

The cash flow statement was prepared in accordance with "NCRF 2 Statement of Cash Flows", with the following aspects worth mentioning.

a) Payments resulting from short-term financial applications

In 2016, this caption relates to the capital increase made in Bratel BV.

b) Cash receipts resulting from financial investments

In 2016 this amount refers to the acquisition by PHAROL between February 1 and April 11, 2016 of the acquisition of 10,225,000 treasury shares through Euronext Lisbon.

c) Payments relating to the distribution of dividends

In 2016, this heading includes the amounts spent on the payment of dividends in the amount of Euro 0.03 per share.

d) Cash and cash equivalents

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

	2016	Euro 2015
Cash	4,192	719
Bank deposits immediately available	28,287,025	63,174,564
	28,291,217	63,175,283

5. Changes to accounting policies and estimates, and mistakes

The Company did not adopt any new or revised standard or interpretation during the year ended December 31, 2016, and did not voluntarily change other accounting policies or accounting estimates.

During the year ended December 31, 2016, the Company did not adjust its financial statements for any material errors from previous years.

6. Financial investments

6.1. Equity method

During 2016 and 2015, the movements occurred in this caption were as follows:

					Euro
					2016
	Investments in subsidiary companies	Additional paid in capital contributions in subsidiary companies	Investments in associated companies	Total	
Gross amount					
Opening balance	100,158,944	-	229,303,760	329,462,704	
Increases	-	1,000,000	-	1,000,000	
Transfer of shares to associates	161,856,602	-	(161,856,602)	-	
Equity method	239,136,567	-	(67,447,158)	171,689,409	
Closing balance	501,152,113	1,000,000	-	502,152,113	
Impairment losses					
Opening balance	(67,671,197)	-	(157,935,694)	(225,606,892)	
Increases	(360,907,556)	-	-	(360,907,556)	
Reductions	196,824,956	-	28,781,936	225,606,892	
Transfer of shares to associates	(129,153,759)	-	129,153,759	-	
Closing balance	(360,907,556)	-	-	(360,907,556)	
Carrying amount	140,244,557	1,000,000	-	141,244,557	

							Euro
							2015
	Investments in subsidiary companies	Additional paid in capital contributions in subsidiary companies	Investments in associated companies	Investments in Goodwill joint ventures		Total	
Gross amount							
Opening balance	240,392,818	-	-	-	483,282,006	723,674,824	
Transfer of shares to associates	-	-	474,178,819	-	(474,178,819)	-	
Equity method	(140,233,874)	-	(244,875,059)	-	(9,103,187)	(394,212,120)	
Closing balance	100,158,944	-	229,303,760	-	-	329,462,704	
Impairment losses							
Increases	(67,671,197)	-	(157,935,694)	-	-	(225,606,892)	
Reductions	-	-	-	-	-	-	
Closing balance	(67,671,197)	-	(157,935,694)	-	-	(225,606,892)	
Carrying amount	32,487,747	-	71,368,066	-	-	103,855,812	

a) Increases

In the fiscal year of 2015, the increased financial holdings in associated companies relates to the transfer of the participation of the investment in Oi from Joint Ventures to associated companies.

b) Reductions

In 2015, the reduction in joint ventures relates to the transfer of the participation in Oi to associate companies related to joint ventures.

c) Transfer of Shares

In 2016 PHAROL's interest in Oi was directly transferred to its subsidiary Bratel BV.

d) Equity

In the fiscal years 2016 and 2015, the movements in equity holdings in subsidiaries, associated companies and joint ventures resulting from the use of the equity method was recorded as follows:

	2016	Euro 2015
Gains in affiliated companies (Note 15)	119,802,229	(234,936,005)
Adjustments to financial assets (Note 11)	51,887,180	(159,276,116)
	171,689,409	(394,212,120)

7. Other financial 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.espiritosantoinvolencies.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 of 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 € 48.7 million.

8. Related parties

8.1. Financial investments in subsidiaries and joint ventures

On December 31, 2016 and 2015, the detail of the financial investments in subsidiaries and joint ventures is as follows (Notes 6 and 15):

Euro						
Company name:	2016			2015		
	% held	Financial Investments	Share on net income	% held	Financial Investments	Share on net income
SUBSIDIARIES:						
Bratel BV	100.00%	141,244,557	193,359,116	100.00%	32,487,747	(72,248,439)
		141,244,557	193,359,116		32,487,747	(72,248,439)
ASSOCIATED COMPANIES:						
Oi	-	-	(73,556,887)	18.98%	71,368,066	(252,576,366)
			(73,556,887)		71,368,066	(252,576,366)
JOINTLY CONTROLLED ENTITIES						
Oi	-	-	-	0.00%	-	89,888,801
						89,888,801
			119,802,229		103,855,812	(234,936,005)

8.2. Balances and transactions with Related Parties

Tables below show the transactions that occurred during the 2016 and 2015 exercises between PHAROL Group and the associated companies and joint ventures:

Company	Euro	
	2016	Costs and losses 2015
Joint ventures	-	681,470
	-	681,470

8.3. Other information

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

At December 31, 2016 and 2015 no share-based program or termination benefit program were in place.

For the year ended December 31, 2016, the fees paid to the Statutory Auditor of PHAROL amounted to 0.27 million euros, corresponding to audit fees of PHAROL.

For additional information related to the remuneration of members of the Board of Directors and key employees, we refer readers to the Corporate Governance Report included in the Annual Report.

9. Income tax

9.1. Classification

In 2016, the companies located in mainland Portugal were subject to Corporate Income Tax at a base rate of 21%, with an additional (1) Municipal Surtax of up to 1.5% levied on taxable income, and (2) a State Surtax of 3.0% levied on taxable profit between Euro 1.5 million and Euro 7.5 million, of 5.0% levied on taxable profit between Euro 7.5 million and Euro 35 million and of 7% levied on taxable profit in excess of Euro 25 million, resulting in a maximum aggregate tax rate of approximately 29.5%, for taxable profit in excess of Euro 7.5 million. In the calculating of taxable income, to which is applied above mentioned tax rate, income and expenses not deductible for tax purposes are added to or deducted from the accounting results.

According to the applicable legislation, the tax statements are subject to revision and correction by the fiscal authorities during a period of four years (five for Social Security) except if there have been fiscal losses, or if fiscal benefits have been granted, or if audits, claims or impeachments are being performed, in which case, depending on the circumstances, those periods may be extended or suspended. The Company's Board of Directors, supported by the information given by their fiscal consultants, understands that possible fiscal contingencies should not have a significant impact on the financial statements of December 31, 2016, considering the provisions and the existing expectations at this time, regarding the resolution of the fiscal contingencies described in Note 12.

10. State and other public entities

On December 31, 2016 and 2015, the debtor and creditor balances in respect of State and Other Public Entities are as follows:

	2016		Euro 2015	
	Receivable	Payable	Receivable	Payable
Current taxes				
Operations in Portugal				
Value-added tax	-	13,305	-	297,832
Income taxes	19,357	-	1,371	-
Personnel income tax withholdings	-	69,151	-	39,664
Social Security Contributions	-	68,045	-	50,484
Other	-	-	2,358	-
	19,357	150,502	3,729	387,980

11. Shareholders' equity

11.1. Share Capital

As at December 31, 2016, the Company's share capital was fully paid and amounted to Euro 26,895,375, and was represented by 896,512,000 ordinary shares and 500 Class A shares, with a nominal value of 3 cents of Euro each.

At the PHAROL Annual General Meeting held on July 26, 2011, an amendment was approved to the Company's articles of association to remove the special rights allocated to the 500 Category A shares (designated by "golden share"). As a consequence of this approval, these shares have no special rights.

11.2. Own shares

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

	2016	Euro 2015
Shares held by PHAROL	179,675,995	178,071,827
	179,675,995	178,071,827

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.

11.3. Legal reserve

Portuguese law provides that at least 5% of each annual profits must be appropriated to a legal reserve until this reserve equals the minimum requirement of 20% of share capital. This reserve is not available for distribution to shareholders but may be capitalized or used to absorb losses, once all other reserves and retained earnings have been exhausted.

As at December 31, 2016, the legal reserve was already fully incorporated in accordance with Portuguese law, and amounted to Euro 6,773,139.00.

11.4. Other reserves

The composition and the movements effected in this item during the years of 2016 and 2015 are as follows:

	Euro			
	Free reserves	Reserves for treasury shares cancelled	Own shares	Total
Balance as at 31 December 2014	105,209,244	6,970,320	178,071,826	290,251,390
Balance as at 1 January 2016	105,209,244	6,970,320	178,071,826	290,251,390
Transfer to reserves for use in own shares	(1,604,169)	-	1,604,169	-
Transfer to retained earnings	(25,969,766)	-	-	(25,969,766)
Balance as at 31 December 2016	77,635,309	6,970,320	179,675,995	264,281,624

11.5. Adjustments to financial assets

During the fiscal years of 2016 and 2015 the movements under this item were as follows:

	Euro		
	Currency translation adjustments	Other changes in shareholders' equity	Total
Balance as at 31 December 2014	(936,768,593)	(462,390,324)	(1,399,158,917)
Equity method (Note 6)	(53,852,297)	(105,423,819)	(159,276,116)
Balance as at 31 December 2015	(990,620,890)	(567,814,143)	(1,558,435,034)
Equity method (Note 6)	103,110,793	(51,223,613)	51,887,180
Balance as at 31 December 2016	(887,510,097)	(619,037,756)	(1,506,547,853)

11.6. Application of earnings

In 2016, PHAROL paid as dividends the sum of Euros 25,969,766.

At the PHAROL Annual General Meeting held on May 24, 2015, the Board of Directors' proposal to distribute a dividend per share of 0.03 cents was approved, which was paid on June 9, 2016, in the total amount of 25,969,766 euros in respect of 865,658,867 shares, which includes Euros 2,689,536 (Note 6) paid to Telemar Norte Leste relating to the portion of the 89,651,205 PHAROL shares held by this entity.

Considering that in the year ended December 31, 2016 a negative net result of 75,077,177 Euros was obtained, the Board of Directors of PHAROL proposes that they be transferred to the Company's Retained Earnings.

12. Provisions

12.1. Movements occurred during the provisions

No movement in provisions occurred during the 2016 financial year. During the year 2015, movements in provisions were as follows:

	Euro			
	2015			
	Taxes	Litigation	Other Provisions	Total
Opening balance	2,358	73,500	27,110,319	27,186,177
Increases	-	-	-	-
Reductions	-	-	(27,110,319)	(27,110,319)
Utilizations	-	-	-	-
Other	-	-	-	-
Closing balance	2,358	73,500	-	75,858

The movements in fiscal provisions are a result of the assessment made by management regarding the possibility of the materialization of fiscal contingencies and payments made in relation to contingencies which took place in previous years.

In 2015, following the completion of the Exchange, PHAROL derecognised the provision in the amount of 27,110,319 euros recorded in 2014.

12.2. Proceedings with probable losses

Provisions for taxes relate to several tax contingencies regarding Corporate Income Tax, Value Added Tax and Social Security Tax, among other taxes and fees. Provisions for litigation relate to legal actions against the Company, which were estimated based on the opinion of its attorneys.

13. Suppliers

The detail of this caption as at December 31, 2016 and 2015 is as follows:

	Euro	
	2016	2015
Current suppliers	2,323,182	1,852,839
	2,323,182	1,852,839

14. Accrued expenses

The detail of this caption as at December, 31 2016 and 2015 is as follows:

	Euro	
	2016	2015
Supplies and external services	5,036,950	6,084,565
Vacation pay and bonuses	367,537	389,769
	5,404,487	6,474,334

15. Equity in earnings/(losses) of affiliated companies

The detail of this caption as at December 31, 2016 and 2015 is as follows:

	Euro	
	2016	2015
Gains and losses in affiliated companies - equity method	119,802,229	(234,936,005)
Reversal of the 2014 provision regarding the exchange	-	(141,006,050)
Impairment of investment in subsidiaries and associates	(135,299,058)	(225,606,892)
	(15,496,828)	(601,548,946)

16. Supplies and external services

The detail of this caption as at December 31, 2016 and 2015 is as follows:

	euros	
	2016	2015
Specialized work	1,719,764	7,042,147
Insurance	323,982	375,823
Travel	141,506	331,051
Other	211,611	453,095
	2,396,863	8,202,115

17. Wages and salaries

The detail of this caption as at December 31, 2016 and 2015 is as follows:

	euros	
	2016	2015
Fixed and variable remuneration	1,264,877	2,309,664
Social security	326,770	468,371
Other	69,512	339,955
	1,661,158	3,117,990

18. Increases/(reductions) in fair value

This caption reflects the change in fair value of derivative financial instruments entered into by the Company and has the following composition in the years ended December 31, 2016 and 2015:

	euros	
	2016	2015
Losses on non-current assets held for sale (Note 7)	(48,798,021)	-
Call option over Oi Shares (Note 7)	(5,641,664)	(62,925,391)
	(54,439,685)	(62,925,391)

19. Other expenses and losses

Other expenses and losses, in the amounts of 1,189,764 euros and 16,720,100 euros in 2016 and 2015, respectively, essentially include in 2016 an amount of USD \$ 1,250,000 paid

to the SEC under the agreement between PHAROL and SEC, and in 2015 essentially includes unfavorable exchange rate differences relating to the call option.

20. Net result per share

The net result per share for the years 2016 and 2015 was calculated in the following manner:

	2016	Euro 2015
Loss from continuing operations	(75,077,177)	(693,892,303)
Financial costs related to exchangeable bonds (net of tax) (i)	-	-
Net loss considered in the computation of the diluted earnings per share	(75,077,177)	(693,892,303)
Weighted average common shares outstanding in the period (ii)	870,760,000	875,872,500
Basic	(0.09)	(0.79)
Diluted	(0.09)	(0.79)

21. Guarantees

As of December 31, 2016 and 2015, the Company had presented the following guarantees and comfort letters to third parties:

	2016	Euro 2015
Bank and other guarantees presented tax authorities and other public	376,715,726	384,314,678
Bank guarantees presented by Portugal Telecom to European Commis:	-	12,843,050
	376,715,726	397,157,728

- (i) The bank and other guarantees presented to the fiscal 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 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 request tax. Portuguese law, while always allowing for the appeal of 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 a controlling company of the consolidated tax in the years in question, even though as at December 31, 2016 and 2015, the contingencies associated to these guarantees are not the Company's responsibility, having been transferred to Oi, while PHAROL remains jointly and severally liable.

Under the agreements entered into with Oi, Oi has to substitute the bank guarantees provided by PHAROL to the Tax Authority and to the European Commission for guarantees provided by Oi. Where this substitution is not possible due to demands of the counterparty, Oi has undertaken to provide equivalent guarantees in favor of PHAROL. As such, as of

December 31, 2016, a Pledge Agreement for shares of Telemar Norte Leste is in force with a maximum amount up to the limit of the potential liabilities currently in existence.

22. Shareholders with qualified holdings

The Company believes that the disclosure of the outstanding debts and transactions performed with its main shareholders, notably 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 their related parties. The tables below present the balances as at December 31, 2016, and December 31, 2015, and the transactions that took place in the fiscal years ending December 31, 2016 and 2015, between the PHAROL Group and these entities identified as shareholders with qualified holdings respective economic groups:

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

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

23. Events occurring after the balance date

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

	31 dec 2016	31 mar 2017
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

03 QUALIFIED HOLDINGS

As at December 31, 2016, qualified holdings represented over 44% 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%
	TOTAL	399,584,929	44.57%	42.56%

(a) This holding refers only to the shares holding by Novo Banco and does not include 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
Total	85,703,041

- 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 companies 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
Total	23,642,885

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 the Renaissance Technologies LLC.

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

- On January 10, 2017, 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.

- On January 16, 2017, PHAROL informed that Discovery Capital Management, LLC, held now 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.

04 INFORMATION TO BE PRESENTED UNDER THE TERMS OF THE ARTICLE 447 OF THE CODE FOR COMMERCIAL SOCIETIES

1. Number of shares and obligations issued by PHAROL and societies, that with it, are in a controlling or group relationship, and which are principals or members of administrative and inspecting organs of PHAROL, on December 31, 2016:

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 does 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 Directors decided that the executive management become through a Managing Director, whom is Luís Maria Viana Palha da Silva.

Statutory Auditor ("ROC")

The Statutory Auditor 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

2. Transaction on shares and bond issued by PHAROL, or by societies with which it has a controlling or group relationship, performed by members of the administrative and supervisory bodies of PHAROL:

Under the terms of and for effects of the provisions in article 248-B of the Code for Marketable Securities and article 14, no. 7 of the CMVM Regulation no. 5/2008, the following information is presented about the PHAROL share transactions and financial instruments related to it, performed during the year 2016, by directors of PHAROL and persons directly related to them:

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.

On July 5, 2016, Novo Banco S.A. held a qualifying holding of 9.56% of the capital and voting rights of PHAROL.

The reduction occurred following the sale by NOVO BANCO, on June 30, 2016, with financial settlement on July 5, 2016, of 26,895,375 common shares, representing approximately 3.0% of the share capital and voting rights Of PHAROL, in an out-of-stock transaction, for a price of EUR 0.17 per share.

As a result of this sale, NOVO BANCO now holds a social contribution corresponding to a total of 85,665,125 common shares, representing approximately 9.56% of PHAROL's share capital and voting rights.

PHAROL, SGPS S.A.

REPORT AND OPINION OF THE FISCAL COUNCIL

REPORT AND OPINION
OF THE FISCAL COUNCIL
Financial Year of 2016
(Standalone 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, standalone financial statements and proposal for the appropriation of the net result 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 standalone accounts are in accordance with the relevant accounting standards. 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 standalone financial information;
 - iii) Checking that accounting records are duly kept and that the standalone 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 standalone statements comply with the applicable legal requirements;
 - vi) Analysis of the disclosed standalone 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 provided full explanations of technical and accounting matters, as deemed necessary.

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

The Statutory Auditor and External Auditor accompanied the preparation of the standalone 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 standalone 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 standalone 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;
- ii) Accurately describes the evolution of the affairs, performance and position of PHAROL;
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 standalone 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:

- i) the management report and standalone financial statements and reports for the financial year of 2016; and
- ii) the proposal to appropriate the net result presented by the Board of Directors.

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

José Maria Ribeiro da Cunha — Chairman

Isabel Maria Beja Gonçalves Novo — Member

Pedro Miguel Ribeiro de Almeida Fontes Falcão - Member

PHAROL, SGPS S.A.

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 FINANCIAL STATEMENTS

Qualified Opinion

We have audited the accompanying financial statements of Pharol, SGPS, SA (Pharol), which comprise the balance sheet as at December 31, 2016 (which presents a total of 257 498 818 euro and total equity of 248 568 653 euro, including a net loss of 75 077 177 euro), the statement of income, the statement of changes in equity and the 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 financial statements present fairly, in all material respects the financial position of Pharol, SGPS, SA as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting principles in Portugal.

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 consolidated financial statements of Pharol, SGPS, SA Group: *“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 consolidated financial statements of Pharol, SGPS, SA Group 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 23 to the present 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 financial statements" section of our report. We are independent of Pharol 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 consolidated financial statements of Pharol, SGPS, SA Group and highlighting the eventual need to adjust the impairment on the net gain to which refers the previous text, Pharol maintained the non-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 7 to the present 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 financial statements of the current year. These matters were addressed in the context of our audit of the 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
<i>Measurement of Oi, SA investment</i>	
<p>The equity investment in Oi, SA (held indirectly 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 Pharol 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>
<i>Measurement of the investment in debt securities issued by Rio Forte Investments, SA</i>	
<p>At March 30, 2015 the debt securities issued by Rio Forte Investments, SA (Rio Forte) were returned to Pharol, following the performance of the exchange contract signed on September 8, 2014 between Oi Group and Pharol.</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 Pharol financial statements and the respective measurement involves significant judgements.</p> <p>Related disclosures: Note 3 and note 7 of the notes to the 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>
<i>Measurement of the call option over Oi shares</i>	
<p>Following the previously mentioned performance of the exchange contract, Pharol was left with the right to repurchase shares of Oi, SA for a period of 6 years, at certain strike prices.</p> <p>The measurement of this asset is complex and requires the use of specialists, since it is a</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 independent appraisal of the call option;</p>

Key audit matters	Synthesis of audit response
derivative financial instrument. Related disclosures: Note 7 of the notes to the financial statements as at December 31, 2016.	Analysis of the independent appraisal and comparison of the results with the carrying amount determined by Pharol.

Responsibilities of management and of the fiscal board for the financial statements

Management is responsible for:

- (i) the preparation of financial statements that present fairly Pharol's financial position, financial performance and cash flows in accordance with generally accepted accounting principles in Portugal;
- (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 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 Pharol'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 Pharol's financial information preparation and disclosure process.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to obtain reasonable assurance about whether the 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 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 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 Pharol'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 Pharol'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 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 Pharol to cease to continue as a going concern.
- (v) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (vi) 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;
- (vii) 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 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;

- (viii) 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 information contained in the management report is consistent with the 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 financial statements and, considering our understanding and appraisal about Pharol, 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 financial statements due to fraud. As a result of our work we did not identified any material misstatement in the financial statements due to fraud.

- We confirm that the audit opinion issued is consistent with the additional report prepared and delivered to Pharol'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 Pharol during the audit.
- We inform that, apart from the audit, we did not provide any other services to Pharol.

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 Pharol 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