

CONSOLIDATED ANNUAL REPORT

2015

PHAROL, SGPS S.A.

CONSOLIDATED ANNUAL REPORT

01 MACROECONOMIC ENVIRONMENT	3
02 FINANCIAL REVIEW	6
03 BUSINESS PERFORMANCE	15
04 MAIN RISKS AND UNCERTAINTIES	37
05 QUALIFIED HOLDINGS	40
06 OUTLOOK	44
07 BUSINESS PERFORMANCE	45
08 STATEMENT FROM THE BOARD OF DIRECTORS	58
09 ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS	59
CONSOLIDATED FINANCIAL STATEMENTS	62

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

01 MACROECONOMIC ENVIRONMENT

INTERNATIONAL ECONOMIC CONTEXT

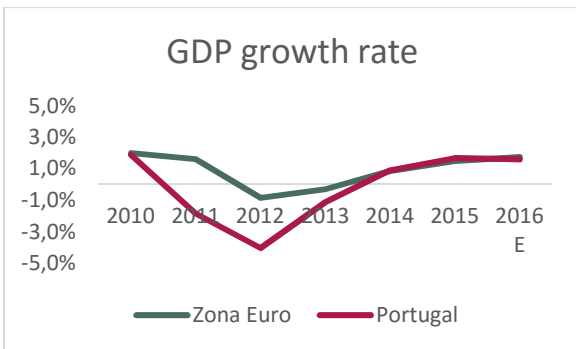
In 2015, the World Economy continued to grow moderately, with an estimated growth of 3.1%, and the projections of the International Monetary Fund indicate that the the growth trend will continue in 2016.

This growth was mainly due to more the developed economies and emerging economies, with an increase in demand and a general decrease in unemployment.

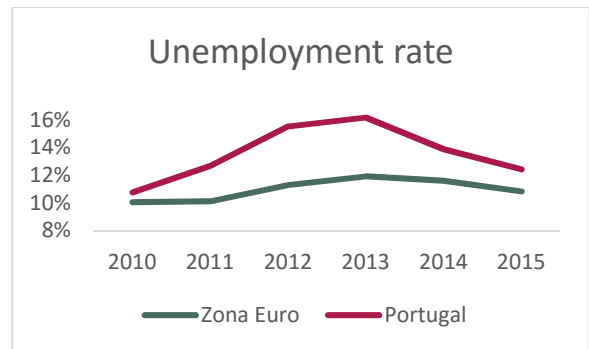
In developing countries, the economic recovery is still to occur and product growth are either very low or negative. The frailty of these economies is particularly due their exposure to different contexts in 2015, such as the contracting of the Chinese economy, the decrease in energy prices or the political crises currently ongoing in Brazil, Russia and the Middle East.

For 2016, projections are that the more developed economies will continue to grow at a moderate rate. However, frail economies will have to face challenges presented by the current economic environment, which still does not ensure their recovery.

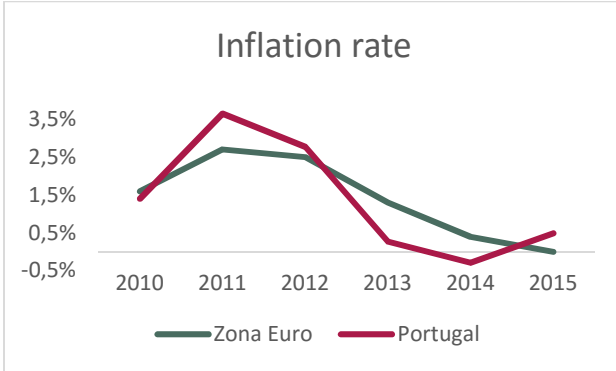
For the euro zone, the growth in 2015 was 1.5%, with unemployment rates decreasing from 11.6% in 2014 to 10.8% in 2015, and practically nil inflation. This environment results from budget consolidation procedures and structural reforms by certain countries. For 2016, a growth of 1.6% is expected for the Eurozone.



Source: OCDE



Source: OCDE



Source: OCDE

PORTUGAL

In 2015, the Portuguese economy grew 1.5%, continuing the moderate growth presented in 2014. These results are mostly resulting from increases in internal demand and an acceleration of exports (particularly energy products, as the remaining exports decreased as a result of lesser exports to Angola and Brazil).

In respect of unemployment, it decreased from 13.9% in 2014 to 12.4% in 2015. Inflation remained low, at 0.5%.

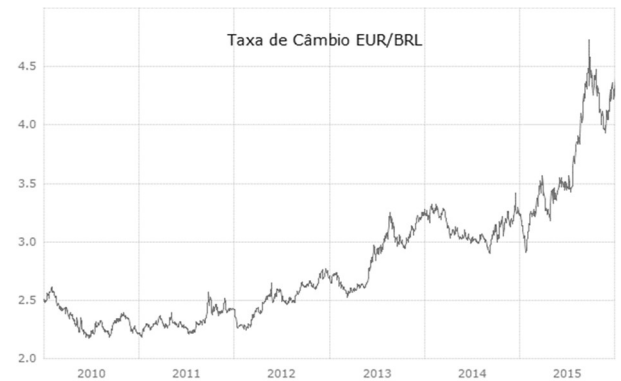
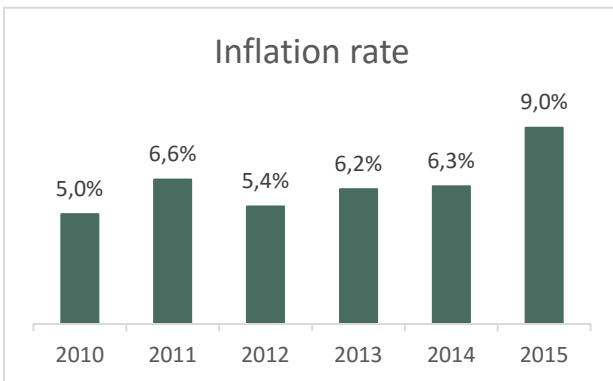
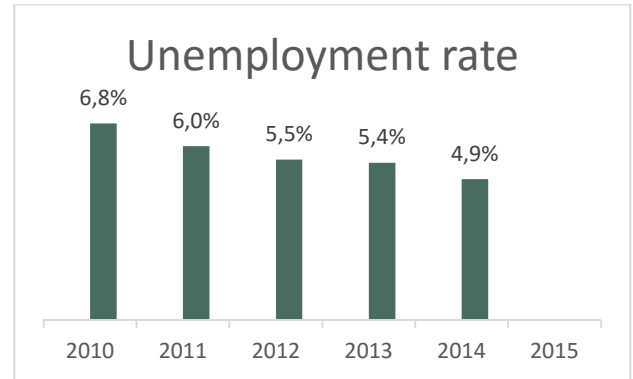
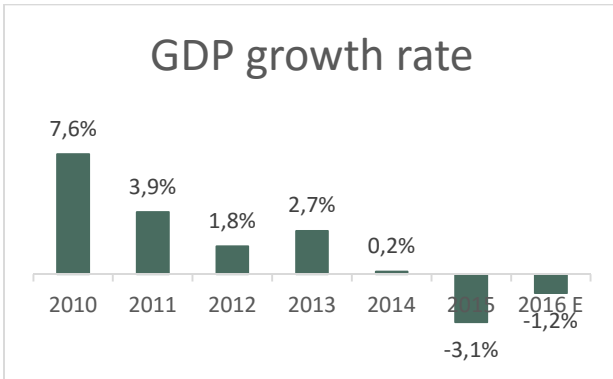
The projections for the national economy in 2016 point to the maintaining of a moderate growth rate, with an increased robustness to exports.

BRASIL

In 2015, Brazil grew 3.1% and inflation increased to 9%. This macroeconomic scenario, according to the International Monetary Fund, is due to the the current political situation which brings with it a sense of mistrust in the marketplace. Conditions in the workplace have also deteriorated, and even though there are no official figures yet, the unemployment rate is also expected to increase to 9%.

The exchange rate showed some volatility during 2015 against the euro, with a peak in September of 4.7 reals per euro, ending the year at 4.3.

Inflationary pressures continued throughout 2014, with Brazil having reached annual inflation of 6.3%. The level of indebtedness has been declining, having reached 65% of the GDP in 2014.



Sources: OCDE and ECB

02 FINANCIAL REVIEW

FINANCIAL REVIEW

As at December 31, 2015, PHAROL had as its main assets (1) 183,662,204 common shares of Oi, S.A. ("Oi"), representing 27.2% of 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 47,434,872 common shares and 94,869,744 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 reach 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, following 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 (Note 15), 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 (Note 16) and therefore accounted for using the equity method.

On March 8, 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, further described in the next chapter, 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). 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 (27.2% as at December 31, 2015).

In 2015, the consolidated net loss amounting to Euro 694 million, mainly reflects (1) the Euro 600 million losses in investments in joint ventures and associates, including the impairment of Euro 226 million in the investment in Oi as at December 31, 2015, to reflect Oi's market value at that date, and the PHAROL's stake in Oi's results, (2) the Euro 16 million consolidated operational costs, which included non-recurring financial and legal services amounting to some Euro 3.8 million euros, and (3) a Euro 79 million loss in respect to the reduction in the fair value of the Call Option, associated with the Real devaluation and the Oi share price reduction (registered in net losses on financial assets and other investments and other net financial losses).

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT		
	Euro million	
	2015	2014
Wages and salaries	3.6	(5.8)
Supplies, external services and other expenses	9.4	26.2
Provisions and adjustments	-	(0.2)
Indirect taxes	3.2	6.4
Loss before financial results and taxes	(16.2)	(26.6)
Depreciations	0.1	0.1
Earnings before interest and taxes	(16.3)	(26.7)
Net other gains	(0.2)	(0.9)
Loss before financial results and taxes	(16.1)	(25.7)
Net interest income	(0.5)	(11.7)
Losses (gains) in losses of joint ventures and associates	600.2	378.6
Net losses on financial assets and other investments	63.0	363.0
Net other financial losses (gains)	15.1	39.5
Loss before taxes	(693.8)	(795.2)
Income taxes	0.1	(35.3)
Net loss from continuing operations	(693.9)	(759.9)
Net income from discontinued operations	-	470.7
Net loss	(693.9)	(289.2)
Attributable to non-controlling interests	-	13.6
Attributable to equity holders of PHAROL, SGPS S.A.	(693.9)	(302.8)

Consolidated operating costs amounted to Euro 16.2 million in 2015 compared to Euro 26.6 million in 2014. This decrease is explained by (1) lower third party expenses mainly related to non-recurring financial and legal services associated with the Business Combination with Oi and the tender offer that PHAROL was subject to, (2) lower indirect taxes associated with these expenses, and (3) lesser recurring payroll expenses. The non-recurring financial and legal services mentioned are fully reflected in PHAROL results and amounted to Euro 3.8 million in 2015.

Interest income amounted to Euro 0.5 million in 2015 compared to Euro 11.7 million in 2014. Interest income in 2014 mainly reflects cash amounts at Bratel Brasil that were used on May 5, 2014, in the Business Combination, to subscribe debentures (convertible into equity) issued by the controlling holding companies of Oi, where Bratel Brasil held a stake.

Losses in joint ventures and associates amounted to Euro 600.2 million in 2015, which compares to Euro 378.6 million in 2014, corresponding to the Euro 226 million impairment in the investment in Oi as at December 31, 2015, to reflect the market value as at that date and the effective share of PHAROL in the results of Oi and its controlling holding companies, based on the equity method of accounting amounting to some Euro 374 million. These losses reflect (1) PHAROL's effective stake (22.8% up to March 30, 2015, 27.5% up to September 1, 2015, 27.4% up to October 8, 2015 and 27.2% up to December 31, 2015) in the net income recorded by Oi, (2) PHAROL's effective stake in the controlling holding companies results up to September 1, 2015, and (3) a loss of Euro 10 million related to the impact of the increase of PHAROL's effective stake in Oi from 22.8% to 27.5% related to the completion of the Exchange, which occurred on March 30, 2015, which reflects the reduction of Oi's shareholders' equity between 4Q14 and 1Q15.

The losses recorded in 2014, amounting to Euro 378.6 million, reflect PHAROL's effective share in Oi's net income, and in the net losses of the controlling holding companies of Oi, which mainly reflect interest expenses incurred by these entities associated with their gross debt at the time, which was fully repaid on May 5, 2014.

The Euro 78.1 million losses in net losses on financial assets and other investments and net other financial losses mainly reflect the reduction in the fair value of the Call Option, associated with the Real devaluation and the Oi share price reduction. In 2014, (1) Net losses on financial assets and other investments, amounting to Euro 363 million, reflect the reduction between September 8 and December 31, 2014 of the value of the stake in Oi classified as non-current asset held for sale, and related to the Exchange, and (2) Other net financial costs amounted to Euro 40 million in 2014, which essentially reflected the impact of the Euro 27 million provision related to the financial impact of the Exchange Agreement entered into with Oi. Additionally, this item also includes bank charges and other financial services incurred, specifically in 2Q14, following the business combination between PHAROL and Oi, especially taxes paid on the transfer of funds to Brazil.

Net income from discontinued operations amounted to Euro 470.7 million in 2014 and includes the income from businesses contributed to the Oi Capital Increase on May 5, 2014. This mainly reflects a gain recorded in the capital increase of Oi, totaling Euro 699 million, partially offset by the write-off of deferred tax assets relating to reportable tax losses, amounting to Euro 208 million, recorded on the same date, due to the discontinuation of businesses in Portugal that supported the recognition of these deferred tax assets.

The result attributable to non-controlling interests amounted to Euro 13.6 million in 2014, primarily reflecting the minority stake in the Africa businesses in 2014 until May 5, 2014, when they were contributed to the capital increase of Oi.

Net losses attributable to equity holders of PHAROL amounted to Euro 693.9 million in 2015 compared to a Euro 302.8 million loss in 2014. In 2015 the net loss mainly reflects the losses corresponding to the impairment charge in the investment in Oi, the effective stake of PHAROL in the negative Oi net income, the reduction of the fair value of the Call Option and operating expenses.

The net loss in 2014 reflects the effective stake of PHAROL in the negative Oi net income, net losses on financial assets mainly reflecting the devaluation of Oi's shares associated with the Exchange Agreement that occurred between September 8 and December 31, 2014 and the the provision (Euro 27 million) related to the financial impact as of December 31, 2014 of the Exchange Agreement entered into with Oi. These effects were partially offset by the gain recorded in the context of the capital increase of Oi net of the write off of tax losses (Euro 491 million) and by the gains recorded in income tax in 2014.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Consolidated Statement of Financial Position		
	Euro million	
	2015	2014
ASSETS		
Cash and cash equivalents	64.9	109.5
Accounts receivable	0.5	0.1
Investments in joint ventures and associates	102.2	714.2
Tangible assets	0.4	0.2
Taxes receivable	0.0	6.1
Non-current assets held for sale	0.0	388.4
Other assets	141.0	0.0
Total assets	309.1	1,218.5
LIABILITIES		
Short-term debt	0.1	0.1
Accounts payable	1.7	9.0
Accrued expenses	6.5	23.4
Taxes payable	0.4	5.4
Provisions	0.1	27.2
Other liabilities	0.9	0.9
Total liabilities	9.8	66.0
Total equity	299.3	1,152.5
Total liabilities and shareholders' equity	309.1	1,218.5

The cash position net of gross debt, accounts payable, accrued expenses, and taxes payable was Euro 56 million and Euro 71.6 million as at December 31, 2015 and December 31, 2014, respectively. The evolution during 2015 was impacted by third party expenses mainly related to non-recurring financial and legal services associated with the Business Combination with Oi and the tender offer that PHAROL was subject to, which are fully reflected in PHAROL's statement of Financial Position.

Investments in joint ventures and associates mainly correspond to PHAROL's effective stake in Oi (1) of 22.8% on December 31, 2014, which was impacted by the classification of a portion of the investment as non current assets held for sale under the Exchange, and (2) of 27.2% as at December 31, 2015, reflecting the share gain compared to December 31, 2014 due to (i) the decrease in outstanding shares of Oi after the completion of the Exchange, (ii) the impact of the incorporation of the controlling holding companies by Oi, and (iii) the impact of the conversion of preferred shares to common shares. On December 31, 2014 and 2015, PHAROL's investment in joint ventures and associates in Oi corresponded to a total investment of Euro 102 million and Euro 714 million, respectively, a Euro 612 million reduction mainly explained by (1) the effective participation of PHAROL in the negative net income of Oi in 2015 and the controlling holding companies up to September 1, 2015, which amounted to Euro 358 million, (2) the impact of the changes in holding interest with a positive impact of Euro 124 million, (3) the Euro 226 million impairment charge as at December 31, 2015, (4) the Euro 149 million negative impact of the real devaluation in 2015, and (5) the effective participation of PHAROL in the net gains recorded by Oi directly in its shareholders equity in 2015, totaling a positive impact of Euro 16 million, which mainly reflect (i) the reversal, at the time of the sale, of the positive foreign currency translation adjustments since May 2014, in the amount of Euro 131 million, related to the increase in value of the stake in PT Portugal, and (ii) the accumulated losses in derivatives in the amount of Euro 40 million, which were more than compensated by (1) the effective participation of PHAROL in the net gains recorded by Oi directly in its shareholders equity related to the implementation of the New Structure, amounting to Euro 85 million, and (2) other changes in Oi's equity, including reflexive translation adjustments, amounting to some Euro 102 million. As at December 31, 2014, in addition to the effective stake in Oi, this line item also reflects PHAROL's effective stake in the controlling holding companies of Oi.

Non-current assets held for sale as of December 31, 2014 correspond to the fair value of Oi shares in connection with the Exchange entered into with Oi. The fair value of these shares was based on the Oi share price as of December 31, 2014.

Other assets at December 31, 2015, amounting to Euro 141 million, mainly include the fair value of assets received on March 30, 2015 in connection with the Exchange: (1) Euro 134.6 million related to the estimated fair value of debt instruments issued by Rio Forte, the nominal value of which amounts to Euro 897 million, and (2) Euro 6.4 million related to the fair value of the Call Option.

Provisions on December 31, 2014 include an amount of Euro 27 million related to the financial impact of the Exchange. This provision included (1) Euro 168 million related to the difference between the

accounting value of the shares to be exchanged and the fair value of assets to be received, (2) net of an amount of Euro 141 million (Note 20) corresponding to the estimated gain of the increase of PHAROL's effective participation in Oi from 22.8% to 27.5%, as a result of the reduction in outstanding shares of Oi after the completion of the Exchange.

Shareholders' equity amounted to Euro 299 million on December 31, 2015 compared to Euro 1,153 million on December 31, 2014, a decrease of Euro 854 million, mainly reflecting (1) the loss of Euro 694 million recorded in 2015, (2) the effective participation of PHAROL in the gains and losses recorded by Oi directly in its shareholders equity during 2015 in the negative amount of Euro 105 million, and (3) the negative Euro 53.9 million impact in the Oi investment of the real devaluation against the Euro.

OI RESULTS KEY HIGHLIGHTS

Oi ended 2015 with routine EBITDA of R\$ 7,230 million and Operational Cash Flow (OCF) of R\$ 3,182 million (+R\$ 1,644 million vs. 2014) for the Brazilian operations, delivering its results above the midpoint of the 2015 guidance ranges (routine EBITDA between R\$ 7.0 and 7.4 billion and OCF improvement between R\$ 1.2 and 1.8 billion in Brazil). This achievement, despite the unfavorable macroeconomic scenario with a GDP drop of 3.8% and an annual inflation of 10.7%, reinforces Oi's commitment and success to execute its business transformation process, focusing on the quality and profitability of its customer base, operational efficiency and strict cost control, infrastructure optimization, and commercial recovery with the launch of new portfolio of offerings.

In 4Q15, routine EBITDA of the Brazilian operations reached R\$ 1,745 million, an 3.3% increase over the same period last year, as a result of the efforts to increase the profitability of the customer base and the continued focus on cost efficiency, which reduced by 11.0% compared to 4Q14. For the full year, routine Opex fell by 8.5%, a real reduction of over 17%, considering the inflation effect in 2015.

Capex from Brazilian operations reached R\$ 1,072 million in this quarter (+1.6% compared to 4Q14), of which 90.1% directed to the network. In 2015, Capex totaled R\$ 4,048 million in Brazil, 20.2% lower than the previous year. In 2015, Oi focused on initiatives of investment optimization, such as contract renegotiations, network sharing, and the implementation of structural projects to modernize the infrastructure through technologies to increase network efficiency, generating more capacity of traffic with lower costs per voice minute and per Mbps of data. The execution of these projects allowed the Company to deliver a substantial growth of traffic on its network, at the same time that it reduced network congestion and presented consistent improvement in the network quality metrics. These efforts are aligned to Oi's strategy on prioritizing the improvement of quality of the customer experience.

OCF (routine EBITDA minus Capex) of the Brazilian operations totaled of R\$ 673 million in the quarter, up 6.2% compared to 4Q14, explained by the routine EBITDA growth and the efficiency in the allocation of investments.

Total net customer revenues (excluding handset sales and network usage) reached R\$ 6,078 million for the Brazilian operations in the quarter (-2.4% vs. 4Q14), reflecting the challenging macroeconomic environment, partially offset by the growth on pay TV and mobile data revenues and the increase in ARPU. In 2015 total net customer revenues totaled R\$ 24,478 million, practically stable compared to the previous year.

In the Personal Mobility segment, net customer revenues, which excludes handsets sales and MTR revenues, reached R\$ 1,830 million in the quarter, an increase of 1.2% year-on-year, driven by the 34.8% growth in data revenues (including VAS). In 2015 net customer revenues of the segment totaled R\$ 7,166 million, a solid increase of 5.3% versus 2014. This performance was due to the increase of 47.6% in data revenues in the year, the highest data growth of the sector in 2015. The data mix on service revenues reached 37.1% in the year, an increase of 12 p.p. in the last twelve months, also the best performance of the market in the year.

The new plans of Personal Mobility have shown promising results, such as the average increase of 17% in recharges of customers who migrated to Oi Livre per week, and the sales increase of 15% and 30% for postpaid and Controle plans, respectively. The Oi Livre offer, for example, has reached more than 10 million customers in January, 26% of total prepaid base, in only three months from its launch.

In the Residential segment, ARPU, which reached R\$ 79.6 in the quarter (+ 5.8% y.o.y.), continues to show improvement in all products, as a result of Oi's focus profitability of its customer base. Net revenues reached R\$ 2,392 million, down 3.3% compared to 4Q14, due to the decline of fixed-to-mobile tariffs (VC) and the lower fixed line base, partially offset by the pay TV revenues growth. With an all-net model and supported by the launch of VDSL and Oi Play, Oi's convergent offer Oi Total, which combines all 4 services offered by Oi (fixed line, broadband, TV and mobile) with, has presented preliminary results that indicates sales increase in all 14 states of the country in which this offer has already been launched.

Net revenues in the Corporate / SMEs segment reached R\$ 1,984 million in 4Q15, an annual decrease of 4.8%, mainly impacted by the macroeconomic environment. For the SMEs segment, Oi launched the plan Oi Mais Empresas, with an innovative model of flat-fee charging, easier to understand, buy and use. In parallel, Oi launched the app Oi Mais Empresas, a fully digital customer service for SMEs. The launch of this app is one of the first steps towards Oi's business digitization, which is one of the pillars of Oi's transformation plan.

At the end of 2015, gross debt stood at R\$ 54,981 million, of which 70.3% were composed by international capital market securities and the remaining composed by local capital market securities, development banks, ECAs and commercial banks. Oi's cash position amounted to R\$ 16,826 million as of December 31, 2015, and net debt registered R\$ 38,155 million at year-end (+2.5% versus 3Q15), impacted by the financial results, partially offset in the quarter by the positive accounting effect of R\$ 739 million related to the mark-to-market of derivatives and by the operating cash generation of R\$ 174 million in Brazil.

Oi recorded consolidated net loss of R\$ 4.5 billion in 4Q15 and R\$ 5.3 billion for 2015, mainly impacted by 3 accounting adjustments (no cash effect), in the total amount of R\$ 3.1 billion, all of them related to the impairment of assets in the balance sheet: (i) the impairment adjustment with a loss of \$ 89 million over the fair value of Oi's financial investments in Africa that are consolidated by Oi, affecting the operational earnings; (ii) the impairment adjustment with a loss of R\$ 1,582 million over the fair value of Oi's financial investments in Africa that are not consolidated by Oi, including Unitel, affecting the financial results; and (iii) the impairment adjustment on deferred income tax assets, in the amount of R\$ 1,392 million, for the companies in the group that did not provide expectation of generating sufficient future taxable income to offset tax credits. The proforma net loss for the continuing operations, excluding the impact of these accounting (non-cash) adjustments, would be about R\$ 1.5 billion in 4Q15 and R\$ 3.4 billion in 2015, basically driven by the financial expenses, whose variation in comparison to the same period of the previous year resulted from the deterioration of the Brazilian financial market conditions, with significant impact on the increase of interest rates.

	in R\$ million*			
	2015	2014	4T15	4T14
Oi S.A. Pro-forma (1)				
Total Net Revenues	27,354	28,546	6,703	7,323
EBITDA	7,794	10,361	1,706	3,195
EBITDA Margin (%)	28.5%	36.3%	25.5%	43.6%
Routine EBITDA	7,605	7,116	1,795	1,836
Routine EBITDA Margin (%)	27.8%	24.9%	26.8%	25.1%
Consolidated Net Earnings (Loss) (2)	(5,348)	(4,406)	(4,551)	(4,421)
Net Debt	38,155	30,563	38,155	30,563
Available Cash	16,826	2,732	16,826	2,732
CAPEX	4,164	5,278	1,086	1,108

*Or otherwise stated

	in R\$ million*			
	2015	2014	4T15	4T14
BRASIL				
Revenue Generating Unit ('000)	70,048	74,495	70,048	74,495
Residential	16,297	17,463	16,297	17,463
Personal Mobility	45,860	48,462	45,860	48,462
Corporate / PMEs	7,241	7,917	7,241	7,917
Public Telephones	651	653	651	653
Total Net Revenues	26,441	27,613	6,531	7,064
Net Services Revenues (3)	26,062	26,764	6,474	6,773
Residential	9,779	9,995	2,392	2,473
Personal Mobility	8,055	8,205	2,050	2,152
Clients (4)	7,166	6,806	1,830	1,808
Corporate / SMEs	7,970	8,269	1,984	2,076
Net Clients Revenues (4)	24,478	24,593	6,078	6,227
Routine EBITDA	7,230	6,612	1,745	1,689
Routine EBITDA Margin (%)	27.3%	23.9%	26.7%	23.9%
CAPEX	4,048	5,074	1,072	1,056
Routine EBITDA - CAPEX	3,182	1,538	673	634

*Or otherwise stated

(1) Pro-forma figures, except net earnings, net debt and available cash.

(2) Consolidated EBITDA includes the extraordinary accounting effect (non-cash) of the impairment adjustment with a loss of R\$ 89 million over the fair value of Oi's financial investments in Africa that are consolidated by oi. The EBITDA adjusted by this effect would be of R\$ 1,795 million in 4Q15 and R\$ 7,883 million in 2015.

(3) 4Q15 consolidated net loss was affected mainly by the impairment adjustments over the fair value of Oi's financial investments in Africa that are not consolidated by Oi, and the impairment on deferred income tax assets, as explained in the section "Net Earnings (Loss)". Consolidated net loss in 2014 include the discontinuation of the operations of PT Portugal SGPS, S.A. ("PT Portugal"). Net loss from discontinued operations include the positive effect related to the exchange variation on PT Portugal's book value, which was recorded under shareholders' equity in 4Q14. With the completion of PT Portugal's sale in 2Q15, this amount was reclassified to net results from discontinued operations, together with expenses associated with the sale.

(4) Excludes handset revenues.

03 BUSINESS PERFORMANCE

BUSINESS COMBINATION OF PHAROL AND OI

Following the memorandum of understanding, disclosed in a timely manner to the market on October 2, 2013 (“Memorandum of Understanding”), PHAROL, Oi and the major shareholders of both companies announced their intention to proceed with a business combination of PHAROL and Oi (the “Business Combination”) merging them into a single listed entity under Brazilian law, it having been decided that such company would be Telemar Participações, S.A. (“TmarPart”).

The Business Combination, as initially envisioned, involved three main phases:

A first phase, involving the Oi Capital Increase, was completed on May 5, 2014, with the issuance of common shares and preferred shares in an offering for an aggregate amount of R\$8,250 million in cash, including the exercise of a greenshoe, and common shares and preferred shares in favor of PHAROL, in exchange for the contribution in kind, by PHAROL to Oi of (i) all of the operating assets of PHAROL, except the shares held directly or indirectly - through Bratel Brasil and PTB2, S.A. (“PTB2”) - in Oi, Contax Participações S.A. (“Contax”) and Bratel B.V. (“Bratel”), and (ii) substantially all of PHAROL’s liabilities on the date of the contribution, valued in net terms (assets less liabilities) in accordance with the respective appraisal report at R\$5,709.9 million. Simultaneously with the Oi Capital Increase, PHAROL, through its subsidiaries in Brazil, subscribed to debentures convertible into shares of companies belonging to the control groups of AG Telecom Participações S.A. (“AG Telecom”) and of LF Tel S.A. (“LF Tel”), and these entities subscribed to debentures convertible into shares of TmarPart, which have been fully converted. As a result of such conversion, PHAROL came to hold an additional shareholding stake in companies belonging to the control groups of AG Telecom and of LF Tel, and indirectly in TmarPart and Oi;

A second phase, involved the merger of shares, under Brazilian law (the “Merger of Oi”), under which, subject to approval of holders of common shares of Oi and of TmarPart, all shares of Oi not belonging to TmarPart would be exchanged for common shares of TmarPart, with Oi becoming a wholly owned subsidiary of TmarPart and, at the same time, the latter would be listed on the Novo Mercado segment of BM&FBOVESPA S.A. – Bolsa de Valores, Mercadorias e Futuros (“BM&FBOVESPA”). Simultaneously with the Merger of Oi, a simplification of the corporate structure of TmarPart was planned, by means of the corporate reorganization of several direct and indirect shareholder holding companies of TmarPart, by which, among other things, PHAROL would come to directly hold shares of Oi corresponding to its indirect stake in TmarPart (“Corporate Reorganization”); and

A third phase, involving the subsequent merger under Portuguese and Brazilian law, of PHAROL with and into TmarPart (the "PHAROL Merger"), and under the terms of which the shareholders of PHAROL would receive a total number of TmarPart shares equal to the number of shares of such company held by PHAROL immediately prior to the PHAROL Merger. The shares of TmarPart, the surviving entity of the above referenced transactions, would be listed on the Novo Mercado segment of BM&FBOVESPA, on the regulated market NYSE Euronext Lisbon ("Euronext Lisbon") and the New York Stock Exchange ("NYSE").

The transaction was agreed to, and its execution was delegated to the management of both companies (which included common members amongst themselves, by virtue of the reciprocal stake the companies held in the share capital of each other), subject to the approval at a general shareholders meeting. In the specific case of PHAROL, the first and third stages were subject to approval at a general shareholders meeting.

PHASE 1 – OI CAPITAL INCREASE

As part of the process leading to the Business Combination, the Oi Capital Increase was carried out, and as planned, part of the newly issued shares of Oi were subscribed by PHAROL and paid by means of a contribution in kind corresponding to all of the shares held by PHAROL in PT Portugal SGPS, S.A. ("PT Portugal"), a company that then owned all of the operating assets of the business of the companies of the PHAROL group (with the exception of shares directly or indirectly held in Oi, Contax and Bratel) and the respective liabilities at the date of its contribution ("PT Assets"). The PT Assets were contributed at a value based on a proposal by the Oi Board of Directors at a general shareholders' meeting of Oi, supported by an appraisal report conducted by an independent company - Banco Santander (Brasil) S.A., hired for such purpose by Oi - in accordance with applicable Brazilian law. The report was approved at a general shareholders meeting of Oi, held on March 27, 2014.

As mentioned above, PHAROL's participation in the Oi Capital Increase, given the importance of the matter, was submitted to approval by a meeting of PHAROL's general shareholders.

On March 27, 2014, the shareholders of Oi approved the appraisal report referred to above and the contribution of PT Assets to Oi, valued at R\$5,709.9 million - corresponding to the equivalent of Euro 1,750 million, applying the real to Euro exchange rate on February 20, 2014 (i.e., 3.2628 reais per Euro), as provided for in previous agreements - an amount which the shareholders of PHAROL, at a meeting also held on March 27, 2014, approved for the contribution of such PT Assets in connection with the Oi Capital Increase.

On May 5, 2014, the Oi Capital Increase was settled, with PHAROL subscribing to 1,045,803,934 common shares and 1,720,252,731 preferred shares, which represented the share capital of Oi received

in return for the contribution in kind of the entire share ownership of PT Portugal, holder of the PT Assets. As a result, PHAROL came to hold on such date, as its only significant asset, a direct and indirect stake of 39.7% in the share capital of Oi, comprising a stake of 39.0% of the voting share capital (excluding the indirect stake held by TmarPart, AG Telecom and LF Tel in Oi).

Among the PT Assets, contributed in connection with the Oi Capital Increase, was a creditor position on Rio Forte – a company in the Espírito Santo Group (“GES”) – which corresponded to short-term investments subscribed or acquired by two entities that were at the time, wholly owned subsidiaries of PHAROL – namely PT Portugal and PT Finance – with a par value of Euro 897 million, identified as the “Rio Forte Investments.”. On July 15 and 17, 2014, Rio Forte defaulted on the Rio Forte Investments.

AGREEMENT ON THE TERMS TO PROCEED WITH THE BUSINESS COMBINATION

On July 28, 2014, following the default by Rio Forte, PHAROL and Oi announced that they had reached an agreement on the definitive terms of the main agreements to be signed following a new Memorandum of Understanding announced on July 16, 2014. The main terms of these contracts established that:

- PHAROL would exchange Rio Forte Investments amounting to Euro 897 million with Oi, in exchange for 474,348,720 common shares plus 948,697,440 preferred shares of Oi (“Exchange Shares”) – adjusting for the effect of the reverse split of Oi shares on December 22, 2014, corresponding to 47,434,872 common shares and 94,869,744 preferred shares – representing 16.9% of its share capital;
- PHAROL would be assigned an American non-transferable call option (“Call Option”) to acquire the Exchange Shares (with the strike price of R\$2.0104 for common shares and R\$1.8529 for preferred shares) – which, adjusting for the effect of the reverse split of Oi shares, corresponds to R\$20.104 for common shares and R\$18.529 for preferred shares, after the reverse split, which would be adjusted by the Brazilian CDI rate plus 1.5% per year;
- The Call Option on the Exchange Shares would enter into force on the date of the Exchange and mature in six years, the possibility of PHAROL exercising this option expiring by 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 by issuing any derivative instruments would have to be used to acquire shares pursuant to the exercise of the Call Option;
- PHAROL could only acquire shares of Oi or TmarPart through the 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% voting limitation, (ii) PHAROL were to act as a competitor of Oi, or (iii) PHAROL were to violate certain obligations arising from the definitive documentation; and
- The contracts would be concluded as soon as all corporate approvals were obtained and the Exchange, which was completed on March 30, 2015, would be subject to approval by CVM.

The terms of the agreements also included an alternative agreement to the previously announced merger of PHAROL by TmarPart, in order to achieve the following objectives:

- Allow the merger of Oi into TmarPart and the migration to the Novo Mercado segment of BM&FBOVESPA be implemented as soon as possible, with the listing of TmarPart on BM&F Bovespa, Euronext Lisbon and NYSE;
- Subject to approval by the Board of Directors and at a general shareholders meeting convened specifically for this purpose, the implementation of an alternative structure to the PHAROL Merger which would allow for the unification of the shareholder basis of both companies, in the fastest and most efficient way possible, and of the attribution to the shareholders of PHAROL of all the TmarPart shares held by PHAROL, after executing the Exchange and before exercising the Call Option, corresponding to a stake of 25.6% in TmarPart, adjusted by treasury shares; and
- PHAROL would continue to be listed, with the Rio Forte Investments, Call Option, and its relevant assets.

The terms of the agreements, as described above, were approved on September 8, 2014 at the general shareholders meeting of PHAROL, and the definitive agreements were signed on the same day. Implementation of the Exchange was in the meanwhile approved by the CVM.

SHAREHOLDER AGREEMENTS

The TmarPart shareholder agreements ("TmarPart Shareholders Agreements") were in effect until July 30, 2015, having been entered into or amended on January 25, 2011, February 19, 2014 and September 8, 2014.

The TmarPart Shareholders Agreements comprise (a) a general shareholders' agreement, signed by all of the shareholders of TmarPart - AG Telecom, LF Tel, the Fundação Atlântico de Seguridade Social ("FATL"), Bratel Brasil, BNDES Participações S.A. - BNDESPAR ("BNDESPAR"), the Caixa de Previdência dos Funcionários do Banco do Brasil ("PREVI"), Fundação Petrobras de Seguridade Social - PETROS ("PETROS"), the Fundação dos Economistas Federais - FUNCEF ("FUNCEF") - as parties, and by TmarPart and PHAROL, as intervening parties ("Global Shareholders Agreement") and (b) a shareholders

agreement entered into only by AG Telecom, LF Tel and FATL as parties and by TmarPart as an intervening party ("Group Control Shareholders Agreement").

These agreements were terminated on July 30, 2015 after the general shareholders meeting of Oi relative to the implementation of the New Structure was called. The New Structure included the incorporation of TmarPart in Oi.

COMPLETION OF THE EXCHANGE AGREEMENT

On March 24, 2015, PHAROL entered into an agreement with Oi, PT Portugal, PT Finance and TmarPart - Private Agreement for the Assignment of Rights and Obligations ("Assignment Agreement"), by means of which PT Portugal transferred to PT Finance the Rio Forte debt securities held by PT Portugal, and ceded to PT Finance all pertaining rights and obligations in connection with the Exchange Agreement ("Assignment"). The Assignment Agreement also stipulated that the delivery of the Exchange Shares could be implemented by means of the transfer, by PHAROL, of the Exchange Shares, or American Depositary Shares ("ADS") of Oi, representative of the Exchange Shares, at PHAROL's criteria. Oi's ADR Program is regulated by (1) the Depositary Agreement (Ordinary Shares), signed on February 17, 2012, as amended, between Oi, the Bank of New York Mellon, acting as depositary ("Depositary"), and all periodical holders of ADSs (American Depositary Shares) ("ADSs ON"), issued in the terms of the abovementioned Agreement; and (2) by the Depositary Agreement (Preferential Shares) signed on February 27, 2012, as amended, between Oi, the Depositary, and all periodical holders of ADSs (American Depositary Shares) ("ADSs PN"), issued in the terms of the abovementioned Agreement.

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 94,869,744 ADSs PN (as a whole, the "Exchange ADSs") to PT Finance, representing Oi's shares object of the Exchange.

Therefore, on March 30, 2015, PHAROL transferred the Exchange ADSs to PT Finance, and PT Finance transferred to PHAROL the Rio Forte Investments in the total nominal amount of 897 million Euros.

On March 30, 2015, the Call Option was in force and effective.

CONCLUSION OF THE NEGOTIATIONS WITH OI TO IMPLEMENT THE NEW STRUCTURE

Negotiations between PHAROL and the major remaining shareholders of Oi were concluded on March

31, 2015. Such negotiations were aimed at defining a new agreement between the parties concerning the Oi corporate structure and governance model, given the impossibility of migrating TmarPart to the Novo Mercado segment of BM&FBovespa as of March 31, 2015. The drafting of a new agreement was key to anticipate the main benefits disclosed to shareholders at the time of the Oi Capital Increase, settled on May 5, 2014. This agreement does not limit the efforts to achieve listing on the Novo Mercado segment of BM&FBOVESPA. The parties have agreed to a new corporate structure and governance model for Oi (the "New Structure") which, in addition to the benefits and objectives disclosed following the Memorandum of Understanding, will allow Oi to anticipate a new governance model that will cover the main characteristics of the Novo Mercado, and has the following key features:

- All of the corporate and management restructuring will take place in Oi, eliminating the need to list TmarPart;
- Approval of new Bylaws of Oi, as well as an additional agreement regarding the provisional voting agreement of the shareholders, which will be in effect until the execution of the New Structure, which will allow: (i) the execution of a voluntary exchange program of preferred shares into common shares issued by Oi, with a ratio of 0.9211 common share to each preferred share, subject to the participation of at least two-thirds of the preferred shares within a period of 30 days following the general shareholders' meeting of Oi, in order to provide to all shareholders the right to vote and to maximize the possibility of a single class of shares; (ii) the implementation of the principle of one share, one vote. However, in order to preserve the balance between shareholders and the dispersion of shareholding control envisaged at the moment of the Oi Capital Increase, a 15% limitation of voting rights applicable to all the shareholders of Oi was agreed to be included in the bylaws of Oi. This limitation will cease to be applicable upon the occurrence of certain events, including a capital increase, a corporate restructuring or a tender offer, which result in a dilution of the existing shareholder base (or the acquisition of shares, as the case may be) greater than 50%; (iii) to further improve liquidity, eliminating the lock-up agreements of all shareholders; (iv) the appointment of a new Board of Directors of Oi, with significant participation of independent members, in which the previous parity in TmarPart between the representatives of PHAROL and of the Brazilian shareholders will remain in force; (v) the extinction of TmarPart, which will be merged into Oi, which will result in the termination of the existing shareholders' agreements, ensuring the dispersion of shareholder control of Oi; and (vi) the possibility of benefiting from financial synergies, through the merger of the controlling companies of Oi, directly and indirectly; and
- All these significant alterations to Oi's corporate structure will be submitted for approval at a general shareholders' meeting of Oi and will be implemented as quickly as possible, after approval from Agência Nacional de Telecomunicações Brasileira ("ANATEL").

Considering the completion, on March 30, 2015, of the Exchange between PHAROL and PT Finance of ordinary and preferential shares of Oi's capital, for Rio Forte Investments ("the Exchange"), the Call

Option Agreement, signed on September 8, 2014 ("Call Option Agreement"), came into effect. An amendment ("Amendment") to the Call Option Agreement was entered into, as was disclosed at the time, which will allow PHAROL to achieve liquidity for its Call Option through a market sale, independent of previous consent from Oi, with Oi having a right of first refusal if PHAROL decides to transfer the Call Option to a third party. The Amendment is subject to approval by a general shareholders meeting of Oi and, if applicable, approval by the CVM. Oi has committed to call such general shareholders meeting.

EXECUTION OF THE NEW STRUCTURE

On July 22, 2015, PHAROL signed together with Oi and the controlling holding companies of Oi, the relevant documentation for the corporate restructuring, which included all the provisions relevant for the implementation of the New Structure of Oi.

The New Structure was approved by ANATEL and at a general shareholders meeting of Oi held on September 1, 2015. The agenda of the general meeting included:

- Approval of the relevant corporate actions required for the Merger of TmarPart within Oi;
- Approval of the new bylaws of Oi;
- The approval of the proposal, terms and conditions and the opening of the period for the voluntary exchange of preferred shares of Oi into ordinary shares; and
- The election of the Board of Directors of Oi, which will have a mandate that runs until the general shareholders meeting that will approve the 2017 financial statements.

VOLUNTARY CONVERSION OF PREFERRED INTO COMMON SHARES

On October 8, the Board of Directors of Oi confirmed the voluntary conversion of preferred shares into common shares issued by Oi ("Voluntary Conversion"), approved the effective conversion of the preferred shares tendered for conversion with BM&FBovespa and Banco do Brasil, and accepted for exchange the American Depositary Shares ("ADSs") representing preferred shares ("Preferred ADSs") that tendered their Preferred ADSs.

After the market closed on October 9, 2015 the common shares issued as a result of the Voluntary Conversion were available in the custody accounts kept at the BM&FBovespa or Banco do Brasil of the respective shareholders that declared their intentions to convert their preferred shares, and could be traded by their holders on the BM&FBovespa from October 13, 2015. The ADSs representing new

common shares as a result of the Offer to Exchange in connection with the Voluntary Conversion were issued on October 13, 2015.

The Board of Directors of Oi also approved the call for an extraordinary general meeting, in order to reflect the outcome of the Voluntary Conversion in the Bylaws of Oi, that occurred on November 13, 2015.

Upon conclusion of the Voluntary Conversion, 155,915,486 preferred shares that were not tendered for conversion or exchange by their holders remain outstanding.

RIO FORTE INVESTMENTS

As mentioned above, included in the PT Assets contributed by PHAROL in the Oi Capital Increase were short-term investments in commercial paper obligations issued by Rio Forte, and originally subscribed by PHAROL and PT Finance, in the amount of Euro 897 million. The composition of the outstanding amount of the Rio Forte Investments at the time of the Oi Capital Increase on May 5, 2014 was as follows:

a) On April 15, 2014, PT Finance subscribed to Euro 647 million in notes issued by Rio Forte, with maturity on July 15, 2014. The terms and conditions of this transaction defined the notes as unsecured and unsubordinated debt, *pari passu* in terms of payment with the issuer's other unsecured and unsubordinated indebtedness, with a yield of 3.75% per annum. The jurisdiction for dispute resolution was Luxembourg;

b) On April 15, 2014, PHAROL subscribed to Euro 200 million in notes issued by Rio Forte, with maturity on July 15, 2014. On May 5 2014, which were transferred to PT Portugal as part of the process of transferring all assets and liabilities directly held by PHAROL to PT Portugal in preparation for the contribution of PT Portugal in the Oi Capital Increase. These issuances were made through a private placement under the prospectus prepared by the issuer and dated December 21, 2012, entitled "Eur 1,000,000,000 Euro Medium Term Note Programme," which was approved by the Luxembourg Commission de Surveillance du Secteur Financier. The terms and conditions of this operation defined the notes as senior unsecured and unsubordinated debt, *pari passu* in terms of payment with the issuer's other unsecured and unsubordinated indebtedness, with a yield of 3% per annum. The jurisdiction for dispute resolutions was Luxembourg; and

c) On April 17, 2014, PT Finance subscribed to Euro 50 million in notes issued by Rio Forte, with maturity on July 17, 2014. This issuance was made through a private placement under the prospectus prepared by the issuer and dated September 21, 2012, entitled "Eur 1,000,000,000 Euro Medium Term

Note Programme,” which was approved by the Luxembourg Commission de Surveillance du Secteur Financier. The terms and conditions of this transaction defined the notes as senior unsecured and unsubordinated debt, pari passu in terms of payment with the issuer's other unsecured and unsubordinated indebtedness, with a yield of 3.75% per annum. The jurisdiction for dispute resolutions was Luxembourg.

As a result of the Oi Capital Increase, PT Portugal and PTIF and their rights as creditors under the Rio Forte Investments were contributed by PHAROL. On July, 15 and 17, 2014, Rio Forte defaulted on the Rio Forte Investments held by PT Portugal and PTIF.

On July 22, 2014, Rio Forte filed for creditor protection/controlled management (gestion contrôlée) under Luxembourg law. Even though it recognized that it did not have the financial capacity to meet its financial commitments, it understood that the best protection for its creditors would be the adoption of this legal regime, a request that was denied by a Luxembourg court on October 17, 2014. Following this rejection, Rio Forte went into liquidation and was declared bankrupt by the Luxemburg Court on December 8, 2014. According to the most recent public announcement of the liquidation trustees, the deadline to present claims for this debt was extended and will now end on June 30, 2016.

As a result of the engagement of PricewaterhouseCoopers in Portugal to conduct an independent analysis of the proceedings and acts related to the investments in treasury applications issued by entities of GES, and of an external law firm to prepare an analysis of the liabilities arising out of or in connection with the investments in entities of GES, the Board of Directors of PHAROL decided on May 27, 2015, that it would file legal action against the prior external auditor.

On June 4, 2015, the liquidation trustees of Rio Forte informed that, as a result of the seizure of several Rio Forte assets, they had suspended the sale of certain securities held by Rio Forte that have Herdade da Comporta as an underlying asset.

On July 31, 2015, PHAROL's general shareholders meeting resolved that the Company shall file a liability claim against all members of the Board of Directors, elected for the three-year term of 2012/2014, who have breached legal, fiduciary and/or statutory duties, among others, either by action or by omission, for the damages caused to PHAROL as a consequence and/or related with the investments in debt instruments issued by entities of GES.

On October 2, 2015 PHAROL filed the first judicial liability claim before the Lisbon's District Court, against its former directors Mr. Henrique Manuel Fusco Granadeiro, Mr. Luís Pacheco de Melo and Mr. Amílcar Morais Pires. PHAROL claims an indemnity corresponding to the difference between Euro 897 million and any amount that PHAROL eventually recovers in the context of the insolvency proceeding of Rioforte, as

well as other damages that may be evidenced during proceedings, plus interest counted from the date of service until effective and full payment.

This claim does not affect PHAROL's right to file other liability claims against its former directors (of the period 2012/2014) or against any third parties, which in any way may be deemed liable for damages suffered by PHAROL as a consequence and/or related with the investments in Rioforte or other debt instruments issued by entities of the Espírito Santo Group.

OI SHAREHOLDER REMUNERATION

On January 29, 2015, the Board of Directors of Oi reported the cancellation of the Shareholders Remuneration Policy for the 2013-2016 fiscal years, a policy that was communicated on August 13, 2013. In view of the decision made, Oi is only subject to the provisions of Law 6,404/76, and the Company's Bylaws. The canceled policy provided for dividends for the 2013-2016 fiscal years, an estimated amount of R\$500 million, which represented the minimum dividend that met the following objectives: (i) payment of dividends corresponding to the greater of 25% of the adjusted net income for the fiscal year, 3% of Net Assets or 6% of the Share Capital; and (ii) to ensure equitable payments among the classes of common and preferred shares.

DELISTING OF THE PHAROL ADSs

On March 9, 2015, the Board of Directors of PHAROL approved the delisting of its ADSs from the NYSE. March 27, 2015 was the last day PHAROL ADSs were traded on the NYSE and the delisting of PHAROL ADSs from trading at the NYSE became effective on March 30, 2015. After the delisting of ADS from the NYSE, PHAROL shares continue to trade on the Euronext Lisbon. The decision was made after (i) PHAROL received a letter from the NYSE, dated February 6, 2015, giving notice that PHAROL was below the continued listing criteria set forth in Section 801.02C of the NYSE Listed Company Manual because the average closing price of its ADSs had been less than US\$1.00 over a 30 consecutive trading day period. In light of these factors, and in order to achieve cost savings by eliminating costs associated with maintaining a listing on the NYSE, PHAROL decided to delist the ADSs. PHAROL currently intends to maintain its American Depositary Receipt facility, which will enable investors to retain their ADSs and trade those ADSs in the U.S. over-the-counter market. In addition, PHAROL will continue to be subject to the reporting requirements of the U.S. Securities Exchange Act of 1934, including the requirement to file annual reports on Form 20-F and to submit reports on Form 6-K.

CHANGE TO OI MANAGEMENT

Oi's Board of Directors approved on April 21, 2015 a change to the management structure, thereby creating (i) the Office of Corporate Finance, responsible for the Finance, Investor Relations, M&A and Controllershship departments; and (ii) the Office of Financial Administration, responsible for the Supply, Accounting, Financial Services, Property, Logistics, and International Operations departments.

Mr. Flavio Nicolay Guimarães was elected to the position of Chief Financial Officer and Investor Relations Officer, assuming responsibility for the Office of Corporate Finance. Mr. Marco Norci Schroeder was elected to the position of Executive Officer, assuming responsibility for the Office of Financial Administration.

ANNUAL GENERAL SHAREHOLDER MEETING OF PHAROL

The Annual General Meeting of Shareholders of PHAROL held on May 29, 2015 approved the following:

- Management reports, balance sheets and accounts, individual and consolidated, for the year 2014;
- The transfer of the net loss for the year ended on December 31, 2014, in the amount of 175,082,979 Euros, to retained earnings;
- Ratification of the approval of the members of the Board of Directors Rolando António Durão Ferreira de Oliveira, Francisco Ravara Cary, Marco Norci Schroeder, Eurico de Jesus Teles Neto, Jorge Telmo Maria Freire Cardoso and João Manuel Pisco de Castro for the remainder of the three-year period 2012-2014 term of office;
- Ratification of the appointment of the Director Alfredo Jose Silva de Oliveira Baptista as member of the Audit Committee for the remainder of the three-year period 2012-2014 term of office;
- Ratification of the appointment of the Directors João Manuel de Mello Franco and José Guilherme Xavier de Basto, respectively, as Chairman of the Board of Directors and Chairman of the Audit Committee for the remainder of the three-year period 2012-2014 term of office, respectively;
- Approval of a partial amendment of the Articles of Association, including the amendment to the Company's corporate name to PHAROL, SGPS, S.A. and its registered office to Rua Carlos Alberto da Mota Pinto 17, piso 7-A, 1070-313 in Lisbon. Other approved amendments were, namely, the amendment for each share to correspond to one vote and the Company's governance model, which will be composed by a Board of Directors and a Fiscal Council, and the creation of a Monitoring Committee;

- Election of the members of the corporate bodies and of the Compensation Committee for the 2015-2017 term of office, as follows:

Board of the General Meeting of Shareholders:

Chairman: João Vieira de Almeida

Secretary: Sofia Barata

Board of Directors:

Chairman: Luís Maria Viana Palha da Silva

Members:

Francisco Ravara Cary

João do Passo Vicente Ribeiro

João Manuel Pisco de Castro

Jorge Freire Cardoso

José Mauro Mettrau Carneiro da Cunha

Milton Almicar Silva Vargas

Nuno Rocha dos Santos de Almeida e Vasconcellos

Pedro Zañartu Gubert Morais Leitão

Rafael Luis Mora Funes

Ricardo Malavazi Martins

Fiscal Council:

Chairman: José Maria Rego Ribeiro da Cunha

Members:

Isabel Maria Beja Gonçalves Novo

Pedro Miguel Ribeiro de Almeida Fontes Falcão

Compensation Committee:

Álvaro Pinto Correia

António Gomes Mota

Francisco Lacerda

- Election of BDO & Associados – SROC, Lda., represented by Rui Carlos Lourenço Helena, as Statutory Auditor, for the term of office of 2015-2017, and of Pedro Manuel Aleixo Dias as alternate Statutory Auditor;
- Approval of the statement of the Compensation Committee on the Compensation Policy for the members of the management and supervisory bodies of the Company;
- Approval of the creation of an ad hoc committee to establish the compensation of the members of the Compensation Committee, composed by André Magalhães Luiz Gomes, Bernardo Miguel Carrilho da Silva Malha, Gonçalo Faria de Carvalho and Paulo Alexandre Ramos Vasconcelos;

CLOSING OF THE SALE OF PT PORTUGAL’S SHARES TO ALTICE

After satisfying all of the contractual conditions precedent, the sale by Oi of all shares held in PT Portugal to Altice Portugal, S.A. (“Altice Portugal”) occurred on June 2, 2015, which mainly includes the operations conducted by PT Portugal in Portugal and Hungary.

Altice Portugal disbursed the total amount of Euro 5.789 billion for the acquisition of PT Portugal, of which Euro 4.92 billion were paid in cash to Oi and Euro 869 million were allocated to immediately repay outstanding indebtedness of PT Portugal in Euros. The final purchase price is subject to post-closing adjustments as a result of changes in the cash, indebtedness and working capital positions on the closing date.

CHANGE OF PHAROL’S REGISTERED OFFICE

On July 31, 2015, PHAROL changed its registered office to Rua Joshua Benoliel, 1, 2C, Edifício Amoreiras Square, 1250 -133, Lisboa. Such change was duly registered in the Portuguese Company Registry (“Conservatória do Registo Comercial”).

MOODY’S RATING

On October 7, 2015, Moody’s announced its revision of the credit rating attributed to Oi, downgrading the long-term global scale credit rating to Ba3 from Ba1 and certain obligations of Oi to B1 from Ba2. The outlook is negative.

NYSE's CONTINUED LISTING STANDARD

On October 13, 2015, Oi informed that on September 14, 2015 it had received notice from the New York Stock Exchange, Inc. (the "NYSE") that it was not in compliance with NYSE's continued listing standard that requires that the average closing price of a company's listed securities not fall below \$1.00 per share for any consecutive 30 trading-day period.

Under NYSE rules, Oi has a period of six months from the receipt of the NYSE notice to regain compliance with the minimum share price requirement. During the interim period, Oi's American Depositary Shares, each representing one Oi common share ("Common ADSs"), and Oi's American Depositary Shares, each representing one Oi preferred share ("Preferred ADSs"), will continue to be listed and traded on the NYSE, subject to Oi's compliance with other NYSE continued listing requirements.

Oi intends to amend the terms of its Common ADSs and Preferred ADSs to increase the number of common shares and preferred shares of Oi represented by the Common ADSs and Preferred ADSs, respectively, in order to regain compliance with the NYSE's minimum share price requirement. Oi had not yet determined the applicable ratios of shares per ADS at year end, but intends to select these ratios with the expectation that following these amendments, Oi will be in compliance with the NYSE's minimum share price requirement for the foreseeable future. The amendments of the terms of the Common ADSs and Preferred ADSs must be approved by Oi's board of directors and Brazilian Securities Commission (Comissão de Valores Mobiliários).

SIGNING OF EXCLUSIVITY AGREEMENT FOR POTENTIAL TRANSACTION THAT ENABLES THE CONSOLIDATION OF THE SECTOR

On October 30, 2015, Oi informed that on October 28, 2015, after having evaluated the exclusivity proposal delivered by L1 Technology for the potential transaction with the purpose of making possible a consolidation of the Brazilian telecommunications sector involving a potential business combination with TIM Participações S.A., Oi sent a letter to L1 Technology, containing an exclusivity counterproposal, by which Oi and L1 Technology would grant each other a mutual right of exclusivity for a period of seven (7) months from October 23, 2015, with respect to, primarily, business combinations involving companies or assets in the Brazilian telecommunications sector.

Oi has received confirmation that L1 Technology agrees with all the terms of the counterproposal. As a result, Oi and L1 Technology are bound by exclusivity for the period of seven (7) months from October 23, 2015.

SHAREHOLDER MEETING OF PHAROL

The General Meeting of Shareholders held on November 4, 2015 has approved the following proposals:

1. Approval of the acquisition by the Company of own shares, including any rights to the acquisition or allocation thereof, subject to a decision by the Board of Directors, and on the following terms:
 - a. Maximum number of shares to be acquired: Up to a limit equivalent to 7.7% of the share capital, deducting any dispositions made, without prejudice to such quantity as may be required for compliance with the acquirer's obligations under law, contract or issuances of securities, subject to, if applicable, subsequent disposition, as established by law, of such shares exceeding such limit. Subject to the requirements established by law and by this resolution, the acquisitions that the Board of Directors may execute within the framework of a share buyback programme is hereby approved, such acquisition to be made in any of the forms provided for under this proposed resolution;
 - b. Term during which the acquisition may be made: Eighteen months, as from the date of the present proposed resolution;
 - c. Forms of acquisition: Subject to the terms and mandatory limits established by law, acquisition of shares, or rights of acquisition or allocation of shares, for consideration, in any form, on a regulated market or in an over-the-counter transaction, in compliance with the principle of equal treatment of shareholders as established by law, namely from a financial institution with which the Company has entered into an equity swap agreement or other similar financial derivative instruments, or any other acquisition for the purpose of, or by virtue of, complying with an obligation established by law or contract;
 - d. Minimum and maximum consideration for the acquisitions: The consideration of the acquisition should fall within an interval of 25% less than the lowest trading price and 25% more than the average trading price of the shares to be acquired on the Euronext Lisbon during the 3 regulated market sessions immediately preceding the date of acquisition or the creation of the right of acquisition or allocation of shares, or should correspond to the acquisition price resulting from any contracted financial instruments;
 - e. Objectives: The acquisition by the Company of its own shares, including rights of acquisition or allocation of its own shares, may take the form of a buyback programme pursuant to and for the purposes of Commission Regulation (EC) 2273/2003, of December 22, 2003;
 - f. Time of the acquisition: To be determined by the Board of Directors, taking into account the market situation and the convenience or obligations of the Company, and to be carried out on one or more occasions in the proportions established by the Board of Directors.

2. Approval of the disposal of own shares that may have been acquired, subject to a resolution of the Board of Directors, and under the following terms:

a. Minimum number of shares to be disposed of: The number corresponding to the minimum block of shares which at the time of the disposition is legally stipulated for the shares of the Company, or such lesser quantity as may be sufficient to fulfil any obligation undertaken by virtue of law or contract;

b. Term during which the disposition may be made: Eighteen months from the date of the present proposed resolution;

c. Form of disposition: Subject to the terms and mandatory limitations established by law, disposition for consideration in any form, namely by sale or exchange, to be made on a regulated market or over-the-counter to certain entities designated by the Board of Directors, in compliance with the principle of equal treatment of shareholders as established by law, namely to financial institutions counterparties to equity swap agreements or other similar financial derivative instruments, or where the disposition is resolved within the framework of, or in connection with, a proposal for the application of profits or distribution of reserves in kind, without prejudice to, in case of any disposition in fulfilment of an obligation, to be carried out in accordance with the applicable terms and conditions;

d. Minimum price: Consideration of no more than 25% below the average trading price on the Euronext Lisbon of the shares to be disposed of during the three regulated market sessions immediately preceding the date of disposition;

e. Time of disposition: To be determined by the Board of Directors, taking into account the market situation and the convenience or obligations of the Company, to be carried out on one or more occasions in the proportions established by the Board of Directors.

3. Approval that an indication be conveyed to the Board of Directors that, without prejudice to its freedom of decision and action within the framework of the resolutions numbers 1 and 2 above, it take into account, depending on the circumstances that the Board deems relevant (and, in particular, as regards acquisitions that are part of buyback programmes that may be the subject of the Regulation referred to in the Whereas clauses), in addition to the recommendations of the Portuguese Securities Commission (*Comissão do Mercado de Valores Mobiliários*) in force at each moment, the following practices advisable as regards the acquisition and dispositions of own shares under the authorizations granted in accordance with the foregoing paragraphs:

a. Disclosure to the public, before the beginning of the acquisition and disposition transactions, of the content of the preceding authorization, in particular, their goal, the maximum value of the acquisition, the maximum number of shares to be acquired and the period authorized for such purpose;

b. Record keeping of each transaction carried out within the framework of the preceding authorizations;

- c. Public disclosure of the transactions carried out by the end of the seventh day of the trading session following the date on which such transactions take place, without prejudice to the disclosure of the final position whenever it exceeds or falls below 1% of the share capital or multiples thereof, within the periods foreseen in the regulations of the Portuguese Securities Commission (*Comissão do Mercado de Valores Mobiliários*);
- d. Carrying out the transactions under conditions of time, manner and volume that do not disturb the regular operation of the market, namely seeking to avoid executing such transactions at sensitive times for trading, in particular, at the opening and closing of the session, at times of market disturbance and at times close to the disclosure of non-public information;
- e. Carrying out of the acquisitions at a price not exceeding the highest of the last independent transaction and the highest independent offer at the time of acquisition on the Euronext Lisbon;
- f. Limiting the acquisitions to 25% of the daily average trading volume, or to 50% of such volume if communicated to the competent authority and disclosed to the market;
- g. Refraining from disposing of shares during any execution of a buyback programme covered by the Regulation mentioned in the Whereas clauses.

For such purpose, the Board of Directors may organize the separation of the acquisitions and their respective systems of rules, namely according to the programme in which they are included, and provide information regarding such separation in the relevant public disclosure.

4) Ratification of the co-option of Maria do Rosário Pinto-Correia and André Cardoso de Meneses Navarro as directors of the company to complete the 2015-2017 term of office.

CORPORATE BODIES

In addition to the changes approved at the annual general shareholder meeting of PHAROL, the following changes were made to the governing bodies of PHAROL, throughout 2015:

Termination of duties due to resignation of the members of the Board of Directors:

- Francisco Teixeira Pereira Soares, on February 27, 2015
- Paulo José Lopes Varela, on March 16, 2015
- Luís Pacheco de Melo, on March 18, 2015

- Maria Helena Vaz de Carvalho Nazaré, on March 31, 2015
- Milton Almicar Silva Vargas, on June 30, 2015
- Nuno Rocha dos Santos de Almeida e Vasconcellos, on September 2, 2015

Designation, by appointment, of the members of the Board of Directors:

- João Manuel Pisco de Castro, on March 17, 2015
- Maria do Rosário Pinto-Correia, on September 2, 2015
- André Cardoso de Menezes Navarro, on September 2, 2015

Designation of a new responsible for investor relations and interaction with the CMVM:

- Luís Manuel da Costa de Sousa de Macedo, on January 26, 2015

SUBSEQUENT EVENTS

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

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

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

On January 25, 2016, the Company filed a judicial liability claim before the Lisbon's District Court against its former directors Zeinal Bava, Henrique Granadeiro and Luís Pacheco de Melo, for breach of their

respective legal and contractual duties, namely the duty to submit to the Board of Directors for approval any investments in debt instruments issued by entities of Espírito Santo Group, as well as the duty to implement an internal control system suitable for these forms of investment. Breach of the abovementioned duties caused several damages to PHAROL, such as Euro 54,900,000, as over time the amounts invested could not be used in the activities of PHAROL and other losses in amounts yet to be determined in execution of sentence.

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

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

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

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

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

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

Oi informed that it will evaluate the impact of this announcement on the possibility of consolidation of the Brazilian market. Oi informed that it will continue to undertake its efforts towards operational improvements and business transformation focusing on austerity, infrastructure optimization, revisions of procedures and commercial actions.

RETAINING BY OI OF FINANCIAL ADVISOR

On February 25, 2016, Oi informed its shareholders and the market in general that it had retained PJT Partners as financial advisor to assist Oi in evaluating financial and strategic alternatives to optimize its liquidity and debt profile.

Oi informed that its operational and commercial focus remains unchanged. Its customers remain its top priority. Oi is committed to continuing to make investments with the goal of permanently improving its quality of service, which it believes will allow it to continue to bring technological advances to its customers throughout Brazil. Oi continues to undertake efforts towards operational improvements and business transformation focusing on austerity, infrastructure optimization, revisions of procedures and commercial actions.

CHANGE IN OI DISCLOSURE POLICY

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

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

DISCONTINUANCE OF DISCLOSURE OF OI PROJECTIONS

On March 24, 2016, Oi informed its shareholders and the market in general, that it had decided to not disclose projections regarding future performance ("guidance") for 2016, to allow flexibility for Oi in light of the current macroeconomic instability, following the volatility in the past months, especially regarding

benchmarks/assumptions that sustained the disclosed projections, such as, for example, the inflation rate and the national product growth rate.

STANDARD & POOR'S REVIEW OF OI'S CREDIT RATING

On February 15, 2016, Oi informed that Standard & Poor's announced its review of the credit rating attributed to Oi, downgrading the long-term global scale credit rating from BB+ to BB- and the long-term domestic scale credit rating from brAA+ to brA-. The outlook is negative.

On February 26, 2016, Oi informed that Standard & Poor's announced its review of the credit rating attributed to Oi, downgrading the long-term global scale credit rating from BB- to B+ and the long-term domestic scale credit rating from brA- to brBBB-. The CreditWatch is negative.

On March 10, 2016, Oi informed that Standard & Poor's announced its review of the credit rating attributed to Oi, downgrading the long-term global scale credit rating from B+ to CCC and the long-term domestic scale credit rating from brBBB- to brCCC. The outlook is negative.

FITCH'S REVIEW OF OI'S CREDIT RATING

On February 26, 2016, Oi informed that Fitch announced its review of the credit rating attributed to Oi, downgrading the long-term global scale credit rating from BB to B and the long-term domestic scale credit rating from AA- to BBB-, with negative Rating Watch.

On March 10, 2016, Oi informed that Fitch announced its review of the credit rating attributed to Oi, downgrading the long-term global scale credit rating from B to CCC and the long-term domestic scale credit rating from BBB- to CCC.

MOODY'S REVIEW OF OI'S CREDIT RATING

On March 1, 2016, Oi informed that Moody's announced its review of the credit rating attributed to Oi, downgrading the long-term global scale credit rating from Ba3 to Caa1 and certain obligations of the Company from B1 to Caa2. The outlook is negative.

ACQUISITION OF OWN SHARES

Pursuant to the terms and for the purposes of article 11, paragraph 2, item b) and of article 13 of the Regulation 5/2008 of the Portuguese Securities Code, and in accordance with the resolution of the

General Shareholder's Meeting held on November 4, 2015, it has acquired 10,225,000 treasury shares for a total amount of Euro 1,603,908. These transactions occurred between February 1 and April 11, 2016, in the Euronext Lisbon. Following these transactions, PHAROL SGPS S.A. holds 30,865,000 own shares, corresponding to 3.4428% of the Company's share capital.

DEREGISTRATION

On March 28, 2016, PHAROL approved the termination of registration of its ordinary shares registered at SEC as *foreign private issuer*. On April 25, 2016, PHAROL filed a Form 15F with the U.S. Securities and Exchange Commission to voluntarily terminate the registration of its ordinary shares and its reporting obligations under the Exchange Act. PHAROL expects that the termination of its duty to file reports will become effective July 25, 2016. However, as a result of the filing, the Company's reporting obligations with the SEC, including its obligations to file annual reports on Form 20-F and reports on Form 6-K, will immediately be suspended.

04 MAIN RISKS AND UNCERTAINTIES

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

Relevant Risks		
Economic Risks	Oi's Performance	<p>The main risk to which PHAROL is subject to derives from Oi's operational and financial performance, notably Oi's ability to generate profits and cash flow and pay dividends.</p> <p>Oi's performance is also dependant on the performance of the Brazilian economy.</p>
Financial Risks	Exchange Rates	<p>Foreign currency exchange rate risks relate mainly to PHAROL in Oi (Brazil). Any exchange rate fluctuations of the Real against the Euro affect the translation of the results attributable to PHAROL, and therefore impact PHAROL's results and financial position.</p> <p>The Company does not have a hedging policy regarding the value of these investments.</p>
	Interest Rate	<p>Interest rate risks basically related to financial expenses and the floating interest rate debt and cash applications. PHAROL is exposed to this risk specially in Brazil. It is important to point out that, at the end of 2015, PHAROL has no debt.</p> <p>Regarding debt, Oi is consolidated by the equity method in PHAROL's Financial Statements.</p> <p>Market interest rates also affect the discount rates used for impairment testing to the various assets of the entity.</p>
	Treasury Applications	<p>PHAROL is mainly subject to credit risks in its treasury activities.</p> <p>In order to dilute these risks, in July 2014 the Board of Directors defined a policy for treasury applications.</p>
	Default by Rio Forte as to the reimbursement of the instruments that PHAROL holds following the execution of the Exchange	<p>The Rio Forte Instruments currently held by PHAROL, following the consummation of the Exchange on March 30 2015, are not guaranteed by assets. Therefore, even though there may exist amounts available for reimbursement to Rio Forte's creditors the right to reimbursement of PHAROL will be shared pro rata with the other unsecured creditors of Rio Forte and only after the repayment of all debts to any secured creditors, and after confirmation of the validity of the credits.</p>
		<p>The value of the Call Option on Oi's shares will depend primarily on the market price for Oi's ordinary and preferred shares, the price of</p>

	Exercise of the call option on Oi's shares	<p>which will depend, in its turn, on Oi's performance, including its operations, financial position and business outlook.</p> <p>The Board of Directors of PHAROL closely monitors Oi's business on regular basis and is further engaged in periodically following up the Call Option for purposes of financial statement recording, as well as the price of Oi's shares.</p>
Legal Risks	Court proceedings	The Board of Directors subcontracts the risk analysis as to court proceedings to external lawyers and consultants, so as to know, for each claim, their assessment as to PHAROL's liability (probable, possible and remote occurrence), the status of the proceedings, the amounts involved, provisioned and paid, and what steps should be taken to defend PHAROL's interests.
	Tax contingencies	PHAROL may incur future liabilities under its tax obligations with the Tax Authorities. In the context of the agreement with Oi, where Oi assumes responsibility for the direct payment of all contingencies until May 5, 2014, PHAROL directly and severally liable for these contingencies.
	Disputes or investigations triggered under the Rio Forte Instruments or the Business Combination	<p>PHAROL may incur in liability under disputes and other future proceedings and incur in legal costs in such disputes or other proceedings. Any liability incurred may adversely affect PHAROL's financial position and the capacity to fully implement the Business Combination.</p> <p>On January 13, 2015, PHAROL received a subpoena ("Subpoena") from SEC in relation to a private inquiry demanding that PHAROL deliver documents and other information on several topics, including the Rio Forte Instruments and treasury applications in entities pertaining to the Espírito Santo Group, the Business Combination between PHAROL and Oi, communications made by PHAROL, internal controls and the investigation conducted by international auditors in relation to the procedures adopted and the actions undertaken by PHAROL in respect of the Rio Forte Instruments and other investments in entities pertaining to GES. On June 1, 2015, PHAROL received another subpoena asking for more information related to these matters. PHAROL is cooperating with SEC in respect of the investigation and the Subpoenas.</p>
	SEC's comments on Form 20-F for 2013	<p>In 2013, the PHAROL presented its financial statements to various entities and institutions.</p> <p>Form 20-F for 2013 is still subject to revision by SEC, which has requested additional information for its analysis. SEC's comments include topics related to the Rio Forte Instruments, the communication of information on related party transactions, communications on the concentration of credit risks, the accounting treatment of the investment in Unitel as of December 31, 2013 and other aspects. SEC's comments may lead to the amendment of Portugal Telecom's consolidated accounts for 2013 and previous years and other disclosures in Form 20-F. PHAROL cannot predict when SEC's revision and comments will end.</p>

As to the 2013 Form 20-F, the Board of Directors appointed a law firm for purposes of legal advice and follow up of the progress of the procedure.

General Secretariat have made efforts to respond to SEC's requests as fully and swiftly as possible. Additionally, a new timeline has been established with the new PHAROL External Auditor for compliance with the reporting periods established both by CMVM and by SEC.

05 QUALIFIED HOLDINGS

As at December 31, 2015, qualified holdings represented over 38% of PHAROL share capital, as follows:

QUALIFIED HOLDINGS				
Date of information	Entities	No. of shares	% of capital	% of voting rights
12/nov/14	Novo Banco (a)	112,702,533	12.60%	10.00%
31/may/12	Telemar Norte Leste S.A.	89,651,205	10.00%	10.00%
14/aug/15	Banco Comercial Português, S.A.	55,304,969	6.16%	6.16%
31/dec/15	Norges Bank	33,028,373	3.68%	3.68%
19/aug/15	RS Holding (b)	29,735,000	3.46%	3.46%
02/jan/14	Grupo Visabeira	23,642,885	2.64%	2.64%

(a) PHAROL Bylaws include a limitation on the counting of votes, whereby any votes in excess of 10% of the total voting rights corresponding to the share capital cast by a single shareholder of ordinary shares, directly or through a representative, in his own name or as a representative of another shareholder, shall not be counted (article 13,10). As such, the voting rights that may be effectively exercised by Novo Banco should be considered as limited to 10%.

(b) On January 26, 2016, PHAROL informed that RS Holding AG became the holder of less than 2% of PHAROL share capital and corresponding voting rights.

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, 2015 or the previous date, as indicated.

On November 12, 2014, PHAROL communicated that on October 31, 2014, 112,702,533 representative shares with 12.6% voting rights in PHAROL's share capital, were attributed to Novo Banco, as described in the following table:

Entities	No. of shares
Shares held by societies in a controlling relationship or group with Novo Banco, S.A.	137,447
Shares held by Novo Banco, S.A.	112,564,086
Shared held by Governing Bodies - directors and individuals	868
Total	112,702,533

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 August 14, 2015, PHAROL disclosed that Banco Comercial Português, S.A. ("BCP") held an effective stake of 6.16% of the share capital and corresponding voting rights.

As at December 31, 2015, PHAROL was informed that Norges Bank held a qualifying stake in PHAROL corresponding to 33,028,373 shares, representing 3.68% of its share capital and corresponding voting rights.

On August 19, 2015, RS Holding communicated to the CMVM the reduction of its effective stake in PHAROL from 10.05% to 3.46%, and on January 26, 2016, PHAROL disclosed that RS Holding's effective stake in PHAROL was less than 2% along with its corresponding voting rights.

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:

<u>Entities</u>	<u>No. of shares</u>
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
<u>Total</u>	<u>23,642,885</u>

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.

Board of Directors

Luís Palha da Silva owns 100,000 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 shares of PHAROL. 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.

Francisco Ravara Cary owns 22,000 shares of PHAROL. He was co-opted non-executive Director of PHAROL on 16 September, 2014. He is also a member of the Board of Directors of Novo Banco, SA. He was also a member of the Board of Directors of Oi, until February 17, 2016, on which date he resigned his appointment.

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. He is an alternate member of the Oi Board of Directors.

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. He was alternate member of the Board of Directors of Oi up to February 17, 2016, date on which he became an effective member.

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 and CFO of Novo Banco, SA. He was also a alternate member of the Board of Directors of Oi, until February 17, 2016, on which date he resigned his appointment.

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 is an alternate member of the Oi Board of Directors.

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. His spouse sold 501 shares of PHAROL on January 30, 2015. Rafael Luís Mora Funes is a member of the Board of Directors of PHAROL since June, 22, 2007 and he is also a member of the Board of Directors of Oi.

Ricardo Malavazi Martins 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.

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

Luís Maria Viana Palha da Silva

Rafael Luís Mora Funes

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

06 OUTLOOK

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

PHAROL holds as its main asset, its investment in Oi, being its most relevant shareholder with 183,662,204 common shares and a stake of 27.18% of its equity, and also holds the Rio Forte Instruments and from March 30, 2016 onwards, the Call Option over 42,691,385 common shares and 85,382,770 preferred shares of Oi.

Having monitored Oi's management, Oi has followed the guidelines in its Strategic Plan, and that are based on a significant cost reduction programme and investment optimization program, focused on its investments and opportunities for growth and return, the exploring and identification of opportunities for consolidation in the Brazilian market and the strengthening of its balance sheet. PHAROL additionally has a credit over Rio Forte and will continue to carefully monitor the ongoing liquidation process in Luxembourg, with a view to maximizing the settlement of the Rio Forte Instruments. Among the possible scenarios, there is the possibility to trigger legal proceedings against Rio Forte, the relevant related parties and others.

PHAROL will monitor the value of its Call Option on Oi shares and analyze the alternatives that enable the maximization of value either by monetizing the aforementioned instruments, or through its exercise, in order to increase its stake in Oi.

Pharol's Financial Statements is characterized today by the absence of financial debt but with some risks and lawsuits, that may potentially lead to further liabilities, and that are identified throughout this report. These are mainly contingencies that have been transferred to Oi, but in which Pharol is severally liable, and have occupied a significant part of the Company's leadership team efforts. The optimization and distribution to shareholders of any cash surplus has been a concern of management and the Board of Directors has made significant steps in this direction to begin a process of regular purchases of own shares and to propose the allocation of a dividend to be decided in the next Shareholders' General Meeting.

During 2015, Pharol's operating expenses decreased significantly - 37% on a comparable basis - and should maintain the same trend in 2016 and in the coming years.

07 BUSINESS PERFORMANCE

The information within this chapter 7 is an excerpt from the 2015 Annual Report of Oi, as included in Oi Annual Financial Statements for the year ended December 31, 2015, filed with the CVM on March 24, 2016.

2015 was marked by the focus of the management on Oi's operating issues, pushed forward to strengthen our position in the Brazilian market and all the transformation of our business in the midst of challenging macroeconomic environment. The continuous search efficiency of our field operations, the optimization of the network infrastructure, the sales strategy aimed at service convergence and data traffic, and the permanent goal of improving the customer experience, associated to a strict cost cutting plan, were the pillars of our initiatives this year.

In line with the operational improvement and higher business profitability commitment, Oi disclosed the Brazilian operations' 2015 projections (guidance): (i) recurring EBITDA within a R\$7.0 billion to R\$7.4 billion interval; and (ii) improvement of operating cash flow (recurring EBITDA – CAPEX) of R\$1.2 billion to R\$1.8 billion.

After intense work through out the year, Oi was able to meet its 2015 projections for the Brazilian operations, posting R\$7,230 million in recurring EBITDA and R\$1,644 million in operating cash flow improvement, both above the midpoint of the target range. It is worth noting that the guidance was met in the midst of a challenging macroeconomic environment, due to a 3.8 percent drop in the Brazilian GDP in the year, which reinforces our efficacy and the commitment to the business transformation plan, thus meeting an important goal set at the beginning of the year.

Oi defined for 2015 a plan based on the operating efficiency focused on a strict cost control and the efficient use of the available resources. Oi launched more than 300 initiatives focused on increasing productivity and operating improvement, contract renegotiations, inventory optimization, and waste/redundancies reduction, streamlining of the sales portfolio, optimization of the channel mix, and the human resources, whether through the streamlining of the organizational structure or the increase in productivity. To strengthen and prioritize this transformation plan and boost its implementation, still in 2015 Oi created a business transformation function, which at the end of 2015 was reinforced and transformed in the Business Strategy and Transformation Department, that gathers the functions in charge of pushing forward this initiative across the entire organization by prioritizing the efficiency of the internal processes, digitalization, convergence, cost control, and change of our mindset to strengthen our organizational culture. This new department gathers the Human Resources, Digital, Transformation, Advertising and Marketing, Communication and Brand, and New Businesses functions.

As a result of these efforts, Oi posted an 8.5 percent annual decrease in the recurring costs and expenses of the Brazilian operations, despite the foreign exchange pressure, the increase in electricity tariffs, and inflation, which was 10.7 percent, as measured by the Broad Consumer Price Index (IPCA), the highest rate in 13 years. This result corresponds, therefore, to a real decrease of more than 17 percent in Opex in 2015.

Additionally, Oi's sales strategy focused on improving service quality and increasing the profitability of its customer base by increasing sales selectiveness, streamlining our portfolio, repositioning our offers, and maintaining a policy to clean up its mobile base. Beginning October 2015, Oi resumed the sales strategy with new offers. All this effort ensured an improvement of its sales margin and an increase of the ARPU for different products and segments. The combination of a customer base profitability increase and the decrease in costs and expenses, the recurring EBITDA of the Brazilian operations reached R\$7,230 million in the year, a major year-on-year 9.3 percent increase that has allowed Oi to meet the guidance announced at the beginning of the year, above the midpoint of the target range.

2015 was also marked by the focus on improving the quality of the services provided by increasing capital allocation efficiency, investing in the increase of network carrying capacity, and expanding the 3G and 4G, and broadband networks, together with optimization initiatives, such as contract renegotiations and supplier streamlining. The investments in network carrying capacity include the following projects: (i) building a new transmission grid, consisting of over 30,000 km of optical fibers, using OTN-100G equipment, one of the most modern technologies available in the market, which will ensure the carrying capacity for the growing IP traffic volume; and (ii) the nationwide implementation of single-edge equipment, for a new, simpler IP network architecture, bringing major operating and resource gains.

Oi also expanded its 4G/LTE coverage through a partnership with other local carriers, under the RAN sharing model, considered one of the largest of this kind in the world and responsible for providing fourth generation broadband services to millions of customers. In recognition for the success in this important project, Oi was awarded, during the Mobile World Congress in February 2016, the Glomo Award for Outstanding LTE Contribution.

As a result of these different initiatives, in 2015 Oi recorded a continuous improvement in the voice access and traffic and mobile data quality indicators, with a decrease in fixed-line and mobile broadband network congestion and at the same time meeting the growing demand for data traffic.

In 2015, the operating cash flow of the Brazilian operations (recurring EBITDA less CAPEX) totaled R\$3,182 million, a R\$1,644 million year-on-year growth (+107% compared to 2014). This result matches the operating cash flow improvement guidance, set between R\$1.2 and R\$1.8 billion for the Brazilian operations.

In the transformation context, Oi initiated a sales aggressiveness movement in the second half of 2015 by launching innovative offers focused on our customers' current needs. In November Oi launched the Oi Livre, a disruptive offering model aimed at changing the way a mobile customer communicates, breaking the "community effect", where consumers purchase SIM cards from different operators or even restrict their communication using data to avoid paying higher fees in cross-carrier calls. With Oi's prepaid SIM card, a customer can make calls to any operator for a more affordable price, without any difference between on-net and off-net tariffs. Additionally, the unrestricted increase in the data plan meets demand from customers who want more freedom to use the Internet.

This offer was designed based on a survey conducted with more than 5,000 customers during 10 months that tried to identify what they mainly wish for when using telecommunications services. Since its

launching, Oi Livre gained 10 million customers and in January 2016 it corresponded to 26 percent of its total prepaid base. Further, the ARPU of customers that migrated to Oi Livre per week increased approximately 17 percent in three months only.

Oi also launched, late November, the Oi Mais and Oi Mais Controle plans for the subscription segment. The main features of these new plans are the significant increase in the data plan without use restrictions, minutes to talk with any other operator nationwide, and a single, reduced tariff for calls with any operator in Brazil after the end of plan minutes.

In the residential segment, as part of Oi's convergence strategy, this segment's main pillar, Oi launched Oi Total in 14 states, which combines the four services offered by Oi: fixed-line telephone, broadband, Pay TV, and mobility. This multiproduct concept provides for the joint hookup of the four services, with integrated billing in a single bill, and single service, generating positive impacts on customer base loyalty and profitability and decrease of operating costs, as well as granting customers a better service experience.

Two other launching reinforced the Oi operation in 2015: the VDSL broadband, with speeds up to 35 Mbps, and the Oi Play portal. These launching boosted the recovery of our sales by meeting the growing demand for data and TV in nonlinear, multi-device format.

In the B2B segment, Oi launched in December 2015 the Oi Mais Empresas. With a differentiated, innovative proposal, Oi redesigned our mobile telephony offer portfolio with 4G data and fixed-line telephony at a flat price (flat fee model), simpler to understand, buy, use, and related to the company. Oi also created a fully digital relationship channel, using the Oi Mais Empresas application that offers exclusive service to small and medium-sized entities, allowing them to buy services, upgrade plans, and place direct management requests on how their requests are being handled, such as issue of bill duplicate and repairs, among other features.

In addition to the clear progress in the Oi operations in 2015, Oi highlighted its involvement in important discussions held by the ANATEL (telecom industry's regulatory agency) and the Government on Brazil's regulatory framework by contributing to the public consultation held by the Ministry of Communications to advance in building a more positive regulatory environment, reduce regulatory discrepancies between concessionaries and licensees, and attract more investments in the industry.

In the first half of 2015, Oi filed with the ANATEL a list of corrective actions drafts to be included as part of the Policy Adjustment Commitment (TAC). The Agency has been discussing this proposal since then, following its relevant formalities. Oi believes that the TAC's approval will be a major step for the telecommunications industry since it will allow carriers to invest in their own business and improve the services provided to their customers.

As for the discussions on telecommunications concessions, Oi believes that the current Brazilian model has run its course and has to be updated. This model is outdated and causes a regulatory discrepancy that hurts competition and generates structural shortcomings for the concessionaries. Accordingly, Oi, as Brazil's largest concessionaire, attended the 2015 discussions with ANATEL and the Ministry of Communications to propose changes in the concession agreements to update them and unlock investments in the industry.

A workgroup was formed, consisting of Ministry of Communications and ANATEL representatives to reassess and propose alternatives to advance the current regulatory framework and set public policies. Currently, this workgroup is assessing and discussing a proposal that should be submitted still in the first half of 2016. At the same time, the ANATEL is also voting on its report on the revision of the concession and PGMU 4 agreements, which should provide a technical support for the possible changes currently being discussed. The change in the regulatory scenario is key to attract investments and boost the industry's and the country's development.

Also in 2015, Oi made significant progress in its corporate governance practices. In September, Oi shareholders approved, at a shareholders' meeting, the merger of Telemar Participações S.A., elected the new board of directors that includes independent directors, and approved the new bylaws that meet the Novo Mercado requirements. In the following month, Oi completed the voluntary conversion of 2/3 of its preferred shares into common shares, thus fulfilling yet another commitment to the market: being a company without clear controlling shareholder, with an independent board, and compliant with the highest corporate governance standards.

From a financial standpoint, at the end of December 2015, gross debt was R\$55 billion, where approximately 70 percent of which consisted of international capital market securities and the remaining consisted of domestic market securities, loans from development banks, ECAs, and loans from commercial banks. At the end of 2015, Oi debt average maturity was 3.5 years. In the same period, the Oi cash position totaled R\$16.8 billion. Therefore, at yearend the debt net of Oi was R\$38.2 million.

In order to improve the Oi capital structure, Oi has been working in alternatives to allow its involvement in the consolidation of the Brazilian telecommunications market, which entailed a potential business combination with TIM Participações S.A. Oi has always believed that this drive would be positive, with high value creation potential by creating synergies and gains of scale, allowing the increase in investments, and the boosting of the digital agenda in Brazil, as well as fostering greater service penetration and quality.

With this goal in mind, in October 2015 Oi and LetterOne Technology (UK) LLP, a member of the LetterOne investment group, agreed to grant each other, until May 23, 2016, an exclusivity right regarding business combinations involving telecommunications companies or assets in Brazil. However, in February 2016, LetterOne disclosed a notice to the market stating that it had been informed by TIM that the latter was no longer interest in proceeding with the negotiations on the possibility of a business combination in Brazil and that without TIM's involvement, LetterOne could not proceed with transaction as previously planned.

In light of this information, Oi's executive committee, together with Oi's Board of Directors, is assessing and discussing possible financial and strategic alternatives to optimize its liquidity and debt profile and Oi recently announced that the firm PJT Partners had been retained as its financial advisor to assist us in this assessment.

In brief, Oi has been demonstrating its transformation and result delivery capacity within the current challenging scenario. Oi will continue to maintain its project execution discipline, develop and launch offers that meet the needs of our customers, and strengthen its sales strategy focused on convergence and data availability. At the same time, Oi has been building its future based on the digitalization of its business

processes and customer relationship, and Oi will continue advancing in its discussions with the ANATEL and the Government to seek a more constructive regulatory environment, capable of creating more value for the industry and the Brazilian society as a whole.

This is why Oi and its employees believe in the transformation drive of its business and are working to ensure what has been conquered so far. Oi believes that the efforts toward the recovery of our sales will put Oi in an optimal position in the midst of the changes in the competitive dynamics in the Brazilian telecommunications market.

Economic Scenario

In Brazil, 2015 will be remembered as the year when the political crisis contributed to worsen the economic crisis in the country. The country's fundamentals worsened more than expected, which has increased the challenges for the local companies, especially those that depend on domestic credit and consumption. We closed 2015 with high unemployment rates, two-digit inflation, one of the highest interest rates in the world (14.25%), the downgrading of the country's sovereign grade by the main international rating agencies, and the loss of purchasing power of our currency. In addition, our Gross Domestic Product (GDP) is expected to decline 4 percent. In the political side, the corruption scandals, the low popularity of the president, together with the Congress's inability to approve fiscal adjustment measures, have worsened the government's capacity to react and increased uncertainty for 2016.

In the international market, the US economy's growth was lower than expected, the reason why the FOMC increased the interest rate more than expected and to a less severe level. In Europe, domestic demand drove a shy growth recovery. As expected, China reduced its growth pace, with a stronger impact on commodity prices, which also affected the performance of Brazilian exporting companies—an impact partially offset by the depreciation of the Brazilian real.

The prospects for 2016 are that the country's political and economic uncertainties will continue. It is expected that the IPCA will initiate a drop trend, but still far from the inflation targeting midpoint. As a result, there will not be enough room for the Central Bank to ease the monetary policy in a near term. Additionally, the new economic team signaled a tighter fiscal policy, with increased control over government spending and tax increases. The question is if this tough negotiation with the National Congress will be successful.

As for the other economic indicators, the FOCUS bulletin points to another GDP decrease in 2016, largely explained by the negative statistical inheritance. It is also expected that the local currency will depreciate even further.

The Telecommunications Industry in 2015

According to the ANATEL, at the end of December 2015 total accesses to telecommunications services in Brazil reached 346.0 million, consisting of 43.6 million fixed lines in service, 257.8 million mobile users, 25.6 million broadband Internet accesses (Multimedia Communication Service, or SCM), and 19.0 million Pay TV subscribers. The 6.3 percent drop, which corresponds to 23.2 million accesses compared to 2014, was mainly due to the significant churning of 28.4 million accesses in the prepaid mobility segment.

Fixed-Line

In 2015, the Brazilian fixed-line market reached 43.6 million lines in service, according to ANATEL figures, a 3.2 percent decrease over December 2014. This is a mature market, since there is a global trend to migrate fixed-line traffic to mobile telephony.

Fixed-line carriers accounted for 58.4 percent of total fixed-line accesses in 2015.

Mobile telephony

With 257.8 million users in December 2015 and teledensity of 125.7 percent of the population. Net churning in 2015 totaled 22.9 million users, a year-on-year decline of 8.2 percent. Prepaid lines accounted for 71.6 percent of total mobile users in December 2015 (75.8 percent in 2014), while postpaid (subscription) users accounted for 28.4 percent of the total mobile base.

Fixed-line Broadband (SCM)

According to ANATEL figures, the fixed-line broadband Internet access (SCM) continued to be one of the segment's growth drivers in 2015. At the end of 2015, the user base reached 25.6 million accesses, or a year-on-year 6.7 percent growth, which makes up for 1.6 million new users.

Pay TV

In 2015, the pay TV user base dropped by 0.5 million new users, a -2.4 change in 2015 (+8.3 percent in 2014). At the end of December 2014, pay TV accesses totaled 19.0 million subscribers.

The penetration rate to total number of households reached 28.7 percent (29.8 percent in 2014), which shows this market's growth potential in Brazil.

Accesses using the DTH (Direct to Home) technology accounted for 58.3 percent of users (loss of annual base in the market), followed by cable technology users, totaling 40.7 percent. Note that the new market entrants, including Oi, use the DTH technology.

Concession Arrangements, PGMU and related instruments

In 2013 ANATEL launched a Public Consultation with questions to society on issues relevant for the assessment of the STFC (switched-line services) economic and regulatory environment, to gather inputs for the review of the concession arrangements currently in place in 2016-2020. This survey ended on January 31, 2014. In June 2014 a new Public Consultation was conducted to address specifically the concession arrangements per se, which ended on December 26, 2014. The Universal Service targets (also part of the Public Consultation) and the STFC Quality targets (which has not yet been assigned for Public Consultation). The execution of the amendments to the concession agreements, initially scheduled for the end of 2015, has been postponed to April 30, 2016.

The Ministry of Communications launched at the end of 2015 a Public Consultation to discuss the revision of the telecommunications service provision model in Brazil. The purpose is to provide inputs for the Workgroup created by the Ministry of Communications and the ANATEL to study the subject.

General Regulation Updating Plan

In December 2015, the ANATEL issued Resolution 658, which repeals the General Regulation Updating Plan (PGR). The PGR was replaced by the 2015/2024 Strategic Plan, created under Administrative Rule 174, of February 11, 2015.

For the period from the second half of 2015 to the second half of 2016, the ANATEL elected its priorities by disclosing its Regulatory Agenda, which contains 31 actions that should be performed by the Agency during this period. These actions include:

Preparation of the position to provide inputs to the Decree that will regulate the network neutrality provided for in the Internet Bill of Rights (action 1).

In Brazil, the concept of network neutrality is legally established in the Internet Bill of Rights (MCI) (Law 12,965, of April 23, 2014), which establishes that the party responsible for data transmission, switching, or routing has the duty to equitably handle any data package, without distinction per content, origin or destination, service, terminal, or use. The MCI also provides that the President of the Republic shall regulate traffic discrimination or downgrading, after hearing the Internet Managing Committee and the National Telecommunications Agency. The purpose of this regulatory action is to build up ANATEL's position to provide inputs for said regulation.

Reassessment of the telecommunications services regime and scope (action 2)

Taking into consideration, among other aspects, the best international practices on the matter, the essential nature of the different telecommunications services, the granting models (concession, license, and permit), the returnable nature of assets, service continuity, universal services, and the pricing models.

Revision of the Fixed-line Telephony Concession Agreements (action 3)

Revision of the Switched Fixed-line Telephony Services (STFC), attached to Resolution 552, of December 10, 2010, pursuant to Clause 3.2 of the agreements in force, which prescribes that such agreements can be amended on, but not limited to, April 30, 2016 to provide for new terms and conditions and new universal service and quality targets, in light of the conditions prevailing at the time.

Reassessment of the regulation on infrastructure sharing by telecommunications carriers (action 4)

Reassessment of the regulation on infrastructure sharing by telecommunications carriers, currently governed by Resolution 274, of December 5, 2001, taking into account the provisions of Law 11934, of May 5, 2009, in particular Article 10 thereof, and Law 13116, of April 20, 2015.

Proposal for the Revision of the General Fixed-line Telephony Universal Service Targets Plan (action 5)

Revision of the General Universal Service Targets Plan (PGMU), pursuant to Clause 3.2 of the agreements in force, which prescribes that current targets can be revised to provide for new terms and conditions and new universal service targets, in light of the conditions prevailing at the time.

Reassessment of the telecommunications service quality management model (action 10)

Reassessment of the regulatory framework related to the quality of the different telecommunications services by evaluating the feasibility of concentrating efforts in a small number of strategic indicators that

meet the demands of users of these services that at the same time minimize the administrative and operating costs incurred by the ANATEL and the carriers. Further, it seeks to assess the possibility of converging these indicators and targets for the different telecommunications services, considering the technology and also offering convergence.

Reassessment of the regulation on the control of returnable assets (action 19)

Reassessment of the regulation on the control of returnable assets, currently governed by Resolution 447, of October 19, 2006, to improve the operating procedures related to the preapproval of sales, replacement, encumbrance, and untying transactions of returnable assets. Additionally, it reviews new forms of control and better organization of the listings of returnable assets and outsourced services.

Reassessment of the regulation on relevant markets (action 24)

Revision of the relevant markets and the asymmetric actions provided for in the General Competition Targets Plan (PGMC), approved by Resolution 600, of November 8, 2012, which must take place every four years, pursuant to Article 13, Par. 2 of said Plan.

Company Profile

Oi is one of the major providers of interconnected telecom services in Brazil with approximately 70.0 million revenue-generating units ("RGUs"). Oi operates in the entire national territory and offer a range of integrated telecom products that include fixed-line and mobile telephony, network usage (interconnection), data transmission (including broadband) and pay TV (also offered through double-play, triple-play, and quadruple-play packages), internet services, and other telecom services, to residential customers, companies, and governmental agencies. Oi owns approximately 363,000 km of installed optical fiber cables, and own the largest backbone in Brazil. Oi's mobile network reaches approximately 88.7 percent of the Brazilian population. Oi's market share of the mobile telephony market is approximately 18.6 percent and of the fixed-line telephony market is approximately 34.7 percent. As part of Oi's convergence offerings, Oi offers more than 1 million Wi-Fi hotspots in public places, such as airports and shopping malls.

Company Strategy and new Businesses

Oi initiatives and the initiatives of Oi subsidiaries aim at reaching and retaining market leadership, and generate shareholder value. These initiatives reflect our management's swiftness, simplicity, and objectivity.

In 2015, Oi's strategy was based on the following drivers:

Proceed with the operating turnaround by improving our COPEX (OPEX+CAPEX) control and committing to reducing cash consumption;

Optimize its liquidity and debt profile;

Create a more constructive regulatory environment

Proceed with the turnaround by improving its COPEX (OPEX+CAPEX) control and committing to reducing cash consumption

In 2015 the number of executives decreased to make its structure more efficient and decision-making more agile. Some of the changes included combining the sales and market departments, under a single officer, and integrating the departments of the Corporate and SME segments in a single department.

Oi has been prioritizing the reduction of cash consumption by its operations in Brazil and Oi has already implemented initiatives aimed at increasing the profitability and productivity of its business by cutting operating costs and optimizing capital allocation.

To support the new guideline, Oi started to focus on end-to-end structural projects, with quality forums and revenue guarantee processes. The upgrading and expansion of the Oi network, coupled with the launching of strategic products (Oi Livre, Oi Mais, Oi Mais Empresas, and Oi Total), improved significantly the customer experience.

To this regard and in order to ensure that the targeted gains would be captured throughout the year, Oi included in its 2015 budget a Strategy aimed specifically at leveraging cost cuts. For this purpose, Oi created a department responsible for following-up, monitoring, and supporting the implementation of the 2015 Plan (Transformation Department). There are in place over 250 initiatives already mapped, focused on increasing productivity and operating efficiency. This process is supported by outside consultants specialized in this type of project, with tools and methodologies focused on action implementation and cash generation.

Additionally, Oi believes that a consolidation drive is positive for the Brazilian telecommunications industry since it would generate important synergies and gains of scale that would allow the remaining carriers to increase their investments and, as a result, accelerate the country's digital agenda, increase service penetration and quality, and produce clear benefits for the economy, consumers, and society as a whole.

Optimize its liquidity and debt profile

Oi is continuing to implement its balance sheet revision strategy through the disposal of assets.

The PT Portugal sale agreement was a major step toward significantly reducing its leverage, strengthening its financial flexibility and allowing Oi to be part of the industry's consolidation drive in Brazil. These funds will be exclusively used to settle its debt and fund a possible consolidation process in Brazil.

Oi retained PJT Partners as financial advisor to assist it in evaluating financial and strategic alternatives to optimize its liquidity and debt profile.

Additionally, Oi continued to negotiate and seek opportunities to monetize nonstrategic assets in order to strengthen its balance sheet and maximize stakeholder value.

Create a more constructive regulatory environment

In 2015 oi submitted to the ANATEL several projects to enter into and sign the TAC in order to build the best relationship possible between Oi, the Agency, and the country's development.

Workgroups have been discussing with the ANATEL and MiniCom the development of the current concession arrangement. The discussions about the issues are critical for Oi due to the need to adjust concession obligations to the current needs of the telecom market.

Operating Performance

Oi closed 2015 with 70.0 million revenue-generating units ("RGUs"), of which 16,297,000 in the Residential segment, 45,860,000 in the Personal Mobility segment, and 7,241,000 in the Corporate/SMEs segment, as well as 651,000 payphones.

Residential (fixed-line telephony, broadband, and pay TV)

Oi closed 2015 in the Residential segment with 16,297,000 RGUs, broken down into 10,019 in fixed lines, 5,109 in fixed-line broadband, and 1,169 in pay TV.

Oi focus on product convergence and the sale of more RGUs and higher value added services to the current base and new customers has generated a positive result in terms of revenue per customer and mainly net additions of fixed-line, broadband, and TV products. In the last quarter of 2015, Oi proceeded with the sales of the "Oi Total" offer in 14 states and the Federal District. This offer combines the four services offered by Oi (fixed-line telephone, broadband, Pay TV, and mobility) that includes the joint installation of fixed-line telephone and broadband, the integrated billing in a single bill, and centralized customer service. Additionally, Oi maintained in its portfolio of bundled offers Oi Conta Total and Oi Voz Total packages that focus on increasing customer loyalty and ARPU, and reducing churning. Oi Conta Total, or OCT, is a triple-play postpaid offer that combines fixed line, broadband and postpaid mobile, while Oi Voz Total is a double-play prepaid offer combining fixed and prepaid mobile aiming to improve fixed-to-mobile convergence. Since 2014 Oi launched new features for Voz Total. In addition to unlimited talking time in local prepaid-to-fixed calls and on-net calls, Voz Total customers now can make unlimited talking time in long-distance prepaid-to-fixed calls and on-net calls, and also obtain a data package of 100MB/month, access to Oi's Wi-Fi network (with over 2 million hotspots) and a 100 texts/month to any operator.

Personal Mobility

Oi closed 2015 with 45,860,000 RGUs in the Personal Mobility segment, a year-on-year decline of 5.4 percent. In the past twelve doze months, this decline makes up 2,603,000 net additions, of which 2,254,000 RGUs in the prepaid segment and 348,000 RGUs in the postpaid segment.

The prepaid segment was marked by the focus on recharge and data consumption through the use of active marketing tools and the launching of the Oi Livre offer, which includes minutes to talk to users of any other carrier and a bigger data plan to ensure our customer base's loyalty through a full package and concentrate customer expenses in the Oi prepaid plan.

In the postpaid segment, Oi innovated by launching the Oi Mais no Pós and Controle packages, with calls to any carrier anywhere in Brazil (local and long-distance calls), combined with a strong increase of the data plan, without any use restrictions. These offers change the mobile telephony service billing model used in Brazil, challenging the current trend where consumers acquire SIM cards from different operators or even restrict their communication using data to avoid paying very high fees to make calls to other operators and long-distance calls. With this initiative, we are pioneers by put our chips in the market's SIM card consolidation trend and raising the ARPU of mobility customers with more bundled services.

SMEs/Corporate

Oi closed 2015 with 7,241,000 in the SMEs/Corporate segments, a year-on-year decline of 8.5percent, basically driven by the Brazilian macroeconomic environment.

Oi B2B strategy was to continue the SME and Corporate management, thus ensuring the improvement of the processes and the quality of the services offered to its customers. For the Corporate segment, oi maintained its efforts to sell data and IT solutions. In SMEs segment, it is worth mentioning the launching of the Oi Mais Empresas package focused on simplicity and the quality of the service provided, which includes contracting plans, based on the usage experience and the relationship, using an app that can be downloaded for free on Apple Store or Google Play.

Economic and Financial Performance

Oi consolidated net revenue totaled R\$27,354 million in 2015. Of this total, R\$9,779 million are from the Residential segment, R\$8,431 million from the Personal Mobility segment, and R\$7,974 million from the Corporate/SMEs segment.

Despite the year-on-year drop in net revenue, the 2015 highlights were (1) the broadband and Oi TV products which more than offset the drop in revenue from the fixed-line segment and contributed to an increase in the number of households with bundled packages, leveraging our ARPU and increasing loyalty in the Residential segment; and (2) the prepaid Data, SMS, and SVA packages for the Personal Mobility segment, which posted a significant revenue.

Operating costs and expenses (less depreciation and amortization) totaled R\$19,560 million in 2015, and the main costs were: R\$6,317 million on outside services, R\$3,600 million on rentals and insurance, R\$2,720 million on personnel expenses, R\$1,902 million on network maintenance service, and R\$1,809 million on interconnection costs. Operating costs for 2015 were also increased by non-recurring costs, amounting to R\$189 million.

Oi EBITDA totaled R\$7,794 million in 2015, with a 28.5 percent margin. The loss for the year was R\$5,348 million for the period ended December 31, 2015 mostly due to the increase in financial expenses.

Debt

R\$ million	dec/15	dec/14
Debt		
Short Term	13,192	4,647
Long Term	41,789	28,648
Total Debt	54,981	33,295
In Local Currency	12,922	21,068
In Foreign Currency	46,935	14,781
Swaps	-4,876	-2,555
(-) Cash	-16,826	-2,732
(=) Net Debt	38,155	30,563

Oi reported consolidated gross debt of R\$54,981 million in 4Q15, a 2.47 percent increase in the quarter and a 65.13 percent increase compared to December 2014. Note that in 4Q14, as a result of the intention to sell PT Portugal to Altice S.A., the assets and liabilities of subsidiary, Portugal Telecom International Finance – PTIF were classified as ‘discontinued operations’ and, therefore, were not part of Oi consolidated

debt. With the actual sale of PT Portugal, it was determined that PTIF remained with Oi, which started to consolidated the latter's debt in its balance sheet, as well as the cash received for the sale of PT Portugal.

In the quarter, the increase was mainly due to line item 'Borrowings', which totaled R\$2,515 million for this quarter. In December, Oi withdrew US\$632.5 million with CDB (China Development Bank), of which US\$600 million mature in 2020 and US\$32.5 million mature in 2025. The purpose of this transaction is to refinance Oi's debt and finance the investments to be made by Oi, as well as to contribute to the extension of the average maturity of its debt. Year-on-year, PTIF's debt corresponded to R\$19,182 million of the Oi consolidated gross debt. In 2015, withdrawals totaled approximately R\$5,200 million, while total repayments, including debt prepayments and buyback of bonds and debentures, totaled R\$15,070 million.

In 4Q15, there was a new partial impact of the foreign exchange coupon yield curve displacement, which has had an adverse impact on the MTM of derivatives at the end of the prior quarter. In 4Q15, the foreign exchange coupon yield curve closed at 120 bps and, as a result, the positive impact on derivatives and debt totaled approximately R\$740 million. As in 3Q15, this had no impact on consolidated financial income (expenses).

Oi closed 4Q15 with R\$16,826 million in cash, resulting in a net debt of R\$38,155 million for the fourth quarter, a quarter-on-quarter increase of 7.5 percent and a 24.84 percent increase compared to the same quarter in 2014.

At the end of 4Q15, the foreign currency-denominated debt accounted for 78.49 percent of total consolidated debt. However, at the end of this quarter, this portion of gross debt was fully hedged by swaps, NDFs, and offshore cash (natural hedge).

The consolidated debt's average term maturity is 3.52 years in 4Q15. This amount is still influenced by the maturities of Oi's and PTIF's short-term debt, mainly the 2016 Eurobond (February 2016), the 9.75% BRL Bond (September 2016), and the US\$ Revolver facility (October 2016).

Investments

R\$ million	2015	2014
Investments		
Network	3,525	4,029
IT Services	301	354
Other	222	691
Total	4,048	5,074

(*) Considers only our investments in Brazil

The investments made throughout 2015 totaled R\$4,048 million, a year-on-year 20.2 percent decrease, evidencing the financial discipline that we are aiming at to rationalize the use of Oi resources, based on analyzes of more granular inputs, investment prioritization, and new supplier engagement models.

In 2015 Oi invested 87.1 percent of the total amount, or R\$3.5 billion, primarily in (i) the improvement of its 3G mobile network quality (ii) the improvement of its fixed-line network for the broadband service, (iii) optimizing the Oi TV product platform, and (iv) building and expanding the 4G network.

Investment in Research and Development

Since Oi was created, it has tried to be perceived as a differentiated company and maintain its leadership position in the domestic market through innovative actions and attitudes.

In order to meet its innovation goals, in 2015 Oi expanded the number of technology partners under the Inova Program by intensifying the innovative services prospection process to develop innovation, research and development activities.

Oi investments in Innovation and Research and Development, comprising the projects developed in 2015, totaled approximately R\$100 million distributed among 35 projects, 26 of which in association with science and technology institutes, and incubated companies.

08 STATEMENT FROM THE BOARD OF DIRECTORS

For the purposes of article 246 of the Portuguese Securities Code, the members of the Board of Directors of PHAROL SGPS, S.A., identified hereunder, hereby declare, in their capacity and within their functions as described therein, that, as far as they are aware, and based on information that they have had access to, through the Board of Directors and/or Executive Committee, as applicable, while in office:

- The information featured in the management report, financial statements, legal certification of accounts and other accountability documents required by law or regulations concerning the financial year ended December 31, 2015, was prepared in accordance with the applicable set of accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of PHAROL, SGPS, S.A. and companies included in the respective consolidation perimeter;
- The management report concerning such financial year faithfully outlines the progress of the business activities, the performance and position of PHAROL, SGPS, SA and companies included in the respective consolidation perimeter, and it contains a correct description of the main risks and uncertainties that these entities face.

Lisbon, April 28, 2016

Luís Maria Viana Palha da Silva, President of the Executive Committee and Chairman of the Board of Directors

André Cardoso de Meneses Navarro, Board Member

Francisco Ravara Cary, Board Member

João dos Passos 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

Ricardo Malavazi Martins, Board Member

09 ACTIVITIES OF THE NON-EXECUTIVE DIRECTORS

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

During 2015, PHAROL's Non-Executive Directors were allowed to carry out their duties effectively and without constraints of any kind. In this context, the following activities are highlighted:

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

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

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

- Such concentration of roles in one person is fully in line with the efficient and rigorous performance of functions by Board members in the current period;
- The actual governance model maintains the segregation of powers between the Board and the Executive Committee, in particular through the roles carried out by the Non-Executive Directors.

In 2015, PHAROL's Board of Directors kept in place various practices and mechanisms aiming at facilitating the informed and independent decision making by Non-Executive Directors, including inter alia the following:

- The Executive Committee providing detailed presentations during the meetings of the Board of Directors, regarding relevant issues concerning the activity developed, granting the Non-Executive Directors any additional information requested and promoting a productive debate regarding the activity of the Company (particularly in what regards strategic decisions);
- The Non-Executive Directors gathering, jointly or separately, the information necessary or convenient to the exercise of their duties, allowing for an adequate and timely answer to be given;

- Without prejudice to cases of acknowledged urgency, the meetings of the Board of Directors are convened with a minimum prior notice of five days and the agenda and supporting documentation of the meeting is made available at least three days in advance;
- The Non-Executive Directors frequently attending the meetings of the Board of Directors, which were held in a significant number (20 meetings during 2015), as well as informal meetings and presentations with Non-Executive Directors intended to clarify and debate specific issues concerning the financial information and the business of the Company.

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

PHAROL, SGPS, S.A.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

PHAROL, SGPS, S.A.

CONSOLIDATED INCOME STATEMENT
YEARS ENDED DECEMBER 31 2015 AND 2014

	Notes	2015	Euro 2014
CONTINUING OPERATIONS			
COSTS, LOSSES AND (INCOME)			
Wages and salaries	6	3,578,421	(5,798,825)
Supplies, external services and other expenses	7	9,363,396	26,227,560
Indirect taxes	8	3,227,206	6,371,322
Provisions and adjustments		-	(246,771)
Depreciation		105,914	101,060
Losses (gains) on disposal of fixed assets, net		47,156	30,063
Net other losses (gains)		(244,004)	(979,372)
		16,078,089	25,705,037
Income (loss) before financial results and taxes		(16,078,089)	(25,705,037)
FINANCIAL LOSSES AND (GAINS)			
Net interest income	9	(500,471)	(11,672,391)
Net foreign currency exchange losses	17	16,240,500	554,757
Net losses on financial assets and other investments	17	62,952,391	363,039,733
Equity in losses of joint ventures and associates	16	600,157,818	378,609,792
Net other financial expenses		(1,095,120)	38,994,208
		677,755,118	769,526,099
Income (loss) before taxes		(693,833,207)	(795,231,136)
Income taxes	10	59,096	(35,336,473)
Net income (loss) from continuing operations		(693,892,303)	(759,894,663)
DISCONTINUED OPERATIONS			
Net income from discontinued operations	11	-	470,658,610
NET INCOME		(693,892,303)	(289,236,053)
Attributable to non-controlling interests	13	-	13,554,384
Attributable to equity holders of the parent	12	(693,892,303)	(302,790,437)
Earnings per share from continuing operations			
Basic	12	(0.79)	(0.87)
Diluted	12	(0.79)	(0.87)
Earnings per share			
Basic	12	(0.79)	(0.35)
Diluted	12	(0.79)	(0.35)

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

PHAROL, SGPS, S.A.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31 2015 AND 2014

	2015	Euro 2014
Net Income recognised in the income statement	(693,892,303)	(289,236,053)
Income (expenses) recognised directly in shareholders' equity		
Items that may be reclassified subsequently to the income statement		
Foreign currency translation adjustments (i)	(53,852,297)	196,110,315
Gains (expenses) recorded in shareholders' equity related to joint ventures (ii)	(104,996,877)	10,788,796
Items that will not be reclassified to the income statement		
Post retirement benefits		
Net actuarial gains	-	28,349,892
Tax effect	-	(6,520,475)
Other expenses recognised directly in shareholders' equity, net (iii)	(426,942)	(489,913,584)
Total earnings recognised directly in shareholders' equity	(159,276,116)	(261,185,056)
Total comprehensive income	(853,168,418)	(550,421,109)
Attributable to non-controlling interests	-	12,336,053
Attributable to shareholders of PHAROL SGPS	(853,168,418)	(562,757,162)

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

(i) Losses recorded in 2015 and gains recorded in 2014 relate mainly to the impact of, respectively, the depreciation and appreciation of the Real against the Euro on the investments in Brazil. The 2014 figure also includes Euro 181 million of cumulative currency translation adjustments transferred to the income statement in that period.

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

(iii) In 2014, this caption includes the share of PHAROL in losses recorded directly in shareholders equity by Oi, as well as other losses recorded directly in shareholders equity by companies that were classified as discontinued operations following the capital increase of Oi held on 5 May, 2014.

PHAROL, SGPS, S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
YEARS ENDED DECEMBER 31 2015 AND 2014

	Notes	2015	Euro 2014
ASSETS			
Current Assets			
Cash and cash equivalents	23.d	64,879,371	109,511,599
Accounts receivable		542,036	67,430
Taxes receivable	14	24,437	6,135,935
Prepaid expenses		-	11,997
Non-current assets held for sale	15	-	388,380,655
Total current assets		65,445,845	504,107,616
Non-Current Assets			
Taxes receivable		-	3,440
Investments in joint ventures and associates	16	102,230,974	714,177,448
Tangible assets		421,578	163,866
Other non-current assets	17	141,045,340	-
Total non-current assets		243,697,892	714,344,754
Total assets		309,143,737	1,218,452,370
LIABILITIES			
Current Liabilities			
Short-term debt		15,851	54,084
Accounts payable	18	1,729,138	8,961,143
Accrued expenses	19	6,539,596	23,449,284
Taxes payable	14	424,215	5,356,014
Provisions	20	75,858	27,186,177
Other current liabilities		905,214	856,549
Total current liabilities		9,689,871	65,863,251
Non-Current Liabilities			
Medium and long-term debt		121,281	49,523
Taxes payable	14	-	38,593
Total non-current liabilities		121,281	88,116
Total liabilities		9,811,152	65,951,367
SHAREHOLDERS' EQUITY			
Share capital	22	26,895,375	26,895,375
Treasury shares	22	(178,071,827)	(178,071,827)
Legal reserve	22	6,773,139	6,773,139
Reserve for treasury shares	22	185,042,147	185,042,147
Other reserves and accumulated earnings	22	258,693,752	1,111,862,169
Total equity		299,332,586	1,152,501,003
Total liabilities and shareholders' equity		309,143,737	1,218,452,370

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

PHAROL, SGPS, S.A.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31 2015 AND 2014

Euro

	Share capital	Treasury shares	Legal reserve	Reserve for treasury shares	Other reserves and accumulated earnings	Equity excluding non-controlling interests	Non-controlling interests	Total equity
Balance as at 31 December 2013	26,895,375	(337,520,916)	6,773,139	6,970,320	1,938,201,459	1,641,319,377	225,495,738	1,866,815,115
Dividends	-	-	-	-	(85,510,302)	(85,510,302)	(101,991)	(85,612,293)
Acquisitions, disposals and share capital increases/decreases (Note 1)	-	-	-	-	-	-	(237,729,800)	(237,729,800)
Treasury shares relating to the Company's share in Oi's 10% interest in Portugal Telecom (Note 1)	-	159,449,089	-	-	-	159,449,089	-	159,449,089
Physical exercise of equity swaps over own shares (Note 20)	-	-	-	178,071,827	(178,071,827)	-	-	-
Income (expenses) recognized directly in equity	-	-	-	-	(259,966,724)	(259,966,724)	(1,218,331)	(261,185,055)
Income recognized in the income statement	-	-	-	-	(302,790,437)	(302,790,437)	13,554,384	(289,236,053)
Balance as at December 31, 2014	26,895,375	(178,071,827)	6,773,139	185,042,147	1,111,862,169	1,152,501,003	-	1,152,501,003

Euro

	Share capital	Treasury shares	Legal reserve	Reserve for treasury shares	Other reserves and accumulated earnings	Equity excluding non-controlling interests	Non-controlling interests	Total equity
Balance as at 31 December 2014	26,895,375	(178,071,827)	6,773,139	185,042,147	1,111,862,169	1,152,501,003	-	1,152,501,003
Income (expenses) recognized directly in equity	-	-	-	-	(159,276,116)	(159,276,116)	-	(159,276,116)
Income recognized in the income statement	-	-	-	-	(693,892,303)	(693,892,303)	-	(693,892,303)
Balance as at December 31, 2014	26,895,375	(178,071,827)	6,773,139	185,042,147	258,693,751	299,332,586	-	299,332,586

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

PHAROL, SGPS, S.A.

**CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31 2015 AND 2014**

	Notas	2015	2014
euros			
OPERATING ACTIVITIES			
Payments to suppliers	23.a	(38,744,760)	(15,756,645)
Payments to employees		(3,944,100)	(17,322,789)
Payments relating to income taxes		704,505	(13,350,645)
Other cash receipts, net		(202,374)	1,366,526
Cash flows from operating activities related to continuing operations		(42,186,728)	(45,063,553)
Cash flows from operating activities related to discontinued operations		0	158,484,843
Cash flows from operating activities (1)		(42,186,728)	113,421,290
INVESTING ACTIVITIES			
Cash receipts resulting from:			
Short-term financial applications		-	213,981,292
Financial investments		-	-
Tangible and intangible assets		89,975	985,068
Interest and related income	23.b	523,671	15,276,041
		613,646	230,242,401
Payments resulting from:			
Short-term financial applications		-	(27,608,212)
Financial investments		-	(1,554,545,455)
Tangible and intangible assets		(393,829)	(54,381)
		(393,829)	(1,582,208,049)
Cash flows from investing activities related to continuing operations		219,817	(1,351,965,647)
Cash flows from investing activities related to discontinued operations		-	(241,193,564)
Cash flows from investing activities (2)		219,817	(1,593,159,211)
FINANCING ACTIVITIES			
Payments resulting from:			
Loans repaid	23.c	(202,541)	(73,246,846)
Interest and related expenses		(1,832,091)	(4,048,528)
Dividends		-	(87,587,250)
		(2,034,632)	(164,882,624)
Cash flows from financing activities related to continuing operations		(2,034,632)	(164,882,624)
Cash flows from financing activities related to discontinued operations		0	467,018,223
Cash flows from financing activities (3)		(2,034,632)	302,135,599
Cash and cash equivalents at the beginning of the period		109,511,599	1,658,950,514
Change in cash and cash equivalents (4)=(1)+(2)+(3)		(44,001,544)	(1,177,602,323)
Effect of exchange differences		(630,217)	9,161,091
Changes in consolidation perimeter		(468)	-
Cash and cash equivalents of discontinued operations as of 5 May 2014		-	(380,997,683)
Cash and cash equivalents at the end of the period	23.d	64,879,371	109,511,599

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

PHAROL, SGPS, S.A.

Notes to the Consolidated Financial Statements as at December 31, 2015

(Amounts stated in Euros, except where otherwise mentioned)

1. Introduction

As of December 31, 2014, following the Oi Capital Increase completed on May 5, 2014, PHAROL held an effective interest of 39.7% in Oi, including an interest that was classified as a non-current asset held for sale (Note 15) in connection with the Exchange entered into on September 8, 2014 and completed on March 30, 2015, and a remaining interest of 22.8% that was classified as an investment in joint ventures (Note 16) and therefore recognized according to the equity method of accounting.

On March 30, 2015, the Exchange was completed, whereby PHAROL (1) transferred to PT Finance 47,434,872 common shares and 94,869,744 preferred shares of Oi (taking into account the effect of the reverse share split of Oi), and (2) received from PT Finance the Rio Forte Investments, the notional value of which amounts to Euro 897 million, and a Call Option on the above mentioned shares of which the main features are described below. After the completion of the Exchange, PHAROL held an effective share of 27.5% in Oi, corresponding to the 22.8% share referred to above plus 4.7% due to the decrease in the number of outstanding shares of Oi.

In March, 2015, an amendment of the Call Option Agreement ("Amendment"), executed on September 8, 2014, was signed, which will allow PHAROL to achieve liquidity for its Call Option through market sales, without requiring Oi approval, provided that Oi has a right of first refusal in case PHAROL decides to sell the Call Option to a third party. The Amendment is subject to the approval of the shareholders' meeting of Oi and, if applicable, to the approval of the Brazilian securities and exchange commission (Comissão de Valores Mobiliários, or "CVM"). Oi has agreed to issue a call notice for a general meeting of its shareholders to deliberate upon the Amendment.

At the end of March, 2015, the parties agreed on a new model of corporate and management structure of Oi ("New Structure"), which, apart from the benefits and purposes previously disclosed, has the following features:

- A corporate and management restructuring of Oi, eliminating the need to list TmarPart;
- Approval of new Bylaws of Oi, as well as an additional agreement regarding the provisional voting agreement of the shareholders, which will be in effect until the execution of the New Structure, which will allow: (i) the execution of a voluntary exchange program of preferred shares into common shares issued by Oi, with a ratio of 0.9211 common share to each preferred share, subject to the participation of at least

two-thirds of the preferred shares within a period of 30 days following the general shareholders' meeting of Oi, in order to provide to all shareholders with the right to vote and to maximize the possibility of a single class of shares; (ii) the implementation of the principle of one share, one vote. However, in order to preserve the balance between shareholders and the dispersion of shareholding control envisaged at the moment of the Oi Capital Increase, a 15% limitation of voting rights applicable to all the shareholders of Oi was agreed to be included in the Bylaws of Oi. This limitation will cease to be applicable upon the occurrence of certain events, including a capital increase, a corporate restructuring or a tender offer, which result in a dilution of the existing shareholder base (or the acquisition of shares, as the case may be) greater than 50%; (iii) to further improve liquidity, eliminating the lock up agreements of all shareholders; (iv) the appointment of a new Board of Directors of Oi, with significant participation of independent members, in which the previous parity in TmarPart between the representatives of PHAROL and of the Brazilian shareholders will remain in force; (v) the extinction of TmarPart, which will be merged into Oi, which will result in the termination of the existing shareholders' agreements, ensuring the dispersion of shareholder control of Oi; and (vi) the crystallization of financial synergies, through the merger of the controlling companies of Oi, directly and indirectly.

On July 22, 2015 the relevant documentation for the implementation of the New Structure of Oi was signed. 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 execution 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, (1) 84,167,978 ordinary shares and 108,016,749 preferred shares of Oi, (2) the debt securities of Rio Forte with a nominal value of Euro 897 million, and (3) the Call Option on 47,434,872 common shares and 94,869,744 preferred shares of Oi with an exercise price of R\$20.104 per common share and R\$18.529 per preferred share, to be 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.

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). 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 a Joint Venture. Currently, PHAROL considers it has significant influence over Oi and classifies Oi 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 (27.2% as at December 31, 2015).

2. Basis of presentation

The consolidated financial statements for the financial year ending on December 31, 2015 were approved by the Board of Directors and authorized for issue on 28 April, 2016.

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

The PHAROL consolidated financial statements were prepared according to the International Financial Reporting Standards ("IFRS") as adopted by the European Union, including all interpretations of the International Financial Reporting Interpretation Committee ("IFRIC") that were in effect on December 31, 2015, approved for adoption by the European Union (EU). Differences between the IFRS adopted by the European Union and applied by PHAROL on December 31, 2015 and the IFRS published by the International Accounting Standards Board in effect on the same date were not identified.

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

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

Principles of consolidation

Subsidiaries (Appendix A)

PHAROL fully consolidated the financial statements of all controlled companies. A company is considered to be controlled when the Group is exposed, or has rights, to variable returns resulting from its involvement with the investee and has the ability to affect those returns through the same power it exercises over that company. In situations where the Group has, in substance, control of other entities established for a specific purpose, even if it does not possess a majority of the voting rights, they are consolidated using the full consolidation method.

The participation of third parties in the equity and net income of the consolidated companies is presented separately in the Consolidated Statement of Financial Position and the Consolidated Income Statement, respectively, in the "Non-controlling Interests" caption (Note 13).

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

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

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

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

Joint Ventures (Appendix A)

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

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

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

3. Principal Accounting Policies, Judgements and Estimates

Principal Accounting Policies

Some accounting policies described below ceased to be directly applicable to the Company as of May 5, 2014, the date on which PHAROL SGPS contributed the majority of the business that it controlled to Oi's capital increase (Note 1). However, these policies were applicable until that date.

a) Classification of the Consolidated Statement of Financial Position

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

b) Tangible Assets

PHAROL used the revaluation model to measure real estate properties and ducts infrastructure, since it believes this method better reflects the economic value of those asset classes, given the nature of the assets revalued, which are not subject to technological obsolescence. The increase in tangible assets resulting from the revaluation reserves, which are non-distributable reserves, was amortised in accordance with the criteria used to amortize the revalued assets. PHAROL had adopted the policy to revise the revalued amount every 3 years, or when indicators of material devaluation occur.

The remaining tangible assets are stated at acquisition cost, net of accumulated depreciation, investment subsidies and accumulated impairment losses, if any. Acquisition cost includes: (1) the amount paid to acquire the asset; (2) direct expenses related to the acquisition process; and (3) the estimated cost of dismantling or removal of the assets (Note 3.p). Under the exception of IFRS 1, revaluation of tangible assets made prior to January 1, 2004, in accordance with Portuguese legislation applying monetary indices, was not adjusted and was included as the deemed cost of the asset for IFRS purposes.

On December 31, 2015 and 2014, the Company only applied the purchase cost method since the Company did not have any asset belonging to the classes mentioned above.

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

	Year
Buildings and other constructions	3-50
Basic equipment:	
Network installations and equipment	7-40
Ducts infra-structure	40
Telephones, switchboards and other	3-10
Submarine cables	15-20
Satellite stations	5-7
Other telecommunications equipment	4-10
Other basic equipment	4-20
Transportation equipment	4-8
Tools and dies	4-8
Administrative equipment	3-10
Other tangible fixed assets	4-8

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

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

c) Intangible Assets

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

Until May 5, 2014, intangible assets basically included the acquisition of the Basic Network held by PT Comunicações, licenses held by Meo, S.A. and software user licenses, and amortized by the straight line method at the beginning of the month in which they are available for use during their estimated useful life or, if lower, the contract period (including additional renewal periods, where applicable), as follows:

	Year
Telecommunications licenses and concessions:	Period of the concession (until 2025)
- UMTS license owned by Meo, S.A.	Period of the license plus one renewal period (until 2030)
- LTE license owned by Meo, S.A.	Period of the license plus one renewal period (until 2041)
Satellite capacity rights	Period of the contract (until 2015)
Software licenses	3-6
Other intangible assets	3-8

The license renewal period basically depended on the companies meeting certain objectives and predefined obligations in the agreements through which these licenses were initially attributed.

d) Investments in Associates

All entities over which PHAROL held significant influence, that have not been deemed as Subsidiaries or Joint Ventures, have been considered as Associates. The existence of significant influence has been considered whenever there exists power to participate in the decisions pertaining the financial and operational policies of the investees, though such participation does not constitute neither control nor joint control over those policies (Note 16). The

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

e) Impairment of Tangible and Intangible Assets

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

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

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

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

Tangible assets recognized according to the revaluation model are subject to periodic remeasurement. Any impairment loss of these assets is recorded as a reduction to the

revaluation reserve initially recognized under shareholders' equity. Impairment losses in excess of the initial revaluation reserve are recognized in the Consolidated Income Statement.

f) Non-current assets held for sale

Non-current assets and groups for sale are classified as held for sale when their carrying amount is recovered primarily through a sale and not through continued use. It is considered that this condition is met only when the sale is highly probable and the non-current asset or groups for sale are available for immediate sale in their present condition. The corresponding sale must be completed within one year from the date of classification of assets as held for sale.

Non-current assets and groups for sale are classified as held for sale and are accounted for at the lower of their carrying amount and fair value less costs to sell.

g) Provisions, Liabilities and Contingent Liabilities

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

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

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

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

h) Financial Assets and Liabilities

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

(i) Accounts Receivable

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

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

(ii) Financial liabilities and Equity Instruments

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

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

Exchangeable bonds issued by PHAROL are recognized as compound instruments, comprising the following elements: (i) the present value of the debt, estimated using the prevailing market interest rate for similar non-convertible debt and recorded under debt liabilities; and (ii) the fair value of the embedded option for the holder to convert the bond into equity, recorded directly in shareholders' equity. As of the Consolidated Statement of Financial Position date, the debt component is recognized at amortised cost.

(iii) Accounts Payable

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

(iv) Treasury Shares (Note 22)

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

Equity swaps on treasury shares that include an option exercisable by Pharol for physical settlement are recognized as a financial liability and a corresponding reduction of equity, and are accounted for as an acquisition of treasury shares on the inception date of the contract.

(v) Cash and Cash Equivalents and Short-Term Investments (Note 23)

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

and Cash Equivalents” also includes bank overdrafts included on the Consolidated Statement of Financial Standing under the heading “Short-Term Debt,” where applicable.

i) Leases (Company as Lessee)

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

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

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

j) Income Tax

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

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

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

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

k) Foreign Currency Transactions and Balances

Transactions denominated in foreign currencies are translated to the Euro at the exchange rates prevailing at the time the transactions are made. At the date of the Consolidated

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

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

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

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

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

1) Borrowing Costs

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

m) Consolidated Statement of Cash Flows

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

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

n) Subsequent Events (Note 27)

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

Judgements and Estimates

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

- (a) Valuation of the investment in Oi** – On May 5, 2014, the Company valued its new stake in Oi based on Oi’s reference share price in the capital increase on that date, having as of that date, appropriated its stake in Oi’s income using the equity method. Additionally, from September 8, 2014, onwards, the portion of the investment to be delivered within the scope of the Exchange Agreement was classified as a non-current

asset held for sale, and measured at fair value up till the execution of the Exchange Agreement on March 30, 2015. As at December 31, 2015, the measurement of the Company's investment in Oi was based on its market value, namely the stock price as at December 31, 2015.

(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 December 31, 2015, with no changes to the amounts initially recognized.

(c) Valuation and useful life of intangible and tangible assets – PHAROL uses several assumptions in the estimates of future cash-flows resulting from intangible assets acquired as part of business acquisitions, and which include the estimate of future revenues, discount rates and useful life of such assets. PHAROL also used estimates to determine the useful life of its property, plant and equipment (Note 3).

(d) Recognition of provisions and adjustments – PHAROL is party to various ongoing legal claims for which, based on the opinion of its legal advisors, a judgment was made to determine the recognition of a possible provision for these contingencies (Note 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. Regarding the provisions for other risks and costs concerning the impact of the Exchange agreement, the Company made the best estimate regarding the financial impact of the Exchange Contract entered into with Oi. Due to the short time frame, the company did not adjust the provision for time value of money.

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

4. Changes in Accounting Policies

During fiscal year 2015, PHAROL has adopted the following standards issued by the International Accounting Standards Board (IASB) and approved by the European Union:

Interpretations

a) IFRIC 21 (new), 'Levies'. Interpretation to IAS 37 and the recognition of a liability, clarifying that the obligation event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment.

Standards

a) Annual Improvements 2011 – 2013. The 2011-2013 annual improvements affects: IFRS 1, IFRS 3, IFRS 13 and IAS 40.

The following standards, amendments to existing standards and interpretations have been published and are mandatory for the accounting periods beginning on or after January 1, 2016, or later periods, but that PHAROL has not early adopted:

a) IAS 1 (amendment) 'Disclosure initiative' (effective for annual periods beginning on or after January 1, 2016). This amendment provides guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements, the disclosure of accounting policies and OCI items presentation when arising from investments measured at equity method. PHAROL does not estimate any impact, pursuant to the adoption of this revised standard.

b) IAS 16 and IAS 38 (amendment) 'Acceptable methods of depreciation and amortization calculation' (effective for annual periods beginning on or after January 1, 2016). This amendment clarifies that the use of revenue-based methods to calculate the depreciation / amortization of an asset is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an asset. It shall be applied prospectively. PHAROL does not estimate any impact, pursuant to the adoption of these revised standards.

c) IAS 16 and IAS 41 (amendment) 'Agriculture: bearer plants' (effective for annual periods beginning on or after January 1, 2016). This amendment defines the concept of a bearer plant and removes it from the scope of IAS 41 – Agriculture, to the scope of IAS 16 – Property, plant and equipment, with the consequential impact on measurement. However, the produce growing on bearer plants will remain within the scope of IAS 41 - Agriculture. PHAROL does not estimate any impact, pursuant to the adoption of these revised standards.

d) IAS 19 (amendment) 'Defined benefit plans – Employee contributions' (effective for annual periods beginning on or after February 1, 2015). This amendment applies to contributions from employees or third parties to defined benefit plans and aims to simplify the accounting when contributions are not associated to the number of years of service. PHAROL does not estimate any impact, pursuant to the adoption of this revised standard.

e) IAS 27 (amendment) 'Equity method in separate financial statements' (effective for annual periods beginning on or after January 1, 2016). This amendment allows entities to use equity method to measure investments in subsidiaries, joint ventures and associates in separate financial statements. This amendment applies retrospectively. PHAROL does not estimate any impact, pursuant to the adoption of this revised standard.

f) IFRS 10 and IAS 28 (amendment) 'Sale or contribution of assets between investor and its Associate or Joint venture' (the effective date for this amendment has not yet been established). This amendment clarifies that the sale or contribution of assets

between an investor and its associate or joint venture, entitles the investor to recognise a full gain or loss when the assets transferred constitute a business, and only a partial gain or loss (in the share owned by third parties) when it does not constitute a business. The European Union's endorsement process will only be initiated following the confirmation over the IASB's effective date for adoption of the changes. PHAROL does not estimate any impact, pursuant to the adoption of these revised standards.

g) Amendments to IFRS 10, 12 and IAS 28, 'Investment entities: applying consolidation exception' (effective for annual periods beginning on or after January 1, 2016). This amendment is still subject to endorsement by the European Union. This amendment clarifies that the exemption from the obligation to prepare consolidated financial statements by investment entities applies to an intermediate parent which is a subsidiary of an investment entity. The policy choice to apply the equity method, under IAS 28, is extended to an entity which is not an investment entity, but has an interest in an associate, or joint venture, which is an investment entity. PHAROL does not estimate any impact, pursuant to the adoption of these revised standards.

h) IFRS 11 (amendment), 'Accounting for the acquisition of interests in joint operations' (effective for annual periods beginning on or after January 1, 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business, through the application of IFRS 3's principles. PHAROL does not estimate any impact, pursuant to the adoption of this revised standard.

i) Annual Improvements 2010 - 2012, (generally effective for annual periods beginning on or after February 1, 2015). The 2010-2012 annual improvements affects: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16 and 38, and IAS 24. The impacts pursuant to the adoption of these amendments are being evaluated by Management.

j) Annual Improvements 2012 - 2014, (generally effective for annual periods beginning on or after January 1, 2016). The 2012-2014 annual improvements affects: IFRS 5, IFRS 7, IAS 19 and IAS 34. The impacts pursuant to the adoption of these amendments are being evaluated by Management.

k) IAS 12 (amendment), 'Recognition of deferred tax assets for unrealized losses' (effective for annual periods beginning on or after January 1, 2017). This amendment is still subject to endorsement by the European Union. The amendment provides for clarification, on the matter of how to account for deferred tax assets, related with debt instruments measured at fair value. PHAROL does not estimate any impact, pursuant to the adoption of this revised standard.

l) IAS 7 (amendment), 'Disclosure initiative' (effective for annual periods beginning on or after January 1, 2017). This amendment is still subject to endorsement by the European Union. This amendment demands that IFRS preparers to disclose information, with regards to the changes to a Company's finance liabilities, so that investors can better understand the

changes to the liabilities that have occurred. The impacts pursuant to the adoption of this amendment are being evaluated by Management.

m) IFRS 9 (new), 'Financial instruments' (effective for annual periods beginning on or after January 1, 2018). This standard is still subject to endorsement by the European Union. IFRS 9 replaces the guidance in IAS 39, regarding: (i) the classification and measurement of financial assets and liabilities; (ii) the recognition of credit impairment (through the expected credit losses model); and (iii) the hedge accounting requirements and recognition. The impacts pursuant to the adoption of this new standard are being evaluated by Management.

n) IFRS 14 (new), 'Regulatory deferral accounts' (effective for annual periods beginning on or after January 1, 2016). The European Union has decided not to launch the endorsement process of this interim standard and to wait for the final standard to be published by the IASB. This standard permits first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize regulatory assets / liabilities, the referred amounts must be presented separately in the financial statements. PHAROL does not estimate any impact, pursuant to the adoption of this new standard.

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

o) IFRS 16 (new), 'Leases' (effective for annual periods beginning on or after January 1, 2019). This standard is still subject to endorsement by European Union. IFRS 16 defines a single accounting model for leases by lessees, eliminating the distinction between finance and operating leases, from the perspective of the lessee. The impacts pursuant to the adoption of this new standard are being evaluated by Management.

5. Exchange rates used to translate foreign currency financial statements

As at December 31, 2015 and 2014, assets and liabilities denominated in foreign currencies were translated to Euros using the following exchange rates to the Euro:

Currency	2015	2014
Real	4.3117	3.2207
USD	1.089	1.214

During the years 2015 and 2014, the statements of financial position, income statements and

cash flows of subsidiaries and joint ventures denominated in foreign currencies were translated to euros using the following exchange rates to the Euro:

Currency	2015	2014
Real	3.7004	3.1211
USD	1.1095	1.3285

6. Wages and Salaries

The composition of this caption in the 2015 and 2014 financial years is as follows:

	2015	Euro 2014
Fixed and variable remuneration (i)	2,670,066	(7,856,336)
Social security	540,590	1,949,060
Other	367,766	108,451
	3,578,421	(5,798,825)

(i) The negative expense of this caption in 2014 mainly reflects the revised estimate for compensation to be paid, and as such, PHAROL partially reversed part of the accrual booked in prior years.

7. Supplies and external services

The composition of this caption in the 2015 and 2014 financial years is as follows:

	2015	Euro 2014
Specialized work (i)	7,663,303	22,544,144
Insurance	397,065	2,399,783
Travel	363,973	366,983
Other	939,055	916,650
	9,363,396	26,227,560

(i) This caption reflects primarily non-recurring financial and legal services associated with i) the business combination between PHAROL and Oi, and ii) the tender offer to which PHAROL was subject.

8. Indirect taxes

The composition of this caption in the 2015 and 2014 financial years is as follows:

	2015	Euro 2014
VAT	4,257,791	6,312,012
Other	(1,030,585)	59,310
	3,227,206	6,371,322

9. Net interest income

The composition of this caption in 2015 and 2014 is as follows:

	Euro	
	2015	2014
Interest expense		
Related to loans obtained	-	525,466
Interest income		
Related to cash and cash equivalents (i)	(498,191)	(11,576,780)
Other	(2,280)	(621,077)
	(500,471)	(11,672,391)

(i) Interest income obtained in 2015 essentially relates to cash amounts applied in term deposits by PHAROL and Pharol Brasil. The interest income obtained in 2014 relate to the cash amounts that existed at Bratel Brasil and were used on May 5, 2014 to subscribe debentures (convertible into equity) issued by the controlling holding companies of Oi.

10. Taxes and rates

In 2015, companies located in mainland Portugal are subject to Corporate Income Tax at a base rate of 21.0% (23.0% in 2014), plus (1) up to a maximum of 1.5% of taxable income through a municipal tax, and (2) a state surcharge levied at the rates of 3.0% on taxable income between Euro 1.5 million and Euro 7.5 million, 5.0% on taxable income between Euro 7.5 million and Euro 35 million and 7.0% on taxable income in excess of Euro 35.0 million, resulting in a maximum aggregate tax rate of approximately 29.5% (31.5% in 2014) for taxable income higher than Euro 35 million. When calculating taxable income to which the above tax rate is applied, non-tax-deductible amounts are added to or subtracted from accounting records.

The composition of the corporate income tax for 2015 and 2014 is as follows:

	Euro	
	2015	2014
Income tax		
Income tax - current	59,096	(36,943,543)
Deferred taxes	-	1,607,070
	59,096	(35,336,473)

11. Discontinued Operations

On May 5, 2014, PHAROL contributed the majority of its businesses to the Oi capital increase. Consequently, the revenues and costs of these businesses for December 31, 2015 and 2014 are presented in the caption "Income from discontinued operations". Additionally, this caption also includes the gains recorded within the context of said contribution of these businesses in the Oi capital increase. The composition of this caption is as follows:

	Euro
	2014
PT Assets to Oi's share capital increase in exchange for an additional interest in Oi (Note 1)	698,529,871
Net income before non-controlling interests of businesses contributed to Oi share capital increase (i)	(227,871,261)
Net income from discontinued operations	470,658,610

The composition of the net income before non-controlling interests of the businesses contributed to the Oi capital increase between January 1 and May 5, 2014 is as follows:

	Euro
	2014
Operating revenues	945,500,482
Operating costs	834,880,672
Income before financial results and taxes	110,619,810
Net financial losses	(85,640,238)
Income before income taxes	24,979,572
Income taxes (i)	(252,850,833)
Net income from discontinued operations	(227,871,261)

(i) This caption included a loss of Euro 208 million relative to the write-off of deferred tax assets relative to tax losses, as a result of the discontinuation of the businesses that justified the recognition of these tax losses under the tax consolidation regime.

The Cash flows from discontinued operations were as follows:

	Euro
	2014
Operating activities (i)	158,484,843
Investing activities (ii)	(241,193,564)
Financing activities (iii)	467,018,223
	384,309,502

(i) Cash flows from operating activities relating to discontinued operations in 2014 correspond to the operating activities of the businesses contributed to the Oi Capital Increase on May 5, 2014.

(ii) The cash flows from investing activities mainly reflects payments relative to investments in tangible and intangible assets, and to financial investments entered into, net of cash receipts from interest and related income.

(iii) In 2014, this caption mainly reflects cash inflows from the increase in commercial paper, which was partially offset by interest paid. The majority of consolidated gross debt was transferred to Oi in connection with the Oi Capital Increase.

12. Earnings per Share

Earnings per share for 2015 and 2014 were as follows:

		Euro	
		2015	2014
Loss from continuing operations	(1)	(693,892,303)	(759,894,663)
Loss from discontinued operations, net of non-controlling interests	(2)	-	457,104,226
Net loss attributable to equity holders of Pharol	(3)	(693,892,303)	(302,790,437)
Financial costs related to exchangeable bonds (net of tax) (i)	(4)	-	10,866,947
Net loss considered in the computation of the diluted earnings per share	(5)	(693,892,303)	(291,923,490)
Weighted average common shares outstanding in the period (ii)	(6)	875,872,500	868,759,659
Effect of the exchangeable bonds (i)		-	28,827,084
	(7)	875,872,500	897,586,743
Earnings per share from continuing operations			
Basic	(1)/(6)	(0.79)	(0.87)
Diluted	[(1)+(4)]/(7)	(0.79)	(0.87)
Earnings per share from discontinued operations, net of non-controlling interests			
Basic	(2)/(6)	-	0.53
Diluted	(2)/(7)	-	0.51
Earnings per share attributable to equity holders of Pharol			
Basic	(3)/(6)	(0.79)	(0.35)
Diluted	(5)/(7)	(0.79)	(0.35)

(i) Dilutive effects corresponded to the impact of the exchangeable bonds issued on August 2007, applicable up to May 5, 2014 when this financing was transferred to PT Portugal under the Oi share capital increase.

(ii) On December 31, 2015, weighted average shares outstanding were calculated considering the 896,512,500 issued shares adjusted for 20,640,000 treasury shares. On December 31, 2014, weighted average shares outstanding were calculated considering the 896,512,500 issued shares adjusted for (1) 20,640,000 treasury shares, and (2) PHAROL's share in its own shares that were acquired by Telemar Norte Leste S.A. in 2011 and 2012, under the strategic partnership between PHAROL and Oi. On May 5, 2014, following the Oi Capital Increase, PHAROL derecognized the related treasury shares held indirectly through the investment in Oi.

13. Non-controlling interests

During 2015, there were no movements in non-controlling interests. During 2014, the movements in non-controlling interests were as follows:

	Euro						
	Balance 31 Dec 2013	Acquisitions (disposals) and share capital increases (reductions)	Net Income	Dividends	Currency translation adjustments (i)	Other movements	Balance 31 Dec 2014
Africatel	109,555,793	(113,741,403)	4,931,973	-	(2,196,361)	1,449,998	-
MTC	48,951,581	(56,024,238)	7,194,083	-	(121,425)	(1)	-
Cabo Verde Telecom	36,754,784	(37,981,629)	1,229,213	-	-	(2,368)	-
Timor Telecom	12,535,395	(12,180,687)	(304,074)	-	(50,634)	-	-
CST	8,401,954	(8,291,784)	(110,170)	-	-	-	-
TPT	3,795,842	(3,687,024)	(93,621)	-	-	(15,197)	-
LTM	2,053,265	(2,431,417)	443,630	-	(65,478)	-	-
Kenya Postel Directories	631,239	(380,456)	56,105	(101,991)	-	(198,009)	-
Previsão	448,895	(451,000)	2,105	-	-	-	-
Outras	2,366,990	(2,560,162)	205,140	-	(11,967)	(1)	-
	225,495,738	(237,729,800)	13,554,384	(101,991)	(2,452,753)	1,234,422	-

14. Taxes receivable and payable

On December 31, 2015 and 2014, this caption has the following composition:

	31/dez/15		Euro 31/dez/14	
	Receivable	Payable	Receivable	Payable
Current taxes				
Operations in Portugal				
Value-added tax	-	297,832	-	183,628
Income taxes	1,371	-	325,565	4,898,787
Personnel income tax withholdings	-	39,664	-	153,738
Social Security Contributions	-	48,126	-	110,195
Other	-	-	2,358	-
	1,371	385,622	327,923	5,346,348
Taxes in foreign countries	23,066	38,593	5,808,012	9,666
	24,437	424,215	6,135,935	5,356,014
Non-current taxes				
Taxes in foreign countries	-	-	3,440	38,593

15. Non-current assets held for sale

On September 8, 2014 (Note 1), PHAROL entered into an Exchange Agreement with Oi, whereby PHAROL agreed to deliver 47,434,872 common shares and 94,869,744 preferred shares of Oi, receiving in return the debt securities of Rio Forte and the Call Option on these shares of Oi (Note 1). Thus, as from that date, those shares were classified as a non-current asset held for sale, and measured at fair value, based on the quoted price of Oi shares.

The fair value of Oi shares in connection with the Exchange amounted to Euro 388 million as at December 31, 2014 and Euro 239 million on March 30, 2015, the date the Exchange was executed. This transaction did not have any impact on net income given that:

- A loss of Euro 149 million was recorded, primarily as a result of the decrease in the fair value of the shares in connection with the Exchange between January 1 and March 30, 2015, which reflects the devaluation of Oi shares and the depreciation of the Real against the Euro;
- A loss of Euro 19 million was recorded, primarily as a result of the difference between the fair value of Oi shares delivered (Euro 239 million) and the fair value of the assets received (Euro 220 million - Note 17) under the completion of the Exchange.

The above mentioned losses were offset by the reversal of a provision amounting to Euro 168 million (Note 20), recorded on December 31, 2014 in connection with the completion of the Exchange Agreement.

16. Investments in Joint Ventures and Associates

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

On September 8, 2014, as explained above, PHAROL entered into an Exchange Agreement with Oi, for the Exchange of a portion of Oi shares held directly by PHAROL for the Rio Forte Investment and the Call Option over the shares. The Exchange was completed on March 30, 2015, after obtaining all necessary approvals. As a result of the Exchange, the portion of the investment in Oi delivered in connection with the Exchange was classified as a non-current asset held for sale and measured at fair value based on the price of Oi shares (Note 13). The

remaining interest of 22.8%, including the interests of 15.9% and 3.0% held directly by PHAROL and Bratel Brasil, respectively, and the interest of 3.9% owned indirectly through the controlling holding companies of Oi, remained classified as an investment in joint ventures, as at December 31, 2014 and measured according to the equity method of accounting.

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

As a result of the transaction, PHAROL's effective share in Oi reduced from 27.5% to 27.4%. As at September 30, 2015, the Oi common shares owned by PHAROL (that carry voting rights) represented 36.5% of shares in circulation (excluding Oi treasury shares). Furthermore, during 2015, changes to Oi's bylaws were approved, which included a 15% limitation on the voting rights of any individual shareholder.

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

In accordance with IAS 28 – Investments in Associates and Joint Ventures, there is a presumption that significant influence exists when voting rights are higher than 20%. For voting rights less than 20%, there should be clear indications through which significant influence may be exercised. The limitation to 15% of PHAROL's voting rights, in light of the remaining available voting rights, represented as at December 31, 2015, an effective voting right of 18.83%. By analogy, IFRS 10 – Consolidated financial statements considers that control may occur when there is a concentration of significant voting rights, with the remainder of voting rights largely dispersed ("de facto control"). In Oi's shareholder structure, over 30% of ordinary shares are dispersed in free float, and three other shareholders besides PHAROL have voting rights of between 5% and 7% each.

As such, by analogy to the consideration of control in IFRS consolidated financial statements, PHAROL considers that it has significant influence over Oi, and as such, Oi is considered to be an associate. This investment is measured in accordance with the equity method, based on the economic share of Oi's earnings (27.2% as at December 31, 2015), reduced by any adjustments for impairment losses.

Accordingly, PHAROL resorted to an independent valuer, in order to determine Oi's value in use, in accordance with the market's best practices. It was determined that the market value

corresponded to Oi's share price as at December 31, 2015. Thus, PHAROL's financial investment in Oi, on that date, was measured on the basis of its stock exchange valuation, amounting to Euro 102.2 million. An impairment loss of Euro 225.6 million was recognized, with reference to December 31, 2015.

16.1. Detail of investments in joint ventures and associates

As at December 31, 2014, as required by IFRS 11, investments in joint ventures were accounted for in accordance with the equity method of accounting. As described above, and in accordance with IAS 28, PHAROL's investment in Oi as at December 31, 2015 is measured in accordance with the equity method, reduced by any accumulated impairment losses.

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

	Euro million	
	2015	2014
Investment in each joint venture entity		
Oi (i)	-	574
Telemar Participações (ii)	-	7
EDSP75 Participações (iii)	-	44
PASA Participações (iv)	-	46
Sayed RJ Participações (iv)	-	21
Venus RJ Participações (iv)	-	22
	-	714
Effective investment by each joint venture entity		
Oi (v)	-	693
Holdings controladoras da Oi (vi)	-	21
	-	714
Investment in each associate entity		
Oi - Equity method (vii)	328	-
Oi - Impairment (vii)	(226)	-
	102	-

(i) On December 31, 2014, this investment reflects PHAROL's 18.9% direct interest in Oi (including 15.9% and 3.0% held by PHAROL and Bratel Brasil, respectively).

(ii) On December 31, 2014, this investment corresponds to Bratel Brasil's direct interest of 5.0% in this entity, thus reflecting the company's direct share in (a) TmarPart investment in Oi (3.7%), and (b) in TmarPart remaining net assets, which amounted to Euro 34 million on December 31, 2014.

(iii) On December 31, 2014, these financial investments corresponded to Bratel Brasil's direct interest of 57.5% in these entities, thus reflecting PHAROL's direct interest in (a) the investments that these entities hold, through LF and AG (100% owned by EDSP75 and PASA, respectively), in Oi (1.0%) and in TmarPart (37.2%), and (b) in the remaining net liabilities of LF and AG, totalling approximately Euro 2 million on December 31, 2014.

(iv) On December 31, 2014, these investments corresponded to the 65.0% direct interest held by PTB2 in these entities, thus reflecting PHAROL's direct interest in the investments that these entities held (42.54%) in EDSP75 and PASA, respectively.

(v) This caption reflects PHAROL's effective interest in Oi (22.8% on December 31, 2014). The breakdown of Oi's assets and liabilities used for purposes of equity method accounting are outlined below.

(vi) This item reflects PHAROL's effective interest in the assets and liabilities of Oi's controlling holdings companies, excluding these entities' investments in Oi. On December 31, 2014, this caption reflects primarily cash and cash equivalents and deferred taxes to recover from Tmar Part (including Valverde) in the amount of R\$82 million, of which PHAROL's effective share amounts to Euro 17 million.

(vii) Following the simplification of the Oi shareholder structure, and the end of the Shareholder Agreements, this caption reflects the investment in Oi owned by PHAROL - 19% owned directly by PHAROL and 8.2% owned by Bratel, a wholly owned subsidiary of PHAROL. As was previously commented, an impairment analysis was carried out by an independent valuer, analysis which resulted in the measurement of the financial investment as its market value, corresponding to 183.7 million shares, R\$2.40 per share (Euro 0.56 per share), amounting to Euro 102.2 million. This valuation corresponds to the first fair value level of IFRS 13 - Fair value measurement.

The decrease in the value of the investment in Oi (first as a joint venture, and subsequently as an associate) amounted to Euro 612 million and is mainly explained by (1) the effective participation of PHAROL in the negative net income of Oi in 2015 and the controlling holding companies up to September 1, 2015, which amounted to Euro 358 million, (2) the impacts of the changes in participation, with a positive net impact of Euro 124 million, (3) the recognized impairment of Euro 226 million as at December 31, 2015, (4) the Euro 149 million negative impact of the real devaluation in 2015, and (5) the effective participation of PHAROL in the net losses recorded by Oi directly in its shareholders equity during 2015, which mainly reflect (i) the reversal, at the time of the sale, of the positive foreign currency translation adjustments since May 2014, in the amount of Euro 131 million, related to the increase in value of the stake in PT Portugal, and (ii) the accumulated losses in derivatives in the amount of Euro 40 million, which more than compensated for (1) the effective participation of PHAROL in the Euro 85 million net gains recorded by Oi directly in its shareholders equity related to the implementation of the New Structure, and (2) the recognition of other changes in Oi's equity, including losses that reflect foreign currency adjustments, amounting to Euro 102 million.

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

	Euro millions	
	2015	2014
Current Assets	8,829	15,303
Cash and cash equivalents	3,455	760
Accounts receivable	1,943	2,313
Financial investments	418	53
Derivative financial instruments	141	106
Current assets held for sale	1,783	10,534
Judicial deposits	292	352
Other current assets	797	1,185
Non-Current Assets	11,814	14,123
Judicial Deposits	3,043	3,807
Derivative financial instruments	1,573	895
Deferred taxes	2,060	2,368
Other non-current assets	5,138	7,055
Total assets	20,642	29,427
Current Liabilities	5,931	13,214
Short-term debt	2,739	1,386
Accounts payable	1,161	1,346
Derivative financial instruments	461	163
Licenses and concessions payable	212	210
Provisions	237	329
Liabilities related to assets held for sale	173	8,439
Other liabilities	949	1,341
Non-current Liabilities	13,228	12,706
Debt	11,144	9,745
Derivative financial instruments	121	44
Licenses and concessions payable	2	213
Provisions	792	1,265
Other liabilities	1,170	1,438
Total liabilities	19,159	25,919
Net Assets	1,483	3,507
Share to non-controlling interests of Oi	276	469
Net assets attributable to controlling interest of Oi	1,207	3,039
Effective share of PHAROL in Oi	27.2%	22.8%
Total Investment from Pharol in Oi	328	693

As stated in Oi's Financial Statements as at 31 December 2015, Note 23.c., it is noted that on June 30, 2015 are recorded in the balance sheet of Telemar Participações, SA (one of the controlling holding companies incorporated in Oi on September 1, 2015) "(...)Regarding TmarPart's net assets, as at June 30, 2015 TmarPart's recognized in its balance sheet a gain on property, plant and equipment and intangible assets appreciation amounting to R\$6,347 million, net of taxes. Based on the events that occurred between June 30, 2015 and the merger date, September 1, 2015, the external technical opinions obtained by the Company, and taking into account the lack of a specific accounting standard on mergers of entities under common control in the International Financial Reporting Standards ("IFRSs") and the accounting practices adopted in Brazil, and the existence of interpretations indicating that upon a merger maintaining or reversing an asset appreciation gain is an accounting policy option, the Company did not recognize said asset appreciation gain in its balance sheet. As prescribed by ICPC 09 (R2), paragraphs 77 and 78 and CVM Instruction 319/1999, the Company filed with the CVM a technical inquiry and no reply had been obtained by the date these financial statements were approved. The Company reports herein that the recognition of the asset appreciation gain in its balance sheet as at December 31, 2015 would increase of total assets and equity by R\$1,869 million and R\$1,233 million, respectively, and decrease profit for the year ended December 31, 2015 by R\$4,993 million, net of taxes, basically as a result of the

relevant amortization for the year (R\$234 million) and the recognition of an impairment loss (R\$4,759 million), net of taxes.”

16.2. Detail of PHAROL’s share in the earnings of joint ventures and associates

Gains/(losses) in joint ventures and associates were accounted for through the equity method of accounting - their composition for the years ended December 31, 2015 and 2014 is as follows:

	Euro million	
	2015	2014
Joint ventures		
Direct share in the earnings of each entity (i)		
Oi	(2)	(284)
Telemar Participações	(0)	(11)
EDSP75 Participações	(0)	(32)
PASA Participações	(0)	(32)
Sayed RJ Participações	(0)	(11)
Venus RJ Participações	(0)	(11)
Other	-	2
Gain resulting from the increase in the interest held in Oi (iv)	131	-
Reversal of provision (v)	(141)	-
	(13)	(379)
Joint ventures		
Effective share in the earnings of each entity		
Oi (ii)	(2)	(346)
Oi Holding companies (iii)	(1)	(34)
Other	-	2
Gain resulting from the increase in the interest held in Oi (iv)	131	-
Reversal of provision (v)	(141)	-
	(13)	(379)
Associates		
Direct share in the earnings of each entity (vi)		
Oi	(347)	-
Telemar Participações	(0)	-
EDSP75 Participações	(3)	-
PASA Participações	(3)	-
Sayed RJ Participações	(1)	-
Venus RJ Participações	(1)	-
Effective participation in Oi's Losses	(6)	-
Impairment Loss	(226)	-
	(587)	-
Associates		
Effective share in the earnings of each entity		
Oi (ix)	(356)	-
Oi Holding companies (x)	(0)	-
Effective participation in Oi's Losses	(6)	-
Impairment Loss	(226)	-
	(587)	-
Earnings of joint ventures and associates	(600)	(379)

(i) These captions, as explained above, reflect PHAROL’s direct share in the earnings of each joint venture, including, in the case of Oi’s controlling holding companies, their share of Oi’s net income and also the net income generated by these same entities, excluding the equity method of accounting of Oi, up to the moment of loss of joint control on July 30, 2015.

(ii) This caption reflects PHAROL's direct share in the earnings of Oi up to July 30, 2015. The breakdown of Oi's earnings and losses used in the equity method accounting are outlined below.

(iii) This caption reflects PHAROL's effective share in the earnings and losses of Oi's controlling holding companies excluding these entities' share in the earnings of Oi, calculated through the equity method of accounting up to July 30, 2015. Thus, this caption relates basically to PHAROL's share in (a) interest expenses of TmarPart, LF and AG relating to the gross debt these entities held that was repaid on May 5, 2014, as mentioned above and (b) administrative and other operating costs incurred by TmarPart.

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

(v) This cost of Euro 141 million (Note 17) corresponds to the estimated impact recorded on December 31, 2014 relative to the increase in the stake held in Oi, following the completion of the Exchange, which was deducted from the provision for the Exchange. This amount, net of the effective gain of Euro 131 million recorded in 2015, as mentioned above, resulted in a total net loss of Euro 10 million recorded in 1Q15, mainly associated with the reduction in Oi's shareholders equity between 4Q14 and 1Q15.

(vi) These captions, as explained above, reflect PHAROL's direct share in the earnings of each associate, including, in the case of Oi's controlling holding companies, their share of Oi's net income and also the net income generated by these same entities excluding the equity method of accounting of Oi, from July 30, 2015 onwards (when joint control over Oi ended). For 2015, these include the net earnings of the holding companies, up to the moment of their incorporation in Oi on September 1, 2015.

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

(viii) As was previously commented, an impairment analysis was carried out by an independent valuer, analysis which resulted in the measurement of the financial investment as its market value, corresponding to 183.7 million shares, R\$2.40 per share (Euro 0.56 per share), amounting to Euro 102.2 million, leading to the recognition of an impairment loss of Euro 226 million.

(ix) This caption reflects PHAROL's effective share in the earnings and losses of Oi, from July 30, 2015 to December 31, 2015. The detail of the earnings and losses of Oi that were used for purposes of equity method of accounting are presented below.

(x) This caption reflects PHAROL's effective share in the earnings and losses of Oi's controlling holding companies excluding these entities' share in the earnings of Oi, calculated through the equity method of accounting from July 30, 2015 to September 1, 2015. Thus, this caption mainly relates to PHAROL's share in administrative and other operating costs incurred by TmarPart.

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

	Euro millions	
	2015	2014
Services rendered and sales (i) (ii)	7,392	9,050
Operating expenses excluding amortization (i)	5,286	5,779
Interconnection (iii)	489	862
Personnel (iv)	735	907
Third-party services (v)	1,707	2,005
Grid maintenance service (vi)	514	616
Rentals and insurance (vii)	973	999
Other operating income (expenses), net (viii)	868	390
Operating income excluding amortization	2,106	3,271
Depreciation and amortisation	1,376	1,644
Income from operations	730	1,628
Financial expenses	2,271	1,457
Income before taxes	(1,541)	171
Income taxes	193	294
Net income from continuing operations	(1,734)	(123)
Net income from discontinued operations (ix)	289	(1,414)
Net income	(1,445)	(1,538)
Share to non-controlling interests	(112)	0
Net income attributable to controlling interests	(1,334)	(1,538)

(i) The y.o.y comparison of these captions is negatively affected by the devaluation of the Real against the Euro, and positively by the impact of the consolidation of revenues and operating expenses from operations in Africa during 2015, which were acquired on May 5, 2014, through the acquisition of PT Portugal. The explanation for the changes in these captions on a comparable basis is presented below.

(ii) Excluding the effect of the Real devaluation against the Euro and the consolidation of revenues from operations in Africa, Brazilian revenues would have decreased by 4.2% y.o.y, reflecting primarily lower revenues in the (1) Residencial segment (-2.2%), (2) Personal mobility (-6.4%), where the increase in customer revenue (5.3%) was more than offset by the decrease in network use revenues, which were impacted by MTR and resale goods reduction, as a result of the outsourcing of equipment sales, and (3) Enterprise/ SMEs (-4.1%). In the years ended December 31, 2015 and 2014, the breakdown of revenues by customer segment is as follows:

	Euro millions	
	2015	2014
Residencial	2,643	3,202
Personal	2,278	2,887
Enterprise/Corporate	2,155	2,663
Others	316	298
	7,392	9,050

(iii) The decrease in interconnection costs reflects primarily a drop in MTR rates, and lower off-net traffic.

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

(v) Third party service costs, were impacted by the increase in electricity tariffs, and higher expenses with pay TV content and Value Added Services (VAS), resulting from the increase in pay TV subscriber base and in data traffic.

(vi) Network maintenance services costs in Brazil decreased y.o.y, mainly due to the internalization of Telemont's operations in the state of Rio de Janeiro by Serede, allowing for an improvement in network quality and maintenance, and consequently in a reduction in maintenance costs.

(vii) The decrease euro in rental and insurance costs results from the devaluation of the Real Vs. the Eur..

(viii) Other net operating expenses in 2014 include a gain of R\$1.2 billion (Euro 0.4 billion) related to the sale of mobile towers during 1Q14.

PHAROL recorded its share in the earnings of Oi under the equity method of accounting based on its effective interest during 2015 (22.8% until March 30, 27.5% until September 1, 27.4% until September 30, and 27.2% until December 31) and 2014 (22.8% since September 8, 39.7% since May 5, and 23.2% since the beginning of 2014).

17. Other non-current assets

Following the completion of the Exchange on March 30, 2015 (Note 1), PHAROL delivered Oi shares in connection with the Exchange to PT Finance and received debt securities issued by Rio Forte with a nominal value of Euro 897 million and the Call Option for Oi shares. On December 31, 2015, the fair value of the assets received by PHAROL were assessed at Euro 141 million, including (1) Euro 134.6 million related to the debt instruments issued by Rio Forte, and (2) Euro 6.4 million related to the value of the Call Option. As at December 31, 2015, Net foreign currency exchange losses and Net losses on financial assets and other investments includes respectively Euro 16.3 million and Euros 62.9 million in accordance with an independent valuation of the Call Option.

18. Accounts Payable

As at December 31, 2015 and 2014, the composition of this caption is as follows:

	Euro	
	2015	2014
Current accounts payable		
Current suppliers	1,367,580	984,563
Others (i)	361,558	7,976,579
	1,729,138	8,961,143

(i) This caption includes Euro 7.9 million as at December 31, 2014 that was payable to Oi subsidiaries, regarding amounts received from the Portuguese government relating to municipal taxes, fiscal benefits and international taxes under PHAROL's former tax consolidation group.

19. Accrued Expenses

As at December 31, 2015 and 2014, the composition of this caption is as follows:

	Euro	
	2015	2014
Supplies and external services (i)	6,118,641	19,248,143
Vacation pay and bonuses	394,271	4,187,317
Others	26,684	13,824
	6,539,596	23,449,284

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

(ii) As at December 31, 2014 this caption includes employment obligations subsequently transferred to PT Portugal amounting to Euro 3.6 million.

20. Provisions

As at December 31, 2015 and 2014, the composition of this caption is as follows:

	Euro	
	2015	2014
Provisions for risks and costs		
Litigation	73,500	73,500
Taxes	2,358	2,358
Other	-	27,110,319
	75,858	27,186,177

On December 31, 2014, provisions for other risks and costs correspond to a provision of Euro 27 million related to the Exchange entered into with Oi (Note 1), which reflected: (1) a provision of Euro 168 million (Note 15) corresponding to the difference between the carrying value of Oi shares delivered, and the fair value of the assets received under the Exchange, (2) net of an amount of Euro 141 million (Note 17) corresponding to the estimated gain resulting from the increase in the effective interest in Oi from 22.8% to 27.5%, due to the decrease in the number of Oi's outstanding shares after the completion of the Exchange, On March 30,

2015, following the completion of the Exchange the provision was reversed through profit and loss.

21. Guarantees and financial commitments

As at December 31, 2015 and 2014, this caption has the following composition:

	2015	Euro 2014
Provisions for risks and costs	384,314,678	384,314,678
Litigation	12,843,050	12,843,050
	397,157,728	397,157,728

The bank and other guarantees presented to the tax authorities essentially include Euro 378 million related to the tax assessments received by PHAROL. The company presented legal challenges to these assessments and, in accordance with the Portuguese Law, provided collateral, in order to avoid the initiation of enforcement proceedings, which, in the absence of guarantee or payment of the contested tax, would continue until the request of a pledge of sufficient assets to cover the requested tax. The Portuguese Law, while always allowing for the appeal over taxes liquidated by the tax authorities, only suspends enforcement proceedings upon payment of the tax, or the provision of a guarantee. Providing a guarantee of security, thereby, avoids the payment of tax before the appeal decision or attachment of assets in enforcement proceedings. These guarantees were presented by PHAROL as the controlling company of the consolidated tax in the years in question, even though, as at December 31, 2014, the contingencies associated to these guarantees are not the Company's responsibility, having been contractually transferred to Oi.

As at December 31, 2014, the guarantees in respect of Litigation above were presented by PHAROL to the European Commission, under an alleged infringement of article 101 of the TFEU, with reference to the alleged non-competition commitment in the Iberian market, between PHAROL and Telefónica.

22. Capital

22.1. Share capital

The share capital of PHAROL, which is fully subscribed and paid in, was as at December 31, 2015 and 2014, Euro 26,895,375, represented by 896,512,500 shares, with a nominal value of three Euro cents each, and distributed as follows:

- 896,512,000 common shares; and
- 500 Category A shares.

At the Pharol Annual General Meeting (now designated as PHAROL) 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 grant no special rights.

22.2. Treasury shares

As at December 31, 2015 and 2014, this caption is made up as follows:

	2015	Euro 2014
Shares held by PHAROL	178,071,827	178,071,827
	178,071,827	178,071,827

In the past, PHAROL entered into equity swap contracts over 20,640,000 treasury shares, which were recognized as an effective acquisition of treasury shares, thus implying the recognition of the financial liability for the corresponding acquisition cost. In 2014, PHAROL executed the physical exercise of these contracts, under which PHAROL directly held these 20,640,000 treasury shares in portfolio as at December 31, 2014.

22.3. Legal reserve

Commercial law and PHAROL's articles of association provide that at least 5% of the net annual income must be appropriated to strengthen the legal reserve until this reserve represents 20% of the share capital. This reserve is not available for distribution to shareholders, unless on company liquidation, but may be used to absorb losses, once all other reserves have been exhausted, or for incorporation in the share capital. As at December 31, 2015 and 2014, the legal reserve was Euro 6,773,139 and was already fully incorporated, corresponding to more than 20% of the share capital.

22.4. Reserve for treasury shares

The reserve for treasury shares relates to the recognition of a non-distributable reserve equivalent to the nominal value of the canceled shares, or to the acquisition cost of treasury shares held by PHAROL. This reserve has the same legal regime as the legal reserve. As at December 31, 2015 and 2014, this reserve relates to shares canceled on December 20, 2007, March 24, 2008, and December 10, 2008, in the amount of Euro 6,970,320. In 2014, this caption also includes reserves in the amount of Euro 178,071,827 relating to the acquisition cost of the 20,640,000 treasury shares directly held in portfolio (Note 22.2).

22.5. Revaluation reserve, other reserves and accumulated earnings

As at December 31, 2015 and 2014, this caption was made up as follows:

	2015	Euro 2014
Retained earnings	2,405,811,842	2,708,602,279
Net income	(693,892,303)	(302,790,437)
Free reserves	105,209,244	105,209,244
Cumulative foreign currency translation adjustments	(1,014,350,423)	(960,498,126)
Income and expenses recognized directly in equity	(544,084,609)	(438,660,791)
	258,693,752	1,111,862,169

(i) The change in this caption reflect (1) The adjustments of the exchange rate applied to

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

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

23. Consolidated Statement of Cash Flows

(a) Payments to suppliers

During 2015, payments to suppliers mainly reflect payments of commitments that arose in 2014, related to the transfer of tax responsibilities (and related tax credits) to Oi, as well as third party suppliers and consultants.

(b) Cash receipts resulting from interest and related income

In 2014, net cash receipts relate primarily to financial applications of Bratel Brasil up to May 5, 2014, when this firm used the proceeds that were the outcome of the applications' maturities, together with the proceeds from a share capital increase performed by Bratel, to subscribe convertible debentures issued by certain entities that directly or indirectly control AG and LF.

(c) Payments relating to loans obtained

In 2014, this caption includes mainly the repayment of the liability related to equity swaps on treasury shares following the physical exercise of these contracts on May 7, 2014, with cash that remained at PHAROL after the Oi share capital increase for that purpose. Following this repayment, PHAROL holds directly 20,640,000 of its own shares and as a result recorded a non-distributable reserve for the acquisition cost of those shares, amounting to Euro 178,071,827.

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

As at December 31, 2015 and 2014, the composition of this caption is as follows:

	Euro	
	2015	2014
Cash	1,080	6,003
Demand deposits	22,038,990	13,619,441
Time deposits	42,839,302	93,000,000
Other bank deposits	-	2,886,155
	64,879,371	109,511,599

24. Related Parties

a) Associated Companies and Joint Ventures

PHAROL maintained an influence on the associated companies below, until the Oi Capital Increase, completed on May 5, 2014, when it contributed its 100% holding in PT Portugal's share capital, including the indirect investments in these associated companies. The table below presents the transactions that occurred during the years ended December 31, 2015 and 2014, between PHAROL, including its former controlled entities up to May 5, 2014, and its joint ventures and associates.

Company	Euro					
	Costs and losses		Revenues and gains		Net interest income	
	2015	30 Apr 2014	2015	30 Apr 2014	2015	30 Apr 2014
Joint ventures	681,470	1,035,361	-	4,178,146	-	-
International companies						
Unitel	-	2,579,292	-	4,542,112	-	-
Multitel	-	62,348	-	476,471	-	-
National companies:						
PT ACS	-	3,910,991	-	-	-	-
Sportinveste	-	143,441	-	58,727	-	10,798
Siresp	-	-	-	6,490,862	-	16,738
Others	-	229,763	-	1,297,778	-	40,057
	681,470	7,961,196	-	17,044,096	-	67,593

In addition to the transactions mentioned above, as at December 31, 2014, PHAROL had accounts payable to joint ventures amounting to Euro 7,874,531, and had accounts receivable from joint ventures amounting to Euro 114,903.

Although the companies were not associates on December 31, 2014, and although PHAROL did not have direct significant influence over these entities, as of that dates, the above entities continued to be Oi investments.

b) Other

During the years ended December 31, 2015 and 2014, the fixed remuneration of the Board members, which was established by the Remuneration Committee, amounted to Euro 1.6 million and Euro 5.02 million, respectively.

Regarding the year ended December 31, 2014, under the terms of the remuneration policy established by the Remuneration Committee, the executive board members were entitled to receive a variable remuneration, dependent on performance achieved, 50% of which is required to be paid over the following year, and the remaining 50% is required to be paid three years later if certain performance measures are met. PHAROL recognized annually the costs related to these variable remunerations. In the three month period ended March 31, 2014, and after the Evaluation Committee had verified that the terms of the remuneration policy had

been complied with, an amount of Euro 4.89 million was paid to executive board members, relating to the 50% portion of the 2010 variable remunerations that had not been paid in the following year, but was deferred for a three year period.

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

For the years ended December 31, 2015 and 2014, PHAROL's key employees received fixed remuneration amounting to Euro 1.0 million and Euro 1.1 million, respectively. No variable remunerations were paid to key employees during these periods.

25. Shareholders with Qualified Holdings

The Company believes that it is relevant to disclose outstanding balances and transactions with its main shareholders, namely those with a qualified holding of more than 2% in PHAROL's share capital, and with all the entities reported by these shareholders as being part of the respective economic groups. The tables below present the balances as at December 31, 2015 and 2014, and the transactions occurred in the years ended December 31, 2015 and 2014 between PHAROL and the entities that are identified as shareholders with qualified holding and respective economic groups:

	2015		Euro 2014	
	Cash and cash equivalents (i)	Accounts payable	Cash and cash equivalents (i)	Accounts payable
Novo Banco, S.A. (i)(ii)	20,755,397	-	371,430	5,755,946
	20,755,397	-	371,430	5,755,946

(i) As from August 3, 2014 onwards, the qualified holding of PHAROL previously held or imputed to Banco Espírito Santo, S.A., started to be held or imputed to Novo Banco, S.A.

(ii) As at December 31, 2015 and 2014, cash equivalents mainly include term deposits at Novo Banco, Banco Espírito Santo and Banco Espírito Santo Investimento. The amount registered as accounts payable as at December 31, 2014 was in respect of Banco Espírito Santo Investimento ("BESI") which, since September 2015, is no longer owned by Novo Banco.

In addition, as at March 31, 2014, PHAROL held in its Balance Sheet Euro 897 million corresponding to debt securities issued by Rio Forte, subscribed through BES, which were repaid in April 2014, and reinvested in new debt securities also issued by Rio Forte, which were transferred to Oi on May 5, 2014, within the scope of the Oi Capital Increase. These debt securities were not settled by the debtor on maturity. On March 30, 2015, these debt instruments were exchanged with Oi for a number of Oi shares owned by PHAROL, as explained in Notes 1, 15 and 17.

	2015		Euro 2014		
	Costs and losses	Net interest income	Revenues and gains (i)	Costs and losses (i)	Net interest income
Shareholder					
Novo Banco, S.A. (ii)	1,152,712	25,293	-	570,311	-
Grupo BES (ii)	-	-	4,667,477	13,065,743	13,772,609
RS Holding	-	-	143,861	1,228,160	-
Visabeira	-	-	2,245,730	22,608,561	-
	1,152,712	25,293	7,057,068	37,472,775	13,772,609

(i) As mentioned above, from May 5, 2014, onwards, PHAROL no longer controlled the entities that were contributed to Oi, in connection with the Oi Capital Increase, and which were the counterpart in most of the transactions with shareholders with qualified holdings.

(ii) As from August 3, 2014 onwards, the qualified holding of PHAROL previously held or imputed to Banco Espírito Santo, S.A., started to be held, or imputed to Novo Banco, S.A..

26. Financial instruments

26.1. Financial risks

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

26.1.1 Currency exchange risk

Currency exchange risks are essentially related with PHAROL investments in Brazil. On December 31, 2015 and 2014, net exposure (assets less liabilities, net of non-controlling interests) in Brazil amounted to R\$468 million (Euro 108.5 million) and R\$3,983 million (Euro 1,237 million), respectively. Risks relative to Company investments in operations abroad basically concern joint venture investments and associates (Note 16). PHAROL does not have any contracted derivative instrument to hedge currency exchange risk associated with investments in foreign companies.

The effect on PHAROL's equity resulting from hypothetical changes in relevant risk variables is the impact of the valuation (devaluation) of the Real against the Euro in 0.1, from 4.31 to 4.21 (4.41), would be an increase (decrease) in net assets on December 31, 2015, of approximately Euro 2.4 million (Euro 2.3 million), corresponding to adjustments in currency exchange conversion for investments in Brazil.

26.1.2 Credit risks

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

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

On December 31, 2015, the receivables balance was not considered as significant.

Risks associated with treasury activities essentially result from investments made by the Group in cash investments. As mentioned before, in order to mitigate this risk, PHAROL put into place an investment diversification policy as of July 2014, so that investment in a financial institution is not greater than 34% of the total treasury applications. Thus, it ensures that amounts are invested in short term applications in diverse and reputed financial institutions.

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

27. Subsequent events

On February 25, 2016, subsequent to the Relevant Facts disclosed on October 26 and October 30, 2015, Oi informed that LetterOne Technology (UK) LLP (“L1 Technology”) contacted Oi, as it was warned by TIM that this Company has no interest in deepening negotiations, in respect of a potential business combination with Oi, in Brazil. L1 Technology informed that, without the participation of TIM, it could not proceed, as at that moment, with the operation, in the form previously foreseen.

Oi has confirmed that it will continue to evaluate the impacts of this notice, in what matters to the possibilities of consolidation in the Brazilian Market, and that it will continue to endeavor operational improvement efforts, as well as market transformation improvements, focused on austerity, infrastructure optimization, process review, and commercial actions.

On March 9, 2016, Oi informed that it had hired PJT Partners as its financial advisor. PJT Partners is to assist Oi in evaluate financial and strategic alternatives, so as to optimize its liquidity and indebtedness profile. The operational and commercial focus of the company remains unchanged.

On March 28, 2016, PHAROL approved the termination of registration of its ordinary shares registered at SEC as *foreign private issuer*. On April 25, 2016, PHAROL filed a Form 15F with the U.S. Securities and Exchange Commission to voluntarily terminate the registration of its ordinary shares and its reporting obligations under the Exchange Act. PHAROL expects that the termination of its duty to file reports will become effective July 25, 2016. However, as a result of the filing, the Company’s reporting obligations with the SEC, including its obligations to file annual reports on Form 20-F and reports on Form 6-K, will immediately be suspended.

Oi’s stock price evolution between December 31, 2015, and March 31, 2016, is to be found below:

	Price per share	
	31.Dec.2015	31.Mar.2016
Oi ON share price (Reais)	2.40	1.05
Oi PN share price (Reais)	2.02	1.15
Exchange rate Real/Euro	4.3117	4.1174
Oi ON share price (Euros)	0.56	0.26
Oi PN share price (Euros)	0.47	0.28

PHAROL, SGPS, S.A.

REPORT OF THE FISCAL COUNCIL

REPORT AND OPINION
OF THE FISCAL COUNCIL
Financial Year of 2015
(Consolidated accounts)

To the Shareholders of
PHAROL, SGPS S.A.

As required by Article 420.1 g) of the Portuguese Companies Code, it falls to us, as the members of the Fiscal Council of "PHAROL, SGPS, S.A." (referred to below as PHAROL) to issue our annual report on our audit activities and to issue our opinion on the management report and consolidated financial statements presented by the Board of Directors for the year ended 31 December 2015.

I. Introduction

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

1. For reasons with which all the shareholders are familiar, a significant change took place in the first half of 2015 in the company's affairs, leading it to change its name from PT SGPS, S.A. to PHAROL, SGPS, S.A.;
2. That we were elected to this office at the General Meeting held on 29 May 2015.

II. Supervisory Activities

We kept abreast of management developments and PHAROL's affairs through joint meetings with the Board of Directors and also on the basis of reports and explanations provided by managers responsible for administrative matters, compliance and risk.

We also checked the financial information produced during the financial year of 2015, conducting the analyses we deemed useful and necessary.

Our work consisted at all times of complying with requirements established in law, permanent monitoring of PHAROL's affairs and checking that the valuation criteria adopted in preparing the accounts are in accordance with the International Financial Reporting Standards (IFRS) in force and adopted by the European Union.

The Fiscal Council has met seven times since its appointment on 29 May 2015, and has undertaken a range of tasks, most notably:

1. Monitoring the quality, integrity and effectiveness of the internal control and risk management systems;
2. Oversight of the preparation of the consolidated financial information;
3. Checking that accounting records are duly kept and that the consolidated financial statements and reports are accurate;
4. 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;
5. Verifying that the consolidated financial statements comply with the applicable legal requirements;
6. Analysis of the consolidated financial information disclosed;

In the course of its duties, the Fiscal Council exercised its powers to confirm and check the qualifications and independence of the external auditor and statutory auditor, and to oversee the exercise of their duties, holding regular meetings with the statutory auditor, who at all times provide full explanations of technical and accounting matters, as deemed necessary.

It also took note of the findings of internal and external audits of the consolidated financial statements for the financial year of 2015, which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity the consolidated statement of cash flows and respective notes.

It assessed the Statutory and Auditors' Certification and Audit Report on the consolidated financial information, issued without reservations and with emphasis of matter paragraphs, by the statutory auditor and external auditor, which it endorsed.

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.

In the exercise of its powers, and as required by Article 420.5 of the Portuguese Companies Code, the Fiscal Council also confirmed that the report issued on corporate governance structure and practices includes the disclosures required by Article 245-A of the Securities Code.

III. Responsibility statement

The Fiscal Council hereby declares that, as far as it is aware, the information required in Article 245.1 a) of the Securities Code, for the consolidated accounts for the year ended on 31 December 2015:

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

IV. Opinion

On the basis of the report set out above, our audit activities and the conclusions of the Statutory and Auditors' Certification and Audit Report on the consolidated financial information, and taking into consideration the information received from the Board of Directors, from PHAROL's departments and from the Statutory Auditor and External Auditor, it is our opinion that the General Meeting of PHAROL should approve the management report and consolidated financial statements and reports for the financial year of 2015.

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, 28 April 2016

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' OPINION AND AUDIT REPORT

STATUTORY AUDITORS' CERTIFICATION AND AUDIT REPORT ON THE CONSOLIDATED FINANCIAL INFORMATION (free translation of the original issued in Portuguese)

Introduction

1. Pursuant to applicable law, we present the Statutory Auditors' Certification and the Audit Report on the consolidated financial information for the year ended December 31, 2015, of Pharol, SGPS, SA (hereinafter referred to as the Company), which includes: the Management Report, the consolidated statement of financial position as of December 31, 2015 (which presents a total of 309 143 737 euro and a total equity of 299 332 586 euro, including a net loss attributable to the shareholders of the Company of 693 892 303 euro), the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, along with the corresponding Notes.

Responsibilities

2. The Board of Directors is responsible for: (i) the preparation of consolidated financial statements that give a true and fair view of the financial position of the companies included in the consolidation, the consolidated results and the consolidated comprehensive income of their operations, the changes in consolidated equity and the consolidated cash flows; (ii) the historical financial information to be prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and that it is complete, true, current, clear, objective and lawful, as required by the Securities Code (*Código dos Valores Mobiliários*); (iii) the adoption of adequate accounting policies and criteria; (iv) the maintenance of appropriate internal control systems; and (v) the information about any material facts that have influenced the activity of the companies included in the consolidation, their financial position or their results.

3. Our responsibility is to verify the consolidated financial information contained in the documents referred to above, namely whether they are complete, true, current, clear, objective and lawful, as required by the Securities Code (*Código dos Valores Mobiliários*), and to issue a professional and independent report based on our audit.

Scope

4. The audit we performed was done in accordance with the Technical Standards and Guidelines of the Order of Statutory Auditors (*Normas Técnicas e as Diretrizes de Revisão/Auditoria da Ordem dos Revisores Oficiais de Contas*), which require that it should be planned and executed in order to obtain a reasonable assurance whether the consolidated financial statements are free of material misstatements. To this end, the audit included: (i) the verification that the financial statements of the companies included in the consolidation were properly audited and, in significant cases where they were not, verification, on a test basis, of the evidence supporting the amounts and disclosures contained therein and an assessment of estimates, based on judgments and criteria defined by the Board of Directors that were used in their preparation; (ii) verification of the consolidation operations and the application of the equity method that comprised the review of the audit of the financial statements of Oi, SA, carried out by other auditors; (iii) the assessment of whether adopted accounting policies and related disclosures are appropriate under the circumstances; (iv) the verification of the applicability of the going concern; (v) evaluation of the adequacy of the overall presentation of the consolidated



financial statements; and (vi) assessment of whether the consolidated financial information is complete, true, current, clear, objective and lawful.

5. Our audit also included the verification that the consolidated information contained in the Management Report was consistent with other accounting documents and the requirements contained in numbers 4 and 5 of Article 451.º of the Commercial Companies Code (*Código das Sociedades Comerciais*).

6. We believe that the performed audit provides a reasonable basis for our opinion.

Opinion

7. In our opinion, the consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of Pharol, SGPS, SA, as of December 31, 2015, its consolidated results and its consolidated comprehensive income of its operations, the changes in the consolidated equity and the consolidated cash flows, for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union, and that the information contained therein is complete, true, current, clear, objective and lawful.

Emphasis

8. Without affecting the opinion expressed in the previous paragraph, we draw attention to the following situations:

8.1. Bearing in mind the Independent auditors' report on the individual and consolidated financial statements for the year ended December 31, 2015 of the significant component Oi, SA, dated March 23, 2016, we highlight the following modifications taking into account the requirements of DRA 700 and ISA 706 and also the note 16.1 to the consolidated financial statements:

8.1.1. *"Net gain and impairment of assets – As disclosed in Note 1, the Company incorporated its shareholder Telemar Participações S.A. ("TmarPart") at September 1, 2015. TmarPart assets included the net gain from the acquisition of Brasil Telecom Participações S.A. ("BrT", currently Oi, SA), that as allowed by Comissão de Valores Mobiliários - CVM, in their OFÍCIO/CVM/SEP/GEA-5/N.º119/2013, was reversed from the Company's accounts and recomposed at a consolidated level in TmarPart, until its complete amortization in 2025. Although, there isn't a specific accounting standard about the incorporation of entities under common control in the IFRS and in the accounting practices adopted in Brazil, interpretations indicate that, when incorporating, the maintenance or reversal of the net gain would be an accounting policy choice of the Company. However, the positioning included in Ofício CVM is for its maintenance in the consolidated financial statements of the shareholder TmarPart. As described in Note 23.c, the Company, in the incorporation, didn't include the net gain in its net assets. Consequently, as of December 31, 2015, the non-current assets and the equity are undervalued in R\$ 1.233.299 thousand, relative to the net balance of the net gain of R\$ 9.079.988 thousand deducted of an impairment loss of R\$7.211.353 thousand and the tax effects of R\$ 635.336 thousand. The loss for the year then ended is undervalued by R\$ 4.993.072 thousand, relative to the non registration of the amortization of the net gain of R\$ 233.579 thousand and of the impairment loss of R\$ 4.759.493 thousand, both net from tax effects. The Company's Board of Directors presented a technical consultation to CVM about the accounting practice adopted, which is under the regulator analysis."*



8.1.2. *" Operating continuity - Without affecting our opinion, we draw attention to the Notes 1 and 3.4.3 of the financial statements, which describe the action plan defined by management to equalize the financial obligations to the cash flow generation of the Company. Those conditions combined with an eventual fail to implement the described plan, indicate the existence of significant uncertainty which may raise doubts about the going concern."*

8.2. As presented in note 27 to the consolidated financial statements, the quoted market price of the shares of the significant component Oi, SA evolved from R\$ 2,40 (€ 0,56) as at December 31, 2015, to R\$ 1,05 (€ 0,26) as at March 31, 2016.

8.3. As described in chapter 4 of the Management Report and in notes 3 and 17 to the consolidated financial statements, the measurement of the debt securities issued by Rio Forte Investments, SA reflects the management's best estimate concerning the recoverable amount of those securities.

8.4 The consolidated financial statements for the year ended December 31, 2014, were examined by another statutory auditor whose certification, dated April 30, 2015, was issued with emphasis which are no longer applicable to the year ended December 31, 2015.

Report on other legal requirements

9. It is also our opinion that the consolidated information in the Management Report is consistent with the consolidated financial statements for the period and the Corporate Governance Report includes the information required under Article 245.º-A of the Securities Code (*Código dos Valores Mobiliários*).

Lisbon, April 28, 2016

Rui Carlos Lourenço Helena, as representative of
BDO & Associados, SROC, Lda.
(registered with CMVM, n.º 20161384)

PHAROL, SGPS, S.A.

CORPORATE GOVERNANCE REPORT

Corporate Governance Report

The purpose of this report is to disclose the corporate governance structure and practices adopted by the Company with a view to complying with the provisions of the Corporate Governance Code as published by the Portuguese Securities Market Commission (*Comissão do Mercado de PHAROL Mobiliários* – "CMVM") in July 2013, as well as with the best international corporate governance practices. This report has been drawn up in accordance with articles 7 and 245A of the Portuguese Securities Code and the form attached to CMVM Regulation no. 4/2013.

CONTENTS

INTRODUCTION	7
PHAROL, SGPS S.A. STRUCTURE.....	7
PART I – INFORMATION ON SHAREHOLDER STRUCTURE, ORGANIZATION	10
AND CORPORATE GOVERNANCE	10
A. SHAREHOLDER STRUCTURE.....	10
I. I. CAPITAL STRUCTURE	10
1. CAPITAL STRUCTURE	10
2. ANY RESTRICTIONS TO SHARE TRANSFERABILITY, SUCH AS CONSENT CLAUSES FOR DISPOSAL, OR LIMITATIONS TO SHARE OWNERSHIP	10
3. NUMBER OF OWN SHARES, CORRESPONDING CAPITAL PERCENTAGE AND CORRESPONDING VOTING RIGHTS PERCENTAGE	10
4. SIGNIFICANT AGREEMENTS INCLUDING CHANGE OF CONTROL CLAUSES	11
5. RENOVATION / REVOCATION OF DEFENSIVE MEASURES, IN PARTICULAR THOSE PROVIDING FOR THE RESTRICTION OF THE NUMBER OF VOTES THAT MAY BE HELD OR EXERCISED BY A SINGLE SHAREHOLDER.....	12
6. SHAREHOLDERS' AGREEMENTS OF WHICH THE COMPANY IS AWARE AND MIGHT LEAD TO RESTRICTIONS IN THE TRANSFER OF SECURITIES OR VOTING RIGHTS	12
II. SHAREHOLDINGS AND BONDS	12
7. OWNERS OF QUALIFIED HOLDINGS, PERCENTAGE OF CAPITAL AND VOTES ATTRIBUTABLE, SOURCE AND CAUSES FOR ATTRIBUTION	12
8. NUMBER OF SHARES AND BONDS HELD BY THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES.....	13
9. SPECIAL POWERS OF THE MANAGEMENT BODY, NOTABLY AS REGARDS CAPITAL INCREASE RESOLUTIONS.....	13
10. SIGNIFICANT COMMERCIAL RELATIONSHIPS BETWEEN OWNERS OF QUALIFIED HOLDINGS AND THE COMPANY.....	14
B. CORPORATE BODIES AND COMMITTEES	16
I. GENERAL MEETING OF SHAREHOLDERS	16
11. IDENTIFICATION OF THE MEMBERS OF THE BOARD OF THE GENERAL MEETING OF SHAREHOLDERS, COMMENCEMENT AND EXPIRATION OF TERM OF OFFICE	17
12. POSSIBLE LIMITATIONS ON VOTING RIGHTS	18
13. MAXIMUM PERCENTAGE OF VOTING RIGHTS THAT MAY BE EXERCISED BY A SINGLE SHAREHOLDER OR BY SHAREHOLDERS CONNECTED TO THE FORMER THROUGH ANY OF THE RELATIONSHIPS SET FORTH IN ARTICLE 20.1 OF THE PORTUGUESE SECURITIES CODE.....	20
14. SHAREHOLDER RESOLUTIONS WHICH, ACCORDING TO THE BYLAWS, CAN ONLY BE ADOPTED WITH QUALIFIED MAJORITY, APART FROM THOSE LEGALLY PROVIDED FOR	20
II. MANAGEMENT AND SUPERVISION	20
15. IDENTIFICATION OF THE CORPORATE GOVERNANCE MODEL	20
16. BYLAW RULES ON THE PROCEDURAL AND MATERIAL REQUIREMENTS FOR THE APPOINTMENT AND REPLACEMENT OF THE MEMBERS OF THE BOARD OF DIRECTORS	22
17. COMPOSITION OF THE BOARD OF DIRECTORS	22
18. EXECUTIVE AND NON-EXECUTIVE BOARD MEMBERS AND INDEPENDENCE CRITERIA	23
19. PROFESSIONAL QUALIFICATIONS AND OTHER RELEVANT CURRICULUM ELEMENTS OF THE MEMBERS OF THE BOARD OF DIRECTORS	24

20.	FAMILY, PROFESSIONAL OR COMMERCIAL RELATIONSHIPS, FREQUENT AND SIGNIFICANT, OF THE MEMBERS OF THE BOARD OF DIRECTORS WITH OWNERS OF QUALIFIED HOLDINGS ABOVE 2% OF THE VOTING RIGHTS	24
21.	DISTRIBUTION OF POWERS AMONG THE VARIOUS CORPORATE BODIES, COMMITTEES AND/OR DEPARTMENTS OF THE COMPANY.....	25
	MANAGEMENT BODY.....	25
	Board of Directors.....	25
	Powers of the Chairman of the Board of Directors.....	26
	Executive Committee.....	27
	SUPERVISORY BODIES.....	27
	Fiscal Council	27
	Statutory AuditorStatutory Auditor	28
	COMMITTEES AND SUPPORTING STRUCTURES	29
22.	OPERATING RULES OF THE BOARD OF DIRECTORS.....	29
23.	NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS AND DEGREE OF ATTENDANCE OF EACH MEMBER.....	29
24.	INDICATION OF THE CORPORATE BODIES EMPOWERED TO CARRY OUT THE PERFORMANCE EVALUATION OF EXECUTIVE DIRECTORS	30
25.	PRE-DETERMINED CRITERIA FOR THE PERFORMANCE EVALUATION OF EXECUTIVE DIRECTORS	30
26.	AVAILABILITY OF EACH MEMBER OF THE BOARD OF DIRECTORS AND INDICATION OF FUNCTIONS EXERCISED SIMULTANEOUSLY IN OTHER COMPANIES, INSIDE AND OUTSIDE THE GROUP, AND OTHER RELEVANT ACTIVITIES EXERCISED BY THE MEMBERS OF THE BOARD OF DIRECTORS	31
27.	COMMITTEE CREATED WITHIN THE BOARD OF DIRECTORS AND LOCAL FOR THE CONSULTATION OF ITS OPERATING RULE	31
28.	COMPOSITION OF THE EXECUTIVE COMMITTEE AND/OR IDENTIFICATION OF MANAGING DIRECTORS	31
29.	DUTIES OF EACH COMMITTEE CREATED WITHIN THE BOARD OF DIRECTORS AND SUMMARY OF THE ACTIVITIES DEVELOPED IN THE EXERCISE OF SUCH DUTIES	32
	III. SUPERVISION.....	32
30.	IDENTIFICATION OF THE SUPERVISORY BODY.....	32
31.	COMPOSITION OF THE FISCAL COUNCIL	32
32.	IDENTIFICATION OF THE MEMBERS OF THE FISCAL COUNCIL COMMITTEE CONSIDERED INDEPENDENT UNDER ARTICLE 414,5 OF THE PORTUGUESE COMPANIES CODE.....	32
33.	PROFESSIONAL QUALIFICATIONS AND OTHER RELEVANT CURRICULUMELEMENTS OF THE MEMBERS OF THE FISCAL COUNCIL.....	32
34.	OPERATING RULES OF THE FISCAL COUNCIL	33
35.	NUMBER OF MEETINGS OF THE FISCAL COUNCIL AND DEGREE OF ATTENDANCE OF EACH MEMBER.....	33
36.	AVAILABILITY OF EACH MEMBER OF THE FISCAL COUNCIL AND INDICATION OF FUNCTIONS EXERCISED SIMULTANEOUSLY IN OTHER COMPANIES, INSIDE AND OUTSIDE THE GROUP, AND OTHER RELEVANT ACTIVITIES EXERCISED BY THE MEMBERS OF THE FISCAL COUNCIL	33
37.	PROCEDURES AND CRITERIA APPLICABLE TO THE INTERVENTION OF THE SUPERVISORY BODY WHEN HIRING ADDITIONAL SERVICES FROM THE EXTERNAL AUDITOR	33
38.	OTHER DUTIES OF THE SUPERVISORY BODIES	34
	IV. STATUTORY AUDITOR (REVISOR OFICIAL DE CONTAS / ROC)	34
39.	IDENTIFICATION OF THE STATUTORY AUDITOR AND OF ITS REPRESENTING PARTNER.....	34

40.	NUMBER OF YEARS DURING WHICH THE STATUTORY AUDITOR PERFORMS DUTIES CONSECUTIVELY IN THE COMPANY AND/OR GROUP	34
41.	OTHER SERVICES RENDERED TO THE COMPANY BY THE STATUTORY AUDITOR	34
V.	EXTERNAL AUDITOR	34
42.	IDENTIFICATION OF THE EXTERNAL AUDITOR AND OF ITS REPRESENTING PARTNER, AS WELL AS THEIR RESPECTIVE REGISTRY NUMBER BEFORE THE CMVM	34
43.	NUMBER OF YEARS DURING WHICH THE EXTERNAL AUDITOR AND ITS REPRESENTING PARTNER PERFORM DUTIES CONSECUTIVELY IN THE COMPANY AND/OR GROUP	35
44.	POLICY AND PERIOD FOR THE ROTATION OF THE EXTERNAL AUDITOR AND OF ITS REPRESENTING PARTNER	35
45.	CORPORATE BODY RESPONSIBLE FOR THE EVALUATION OF THE EXTERNAL AUDITOR AND FREQUENCY FOR SUCH EVALUATION	35
46.	SERVICES, OTHER THAN AUDITING SERVICES, PROVIDED BY THE EXTERNAL AUDITOR TO THE COMPANY AND/OR ENTITIES IN A CONTROL RELATIONSHIP, AS WELL AS INDICATION OF INTERNAL PROCEDURES FOR THE PURPOSES OF APPROVING THE HIRING OF THOSE SERVICES AND REASONS FOR SUCH HIRING	35
47.	INDICATION OF THE AMOUNT OF ANNUAL REMUNERATION PAID TO THE AUDITOR AND OTHER INDIVIDUALS OR CORPORATIONS IN THE SAME NETWORK SUPPORTED BY THE COMPANY AND OR BY CORPORATIONS IN A CONTROL OR GROUP RELATIONSHIP, AS WELL AS SPECIFICATION OF THE PERCENTAGE OF EACH TYPE OF SERVICE	36
C.	INTERNAL ORGANIZATION	36
I.	BYLAWS	36
48.	RULES APPLICABLE TO AMENDMENT TO THE BYLAWS OF THE COMPANY	36
	Constitutive quorum for the General Meeting of Shareholders	36
	Resolution quorum for the General Meeting of Shareholders	36
II.	WHISTLEBLOWING	36
49.	WHISTLEBLOWING	36
III.	INTERNAL CONTROL AND RISK MANAGEMENT	37
	Internal Control System	37
50.	PERSONS, BODIES OR COMMITTEES RESPONSIBLE FOR INTERNAL AUDITING AND/OR IMPLEMENTATION OF INTERNAL CONTROL SYSTEMS	38
51.	HIERARCHICAL AND/OR FUNCTIONAL DEPENDENCE RELATIONS VIS-À-VIS OTHER CORPORATE BODIES OR COMMITTEES	39
52.	OTHER FUNCTIONAL AREAS HAVING RISK CONTROL POWERS ROLE	39
53.	MAIN ECONOMIC, FINANCIAL AND LEGAL RISKS TO WHICH THE COMPANY IS EXPOSED IN THE CONDUCT OF ITS BUSINESS	39
54.	RISK IDENTIFICATION, ASSESSMENT, MONITORING, CONTROL AND MANAGEMENT PROCEDURE	41
	Risk Management Procedure	41
	Risk monitoring, control and management	43
55.	MAIN ELEMENTS OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IMPLEMENTED IN THE COMPANY IN CONNECTION WITH THE FINANCIAL INFORMATION DISCLOSURE PROCEDURE	43
IV.	INVESTOR SUPPORT	44
56.	INVESTOR SUPPORT OFFICE, COMPOSITION, DUTIES, INFORMATION PROVIDED BY THE SAME AND CONTACT DETAILS	44
57.	REPRESENTATIVE FOR RELATIONS WITH THE MARKET	45
58.	INFORMATION ON RESPONSE PROPORTION AND PERIOD TO INFORMATION REQUESTS MADE DURING THE YEAR OR PENDING FROM PREVIOUS YEARS	45

V. INTERNET WEBSITE	45
59. ADDRESS	45
60. LOCATION OF INFORMATION ON THE COMPANY NAME, ITS NATURE OF PUBLIC COMPANY, REGISTERED OFFICE AND OTHER DATA PURSUANT TO ARTICLE 171 OF THE PORTUGUESE COMPANIES CODE.....	46
61. LOCATION OF INFORMATION ON THE BYLAWS AND OPERATING RULES OF THE CORPORATE BODIES AND/OR COMMITTEES	46
62. LOCATION OF INFORMATION ON THE IDENTITY OF THE MEMBERS OF THE CORPORATE BODIES, THE REPRESENTATIVE FOR RELATIONS WITH THE MARKET, THE INVESTOR RELATIONS OFFICE OR EQUIVALENT, THEIR DUTIES AND ACCESS DETAILS	46
63. LOCATION WHERE THE COMPANY MAKES AVAILABLE THE FINANCIAL STATEMENTS, WHICH MUST BE ACCESSIBLE FOR FIVE YEARS AT LEAST, AS WELL AS A SCHEDULE OF CORPORATE EVENTS, DISCLOSED AT THE BEGINNING OF EACH HALF-YEAR, INCLUDING, AMONG OTHERS, GENERAL MEETINGS OF SHAREHOLDERS, DISCLOSURE OF THE ANNUAL, HALF-YEAR AND, IF APPLICABLE, QUARTERLY FINANCIAL STATEMENTS.....	46
64. LOCATION WHERE THE COMPANY MAKES AVAILABLE NOTICES OF THE GENERAL MEETING OF SHAREHOLDERS AND ALL PREPARATORY AND SUBSEQUENT INFORMATION RELATED TO THE SAME	47
65. LOCATION WHERE THE COMPANY MAKES AVAILABLE THE HISTORICAL COLLECTION WITH THE RESOLUTIONS PASSED AT THE GENERAL MEETINGS OF SHAREHOLDERS, THE SHARE CAPITAL THEREIN REPRESENTED AND THE VOTING RESULTS, REGARDING THE PREVIOUS THREE YEARS ..	47
D. REMUNERATION.....	47
I. COMPETENCE FOR DETERMINATION.....	47
66. COMPETENCE FOR THE DETERMINATION OF THE REMUNERATION OF CORPORATE BODIES, MEMBERS OF THE EXECUTIVE COMMITTEE OR MANAGING DIRECTOR AND COMPANY OFFICERS ..	47
II. COMPENSATION COMMITTEE.....	48
67. COMPOSITION OF THE COMPENSATION COMMITTEE, INCLUDING THE IDENTIFICATION OF THE PERSONS OR CORPORATIONS HIRED TO SUPPORT IT AND INDEPENDENCE STATEMENT REGARDING EACH OF ITS MEMBERS AND CONSULTANTS	48
68. KNOWLEDGE AND EXPERIENCE OF THE MEMBERS OF THE COMPENSATION COMMITTEE IN THE MATTER OF REMUNERATION POLICY	48
III. REMUNERATION STRUCTURE.....	48
69. DESCRIPTION OF THE REMUNERATION POLICY FOR THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES AS REFERRED TO UNDER ARTICLE 2 OF LAW NO. 28/2009 OF 19 JUNE 2009	48
70. INFORMATION ON HOW THE REMUNERATION IS STRUCTURED IN ORDER TO PERMIT THE ALIGNMENT OF THE DIRECTORS' INTERESTS WITH LONG TERM INTERESTS OF THE COMPANY, AS WELL AS HOW THE REMUNERATION IS BASED ON PERFORMANCE AND DISINCENTIVES EXCESSIVE RISK TAKING.....	49
75. MAIN PARAMETERS OF AND GROUNDS FOR ANY ANNUAL BONUS SYSTEM AND ANY OTHER NON-PECUNIARY BENEFITS	49
76. MAIN CHARACTERISTICS OF COMPLEMENTARY PENSION OR EARLY RETIREMENT SYSTEMS FOR DIRECTORS, SPECIFYING WHETHER THE SAME WERE SUBJECT TO APPRAISAL, IN INDIVIDUAL TERMS, BY THE GENERAL MEETING OF SHAREHOLDERS	49
IV. REMUNERATION DISCLOSURE	49
77. REMUNERATION INDIVIDUALLY AND GLOBALLY EARNED BY THE MEMBERS OF THE COMPANY'S MANAGEMENT BODY.....	49
78. AMOUNTS PAID, FOR ANY REASON WHATSOEVER, BY OTHER COMPANIES IN A CONTROL OR GROUP RELATIONSHIP OR SUBJECT TO COMMON CONTROL	50
79. REMUNERATION PAID IN THE FORM OF PROFIT SHARING AND/OR BONUS PAYMENT, AND THE REASONS WHY SUCH BONUSES AND/OR PROFIT SHARING WERE GRANTED.....	51
80. COMPENSATIONS PAID OR DUE TO FORMER EXECUTIVE DIRECTORS IN RESPECT OF	

TERMINATION OF OFFICE DURING THE FINANCIAL YEAR	51
81. REMUNERATION INDIVIDUALLY AND GLOBALLY EARNED BY THE MEMBERS OF THE COMPANY'S SUPERVISORY BODY	51
82. INDICATION OF THE REMUNERATION OF THE CHAIRMAN OF THE BOARD OF THE GENERAL MEETING OF SHAREHOLDERS	51
V. AGREEMENTS WITH REMUNERATION IMPLICATIONS	52
83. CONTRACTUAL LIMITATION AS ESTABLISHED FOR ANY COMPENSATION TO BE PAID UPON REMOVAL WITHOUT JUST CAUSE OF A DIRECTOR, AND ITS RELATIONSHIP WITH THE VARIABLE COMPONENT OF THE REMUNERATION	52
84. AGREEMENTS WITH MEMBERS OF THE BOARD AND OFFICERS PROVIDING FOR COMPENSATION IN THE EVENT OF TERMINATION OF OFFICE FOLLOWING A CHANGE OF CONTROL	52
VI. SHARE ALLOTMENT OR STOCK OPTION PLANS	52
88. CONTROL MECHANISMS PLANNED FOR ANY EMPLOYEE CAPITAL HOLDING SYSTEM TO THE EXTENT THAT VOTING RIGHTS ARE NOT EXERCISED BY SUCH EMPLOYEES	52
E. RELATED PARTY TRANSACTIONS	52
I. CONTROL MECHANISMS AND PROCEDURES	52
89. MECHANISMS IMPLEMENTED BY THE COMPANY TO CONTROL RELATED PARTY TRANSACTIONS (IAS 24).....	52
90. TRANSACTIONS SUBJECT TO CONTROL.....	54
91. INTERVENTION OF THE SUPERVISORY BODY IN THE PRIOR EVALUATION OF TRANSACTIONS WITH OWNERS OF A QUALIFIED HOLDING	54
II. TRANSACTION DETAILS	55
92. LOCATION, IN THE ANNUAL FINANCIAL STATEMENTS, WHERE INFORMATION ON RELATED PARTY TRANSACTIONS, IN ACCORDANCE WITH IAS 24, IS AVAILABLE	55
PART II – CORPORATE GOVERNANCE EVALUATION	56
1. IDENTIFICATION OF THE CORPORATE GOVERNANCE CODE ADOPTED	56
2. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE ADOPTED	57
APPENDIX I	63
Functions performed by members of the management body in other companies	63
Professional qualifications and professional activities performed during the last 5 years	65
CV data of the members of the Compensation Committee.....	69
CV data of the members of the Fiscal Council	71
APPENDIX II	73
United States rules applicable to PHAROL, as a Foreign Private Issuer	73
APPENDIX III	74
Statement of the Compensation Committee on the Remuneration Policy for the members of the management and supervisory bodies of Portugal Telecom, SGPS SA in force during the 2015 financial year	74
APPENDIX IV	78
Code of Ethics	78
Code of Ethics for Senior Financial Officers.....	78
Procedures implemented by PHAROL for compliance with the rules applicable to Officer Transactions, Related Party Transactions and Transactions with Owners of Qualified Holdings	78

INTRODUCTION

PHAROL, SGPS S.A. STRUCTURE

Following the memorandum of understanding disclosed to the market on 2 October 2013 (the "Memorandum of Understanding"), Portugal Telecom, SGPS SA ("Portugal Telecom", "PT SGPS" or the "Company"), presently PHAROL SGPS SA ("PHAROL" or the "Company") , Oi, S.A. ("Oi") and a group of other entities related to the former have announced their intention to combine the businesses of Portugal Telecom and Oi (the "Business Combination") and concentrate such businesses in a single listed entity organized and established under the laws of Brazil. In the meantime, it was defined that such company would be Telemar Participações, S.A. ("TmarPart" or "CorpCo").

Within the scope of such Memorandum of Understanding, PT SGPS subscribed for an increase in Oi's capital, settled on 5 May 2014, through a contribution in kind of the PT Assets, which consisted in all the businesses of the Portugal Telecom Group on such date, other than its subsidiaries Bratel BV, Bratel Brasil, S.A., PTB2, S.A. and Marnaz, S.A. (presently Pharol Brasil) and its investments in Oi, Contax and its controlling shareholders (the "Oi Capital Increase"). As a result of its contribution to the Oi Capital Increase, PT SGPS increased its actual share in Oi from 23.2%, as previously held through Bratel Brasil, to 39.7%, held through a total direct share of 35.8% (32.8% in PT SGPS and 3.0% in Bratel Brasil) and an indirect share of 3.9%, held through Oi's controlling shareholders.

After the said contribution, PT SGPS continued having a joint control of Oi with its partners (similarly to previous years), but all the operations in the various geographies are carried out by Oi.

Following the default, in July 2014, as to the reimbursement of the debt instruments issued by Rio Forte Investments, S.A. ("Rio Forte"), PT SGPS and Oi entered, on 8 September 2014, into an Exchange Agreement and a Call Option Agreement, both subject to the laws of Brazil, as detailed under item 10 of Part I hereof, the main terms and conditions of which were approved by the shareholders at a General Meeting held on the same date. The execution of the agreements with Oi, including the Exchange Agreement and the Call Option Agreement, permitted the pursuance of the Business Combination transaction announced on 2 October 2013. However, the pursuance of the merger of PT SGPS into CorpCo, and the resulting extinguishment of PT SGPS, as originally planned was no longer feasible taking into account the change in the composition of PT SGPS' assets after the performance of the Exchange (as defined under item 10 of Part I hereof), as well as the deterioration of Oi's financial situation verified in the meanwhile.

As detailed under item 10 of Part I hereof, the Exchange agreed upon on 8 September 2014 was consummated on 30 March 2015, as follows: (i) PT SGPS deposited the Oi Shares Subject to Exchange (as defined under item 10 of Part I hereof) with the Depositary (as defined under item 10 of Part I hereof) and instructed the Depositary to record the transfer of the ADSs Subject to Exchange (as defined under item 10 of Part I hereof) to PT International Finance B.V. ("PTIF"); and (ii) PTIF transferred to PT SGPS the Rio Forte Instruments (as defined under item 10 of Part I hereof) in the total amount of €897 million, in accordance with the Exchange Agreement, as amended by

the Assignment Act (as defined under item 10 of Part I hereof).

After the execution of the Exchange, the relevant assets held by PT SGPS, presently PHAROL, consist of a direct and indirect shareholding of 27.48% in Oi, the Rio Forte Instruments in the total amount of €897 million and the Call Option over 47,434,872 ordinary shares and 94,869,744 preferred shares of Oi.

On 31 March 2015, the shareholders in TmarPart approved an alternative structure for the Business Combination, which did not involve the incorporation of the Oi shares in CorpCo or CorpCo's migration to the Novo Mercado segment of BM&FBOVESPA. The parties agreed on a new shareholding and management structure for Oi (the "New Structure"), which includes the following stages:

- Corporate and management reorganisation, adopting a new governance model that comprise the main characteristics of the Novo Mercado of BM&FBOVESPA, without the parties, however, desisting from endeavouring to reach the Novo Mercado of BM&FBOVESPA;
- Voluntary conversion of Oi's preferred shares into ordinary shares, observing in such conversion the exchange ratio of 0.9211 ordinary shares for each Oi issued preferred share ("Oi Share Conversion Programme"), taking into account that the said voluntary share conversion proposal is subject to a minimum percentage of adhesion by holders of two-thirds of ex-treasury preferred shares ("Conversion Condition"), such adhesion to be manifested within 30 days from Oi's General Meeting of Shareholders resolving on the beginning of the period of time for conversion;
- Implementation of the one share/one vote principle. However, a 15% limitation to the voting rights applicable to all Oi shareholders was included in the Bylaws of Oi. Such limitation will cease to exist in case of the occurrence of certain events, including capital increase, corporate reorganisation or takeover bid if resulting in a dilution of the current shareholder base in excess of 50%;
- Extinguishment of trading restrictions for all shareholders with a view to increasing the liquidity of Oi shares;
- Extinguishment of TmarPart through its incorporation in Oi, with the resulting termination of TmarPart's Shareholders' Agreements, in order to ensure the dispersion of Oi's control; and
- Implementation of the New Structure as soon as possible, and before 31 October 2015.

From 29 May 2015, PT SGPS SA changed its name to PHAROL, SGPS S.A..

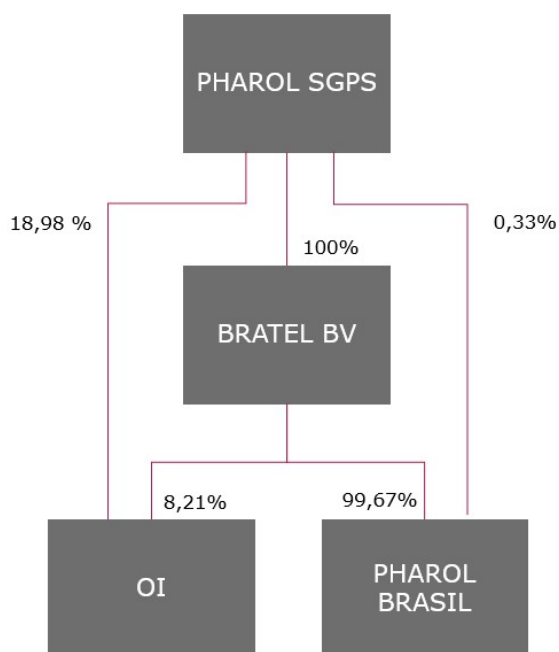
On 22 July 2015 the relevant documents were signed for the implementation of the New Structure of Oi, and on 1 September 2015 a General Assembly of Oi was held which approved its implementation.

On 30 September 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 held 100 % subsidiaries, (1) 84,167,978 shares and 108,016,749 preferred shares of Oi, (2) the debt instruments of Rio Forte with a nominal value of

897 million euros, and (3) Option of 47,434,872 common shares and 94,869,744 preferred shares from Oi, with an exercise price of 20.104 reais for common shares and 18.529 reais for preferred shares, to be adjusted by the Brazilian CDI rate plus 1.5% per year and a maturity of six years, expiring the possibility option exercise by PHAROL by 10% at the end of the first year and by 18% at the end of each following year.

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

PHAROL investments and group structure as at 31 December 2015, was as follows:



The shareholders' agreements through which joint control of Oi was exercised, ended on 30 July 2015. Until then, PHAROL proceeded to recognize its participation in Oi as a joint venture. PHAROL considers that it currently has significant influence over Oi, which is considered an associate.

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

A. SHAREHOLDER STRUCTURE

I. I. CAPITAL STRUCTURE

1. CAPITAL STRUCTURE

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

All PHAROL ordinary shares are admitted to trading on the Euronext Lisbon regulated market.

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

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

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

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

On 31 December 2015, the Company held 20,640,000 own shares.

On 1 February 2016, PHAROL initiated a buyback program of own shares as approved at the General Meeting of Shareholders held on 4 November 2015 and communicated

to the market in terms and for the purposes of paragraph b) of clause 2 of article 11 and article 13 of CMVM Regulation 5/2008.

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

4. SIGNIFICANT AGREEMENTS INCLUDING CHANGE OF CONTROL CLAUSES

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

In November 2014, Africatel GmbH and PT SGPS were informed that Samba, the holder of the remaining 25% in Africatel B.V., had commenced arbitration proceedings against Africatel GmbH and Portugal Telecom at the Arbitration Court of the International Chamber of Commerce in respect of its supposed put option to sell its share in Africatel B.V., among other allegations. It is Samba's understanding that its right to such put option, according to the shareholders' agreement of Africatel, was triggered by the transaction between PT SGPS and Oi which included the Oi Capital Increase. The other allegations include rights of first offer, first refusal and tag along, that Samba considers having been triggered by this transaction. In case the Arbitration Court agreed with Samba allegations, it could require, among other things, an independent appraisal report of Africatel B.V., and any liability concerning the purchase of Samba's shareholding in Africatel B.V. and/or damage indemnification could be relevant. Both Africatel GmbH and PT SGPS fought these allegations.

Within the framework of the Subscription Agreement entered into between Portugal Telecom and Oi in respect of the Oi Capital Increase, Oi agreed to be the successor of Portugal Telecom, actually PHAROL, in any right or obligation under agreements executed by Portugal Telecom, provided the agreements establishing such right or obligation were specified in the documentation for the overall offer that was part of the Oi Capital Increase. It was disclosed in the Oi Capital Increase prospectus that, among other matters, Samba had said that the Business Combination between Portugal Telecom and Oi had triggered, within the scope of Africatel's shareholders' agreement, a put option in relation to Samba's share in Africatel Holdings B.V.

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

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

PHAROL's Bylaws include a limitation on the counting of votes, whereby any votes in excess of 10% of the total voting rights corresponding to the share capital cast by a single shareholder of ordinary shares, directly or through a representative, in his own name or as a representative of another shareholder, shall not be counted (article 13, 10). A change of this statute will be proposed at the annual General Meeting of Shareholders to be performed in 2016.

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

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

II. SHAREHOLDINGS AND BONDS

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

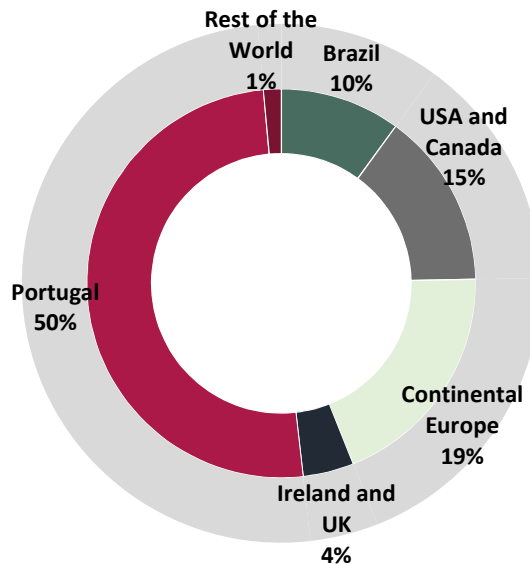
As at 31 December 2015, qualified holdings represented over 38% of PHAROL share capital, as follows:

QUALIFIED HOLDINGS				
Date of information	Entities	No. of shares	% of capital	% of voting rights
12/nov/14	Novo Banco (a)	112,702,533	12.60%	10.00%
31/may/12	Telemar Norte Leste S.A.	89,651,205	10.00%	10.00%
14/aug/15	Banco Comercial Português, S.A.	55,304,969	6.16%	6.16%
31/dec/15	Norges Bank	33,028,373	3.68%	3.68%
19/aug/15	RS Holding (b)	29,735,000	3.46%	3.46%
02/jan/14	Grupo Visabeira	23,642,885	2.64%	2.64%

(a) PHAROL Bylaws include a limitation on the counting of votes, whereby any votes in excess of 10% of the total voting rights corresponding to the share capital cast by a single shareholder of ordinary shares, directly or through a representative, in his own name or as a representative of another shareholder, shall not be counted (article 13,10). As such, the voting rights that may be effectively exercised by Novo Banco should be considered as limited to 10%.

(b) On 26 January 2016, PHAROL informed that RS Holding AG became the holder of less than 2% of PHAROL share capital and corresponding voting rights.

PHAROL has a diversified shareholder structure, with around 50% of its share capital held by foreign shareholders, essentially divided between Europe and North America (US and Canada), representing 23% and 15% respectively of the shareholder basis. The Portuguese market represents around 50% of the shareholder basis.



Source: Interbolsa (2016)

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

Updated information on qualified holdings in the Company may be consulted at www.pharol.pt and on CMVM website.

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

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

Members of the supervisory bodies do not hold PHAROL shares.

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

The powers of PHAROL’s Board of Directors are described in item 21 of Part I below.

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

maximum term set forth in law, *i.e.*, 5 years.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Relevant transactions executed during 2015 with other owners of qualified holdings, who are not related parties, are described in Note 25 the consolidated financial statements included in the Report and Consolidated Accounts 2015. There are no other relevant commercial relations between owners of qualified holdings and the Company.

B. CORPORATE BODIES AND COMMITTEES

I. GENERAL MEETING OF SHAREHOLDERS

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

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

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

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

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

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

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

COMPOSITION OF THE BOARD OF THE GENERAL MEETING OF SHAREHOLDERS

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

Board of the General Meeting of Shareholders

João Vieira de Almeida	Chairman
Sofia Barata	Secretary

The members of the Board of the General Meeting of Shareholders were elected on 29 May 2015 for the 2015-2017 three-year term of office.

EXERCISE OF VOTING RIGHTS

12. POSSIBLE LIMITATIONS ON VOTING RIGHTS

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

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

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

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

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

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

Correspondence vote authenticity shall be ensured before the Chairman of the Board of the General Meeting of shareholders by means of a communication with a legally acknowledged signature, in the case of corporations, or, in the case of individuals, with a simple signature together with a photocopy of the relevant identity card. In order to guarantee vote confidentiality, said communication shall be sent in a closed envelope that will only be considered at the time of vote counting.

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

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

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

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

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

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

Considering the above described mechanisms for the participation and vote at the General Meeting, PHAROL fully complies with CMVM Recommendation No. I.1,

promoting shareholder participation through voting by correspondence, by electronic means and by duly appointed representative in accordance with the legal and bylaw rules above.

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

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

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

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

In this way, the constitutive and resolute quorum of the General Meeting of shareholders established under PHAROL's Bylaws is no different from that established under the Portuguese Companies Code. PHAROL therefore complies with CMVM Recommendation No. I.2.

II. MANAGEMENT AND SUPERVISION

COMPOSITION

15. IDENTIFICATION OF THE CORPORATE GOVERNANCE MODEL

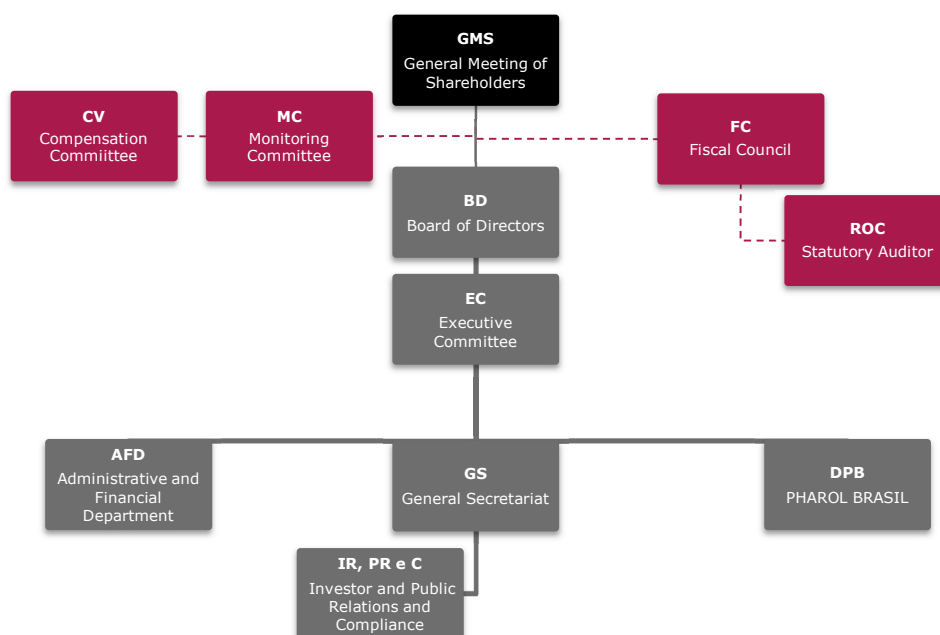
PHAROL follows a classic-type governance model, which is based on the existence of a Board of Directors and a Statutory Auditor ("ROC") elected by the

General Meeting of shareholders upon a proposal by the Fiscal Council.

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

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

Up to 31 December 2015, PHAROL' governance model could be schematised as follows:



Following the appointment of the new members of the corporate bodies of PHAROL for the term corresponding to the three-year period 2015-2017, a review of corporate governance mechanisms was made in order to adapt to the new reality of the Company, ensuring, on one hand, that the adopted governance model guarantees an effective performance and articulation of PHAROL's members of the corporate bodies and, on the other hand, contributes to the accountability of the Company and its management towards shareholders, investors and the market.

In this way, the Board of Directors determined the PHAROL's governance structure should rely on an Executive Committee with powers delegated by the Board of Directors, which would act on a predominantly operational basis.

On 30 June 2015, the Board of Directors approved a Monitoring Committee and its functions and objectives. Meanwhile, the Corporate Governance Committee and the Evaluation Committee, have been discontinued, and the respective functions have been absorbed by the Monitoring Committee.

During 2015, the Board of Directors met regularly, having analysed and discussed the issues that had been defined as the main attributes of the Monitoring Committee. Given this proximity between all members of the Board of Directors and the main challenges and decisions that justify the Monitoring of the Executive Committee, the Board of Directors has not taken the decision to fill the seats of the Monitoring Committee. Also, the costs associated with it were duly considered following the decision by the Compensation Committee which set certain compensation amounts for the performance of those places. The Board of Directors continues to assess this situation.

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

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

16. BYLAW RULES ON THE PROCEDURAL AND MATERIAL REQUIREMENTS FOR THE APPOINTMENT AND REPLACEMENT OF THE MEMBERS OF THE BOARD OF DIRECTORS

The members of the Board of Directors are elected by the General Meeting of shareholders as described in item 17 of Part I below.

The Bylaws determine that the absence of any director from more than half the ordinary meetings of the Board of Directors during one financial year, in a consecutive way or not, without a justification acceptable to the Board of Directors, shall be deemed as a definitive absence of such director. Such definitive absence shall be declared by the Board of Directors, and the director in question shall be replaced as provided for by law and the Bylaws.

17. COMPOSITION OF THE BOARD OF DIRECTORS

The members of the Board of Directors were elected on 29 April 2015 for the 2015-2017 three-year term of office.

As of 31 December 2015, the composition of the Company's Board of Directors was as follows:

<i>Members (date of first appointment)</i>	<i>Board of Directors</i>	<i>Executive Committee</i>	<i>Independence (1)</i>	<i>No. of shares</i>
Luís Maria Viana Palha da Silva (2015)	President	President		100,000
Rafael Luís Mora Funes (2007)	Member	Member		
André Cardoso de Meneses Navarro (2015)	Member			397
Francisco Ravara Cary (2014)	Member			22,000
João do Passo Vicente Ribeiro (2015)	Member		Yes	
João Manuel Pisco de Castro (2015)	Member			
Jorge Telmo Maria Freire Cardoso (2014)	Member			
José Mauro Mettrau Carneiro da Cunha (2015)	Member			
Maria do Rosário Amado Pinto-Correia (2015)	Member		Yes	40
Pedro Zañartu Gubert Morais Leitão (2015)	Member		Yes	
Ricardo Malavazi Martins (2015)	Member			

(1) Evaluation of independence made in accordance with internal regulation, article 414-5 of the Portuguese Companies Code and item 18 of the form attached to CMVM Regulation no. 4/2013, as the case may be.

The Board of Directors of PHAROL is composed of a minimum of 9 and a maximum of 11 members, who are elected by a majority of the votes cast at the General Meeting of shareholders.

Directors are appointed for a three-year term of office, and may be re-elected one or more times within the limits of the law.

On 30 June 2015, the Board of Directors approved its Internal Regulation, under which they should promote that their non-executive members are, at least, the majority of the directors in office.

Executive members report on all of the relevant matters to all other members of the Board of Directors. Thus, the Company substantially complies with CMVM Recommendations no. II.1.6 and II.1.8.

In accordance with the above mentioned regulation, each Director shall timely inform the Chairman of the Board of Directors of any conflict of interest, being in such case restrained from discussing and voting the matters in question.

18. EXECUTIVE AND NON-EXECUTIVE BOARD MEMBERS AND INDEPENDENCE CRITERIA

As referred to in item 17 of Part I above, as at 31 December 2015 the Company distinguishes executive and non-executive directors. In the same item, those directors that are considered independent are identified.

As at 31 December 2015, the Board of Directors of PHAROL has 3 independent directors, from among 11 members of the Board.

All directors deemed independent by PHAROL, as of 31 December 2015, as set out in item 17 of Part I above, meet the conditions required for the performance of their duties and compliance with their obligations to act diligently and in the interest of the Company in an independent manner. Thus, the Board of Directors considers that the Company's management body includes a number of independent members that is appropriate to its size and shareholder structure, capable of playing the supervisory and accountability role that is specially entrusted to them.

According to Internal Regulation no. 2,14, the members of the Board of Directors of the Company, must send to the Chairman of the Board, within 10 business days as from their election or co-optation, and no later than 31 January of each year, declarations prepared in accordance with an Appendix to the said Internal Regulation.

Where the independence situation of any member of the Board of Directors is subsequently changed, the director in question must send to the Chairman of the Board an updated declaration, in the 10 business days following such subsequent change.

The Board of Directors assesses the independence of its non-executive members, on the basis of such declarations, as well as of any other information of which the Board may be aware.

Thus, it is considered to comply with CMVM Recommendations II.1.7.

19. PROFESSIONAL QUALIFICATIONS AND OTHER RELEVANT CURRICULUM ELEMENTS OF THE MEMBERS OF THE BOARD OF DIRECTORS

The *curricula* of PHAROL's directors are shown in Appendix I.

20. FAMILY, PROFESSIONAL OR COMMERCIAL RELATIONSHIPS, FREQUENT AND SIGNIFICANT, OF THE MEMBERS OF THE BOARD OF DIRECTORS WITH OWNERS OF QUALIFIED HOLDINGS ABOVE 2% OF THE VOTING RIGHTS

As at 31 December 2015:

- Luís Maria Viana Palha da Silva: he is a member of the Board of Directors of Oi, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.
- Rafael Luís Mora Funes: he is a member of the Board of Directors of Oi, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.
- André Cardoso de Meneses Navarro: he is a member of the Board of Directors of Oi, S.A and performs his professional duties in Millennium BCP, entities having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.
- Francisco Ravara Cary: he is a member of the Board of Directors of Oi, S.A. and he performs his professional duties in various companies incorporated in Grupo Novo Banco, S.A. (among which, director of Novo Banco, S.A.), and Novo Banco, S.A., entities having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL
- João do Passo Vicente Ribeiro: is an alternate member of the Board of Directors of Oi, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.
- João Manuel Pisco de Castro: is an alternate member of the Board of Directors of Oi, S.A., and he is Vice- President of Grupo Visabeira, entities having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.
- Jorge Telmo Maria Freire Cardoso: he is an alternate member of the Board of Directors of Oi, S.A., and he is director for the financial area of Novo Banco, S.A., entities having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.
- José Mauro Mettrau Carneiro da Cunha: he is Chairman of the Board of Directors of Oi, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.
- Pedro Zañartu Gubert Morais Leitão: is an alternate member of the Board of Directors of Oi, S.A., an entity having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.
- Ricardo Malavazi Martins: he is a member of the Board of Directors of Oi, S.A., an

entity having a qualified holding in excess of 2% of the share capital and voting rights in PHAROL.

On 17 February 2016, due to the announcement of resignation of Francisco Cary and Jorge Cardoso of their offices as members of the Board of Directors of Oi, S.A., João Pisco de Castro and Maria do Rosário Pinto-Correia were appointed to perform professional duties in Oi, S.A. as effective and alternate members of the Board, respectively.

21. DISTRIBUTION OF POWERS AMONG THE VARIOUS CORPORATE BODIES, COMMITTEES AND/OR DEPARTMENTS OF THE COMPANY

MANAGEMENT BODY

Board of Directors

Pursuant to the Bylaws, the Board of Directors is the corporate body responsible for managing the Company's businesses and practicing all acts regarding the corporate scope that are not within the powers of other corporate bodies. It establishes the strategic orientation of PHAROL and monitors the day-to-day management of the Executive Committee.

In order to guarantee the existence of a structure as appropriate for PHAROL's management needs, the Board of Directors, at the beginning of the 2015-2017 term of office, delegated day-to-day management powers to the Executive Committee, and retained the duties of supervision and control. Within said delegation of powers, the Board of Directors assigned the Executive Committee all powers required for such purpose, without prejudice to the Board's authority to take on any of the delegated powers, other than those in respect of the matters listed hereinafter:

- a) Selection of the Chair of the Board of Directors;
- b) Co-opting directors;
- c) Request to convene General Meetings;
- d) Annual report and accounts, to be submitted to the General Meeting for approval;
- e) Acquisition, sale and disposal of real estate and capital holdings;
- f) Provision of real or personal sureties or guarantees by the Company, where the competence for this lies with the Board of Directors, without prejudice to the stipulations of sub-paragraph h) of article 15 of the Company's Articles of Association;
- g) Change in the location of the Company's registered offices;
- h) Projects for the merger, demerger or transformation of the company, to be submitted to the General Meeting, or any corporate acquisitions, disposals, mergers, demergers, strategic partnership agreements or other forms of long-lasting cooperation that involve the Company and/or its subsidiary(ies), whenever such operations do not constitute mere internal restructurings of the Company and/or its subsidiary(ies) that fall within the scope of the

- general objectives and fundamental principles approved by the General Meeting;
- i) Projects for increases in capital, to be submitted to the General Meeting;
 - j) Changes to the articles of association, to be submitted to the General Meeting;
 - k) Important extensions or reductions in the Company's business activities or important changes to the Company's organizational structure;
 - l) Annual business plans, budgets or investment plans;
 - m) Setting of the amount to be proposed each year to the General Meeting for the issue of bonds or other securities, where these might later be decided on by the Executive Committee.

The Board of Directors thus consider that CMVM Recommendation no. II.1.2 is complied with, as no authority of the Board of Directors is delegated as regards: (i) the determination of the Company's general strategy and policies, and strategic decisions due to their amount, risk or special features, notably, regarding this latter, as a consequence of such matters being reserved to the powers of the Board of Directors pursuant to its Internal Regulation.

In addition, the Board of Directors granted specific powers to the Monitoring Committee to follow up on the corporate governance system, remunerations, evaluation of director performance and within the scope of selection procedures.

Notwithstanding the Fiscal Council's powers, the Board of Directors is also responsible for ensuring the Company has implemented effective internal control and risk management procedures.

Other than any matters excluded by law, the Board of Directors is forbidden from passing resolutions on matters assigned by the Bylaws to the General Meeting of shareholders. Shareholders, in their turn, may only resolve on management matters at the request of the management body.

However, the Board of Directors is authorised to increase the share capital, following an opinion in favour issued by the Fiscal Council and a resolution approved by the General Meeting of shareholders, as described in item 9 of Part I of this report.

In addition to its strategy defining role, and according to its internal regulation, PHAROL's Board of Directors is responsible for ensuring the Company has implemented effective internal control and risk management procedures. The structures responsible for the implementation of these systems are described in C.III of Part I hereto.

Additionally, the Board has already approved a set of internal rules that determine, notably (i) the obligation to disperse cash over several banks and (ii) limitations to types of financial instruments and deposits.

Powers of the Chairman of the Board of Directors

Pursuant to the Bylaws and to the Board of Directors' internal operating rules, the Chairman of the Board of Directors is entrusted with the following duties:

- Convening and directing the meetings of the Board of Directors;
- Representing the Board of Directors in legal and non-legal matters
- Co-ordinating the activity of the Board of Directors and apportioning tasks among members when recommended on the basis of management expediency;
- Ensuring that the resolutions of the Board of Directors are properly complied with.

Executive Committee

On 30 June 2015, the Board of Directors delegated on an Executive Committee the daily management of the Company, while retaining supervision and control functions.

SUPERVISORY BODIES

Fiscal Council

As a supervisory body, the Fiscal Council has, in addition to all other powers established in the law or the Bylaws, the following specific rules:

- a) Inspect the Company's management;
- b) Monitor compliance with the law and the Company's Bylaws;
- c) Confirm that the books, accounting records and their supporting documents are in due order;
- d) When it deems convenient and through the means it finds adequate, confirm available cash and the existence of any type of goods or values belonging to the Company or received by it as a guarantee, deposit or other purpose;
- e) Confirm the accuracy of the accounting statements and, generally, supervise the quality and integrity of the financial information specified in the Company's accounting statements;
- f) Check whether the accounting policies and the valuation criteria applied by the Company result in a correct valuation of its assets and results;
- g) Prepare an annual report on its inspection activities and issue an opinion on the report, accounts and proposals presented by the board;
- h) Convene the General Meeting, when such is not performed by the respective Chairman of the Board of the General Meeting of Shareholders;
- i) Inspect the quality, integrity and effectiveness of the risk management system, internal control system and internal audit system, including the annual review of its adequacy and effectiveness, and generally supervise the performance of any duties carried out within the scope of the Company's internal audit and internal control system;
- j) Receive notifications of deficiencies, claims and/or complaints submitted by shareholders, Company employees or others, and implement procedures to

receive, record and process those notifications when related with aspects of accounting, auditing and internal control procedures in these matters;

- k) Contract services provided by experts to assist the members of the Fiscal Council members in carrying out their duties, whereby contracting and remuneration of said experts shall take into account the importance of the issues for which they are responsible and the Company's economic situation;
- l) Inspect the process for preparing and disclosing financial information;
- m) Propose to the General Meeting the appointment of the Statutory Auditor;
- n) Inspect the review of the Company's accounts and the auditing of its accounting statements, and also supervise and evaluate internal procedures regarding accounting and auditing matters;
- o) Inspect the independence of the Statutory Auditor, in particular any provisioning of additional services by the said auditor;
- p) In the event of companies that issue securities admitted to trading on a regulated market, the Fiscal Council shall confirm whether the disclosed report on the corporate governance structure and practices includes the information specified in article 245 – A of the Securities Market Code.

Fiscal Council has also the following duties:

- To analyze and issue its opinion on relevant issues related with accounting and auditing aspects and the impact on the financial statements caused by alterations to accounting standards applicable to the Company and to its accounting policies;
- Direct and exclusive responsibility to appoint, contract, confirm or terminate duties and to stipulate the remuneration of the Company's independent auditors, as well as to inspect their qualifications and independence, and to approve the auditing services and/or other services to be rendered by the said independent auditors or by persons who are their associates;
- To settle any disputes between the Company's Board and the independent auditors indicated in the previous subparagraph, in regard to the financial information to be included in the accounting statements to be reported to the competent entities and in regard to the process of preparing the audit reports to be issued by the said independent auditors;
- To issue a statement and a prior opinion within the scope of its legal and statutory rules and, whenever it deems such necessary or convenient, about any reports, documentation or information to be disclosed or submitted by the Company to the competent authorities.

The Company therefore complies with CMVM Recommendations no. II.2.2 to II.2.5.

Statutory Auditor

Under articles 420,1(c), (d), (e) & (f) and 446,3 of the Portuguese Companies Code, it is the duty of the Statutory Auditor to control the regularity of the books, accounting records and documents supporting the same, as the Statutory Auditor deems fit and appropriate, the extension of cash and inventory of any kind of assets or values owned

or received as collateral, deposit or otherwise by the Company, and furthermore the accuracy of individual and consolidated financial statements, as well as that the accounting policies and criteria adopted by the Company lead to a correct assessment of its assets and results.

Following entry into force of Decree-Law no. 185/2009 of 12 August 2009, similarly to the Fiscal Council, it also became the duty of the Statutory Auditor to verify whether the Company's governance report disclosed each year includes all legally required data as regards, inter alia, qualified shareholdings in the Company capital, identification of shareholders of special rights and description of such rights, any restrictions in respect of voting rights, rules applicable to appointment and replacement of directors, Bylaw amendment and powers and resolutions of the management body, and the main constituents of the internal control and risk management systems implemented in the Company in connection with the financial information disclosure procedure.

COMMITTEES AND SUPPORTING STRUCTURES

FUNCTION

22. OPERATING RULES OF THE BOARD OF DIRECTORS

On 30 June 2015, the Board of Directors adopted its internal operation regulation. The full text of this regulation may be consulted on the Company's website, link:

http://conteudos.pharol.pt/Documents/EN/Regulation/2015/06_June/Regulamento_CA_en.pdf

Under the terms of article 24 of the Bylaws and the Board's Internal Regulation, the Board of Directors shall meet, at least, every three months of each year, and shall meet in extraordinarily sessions whenever convened by its Chairman, by two Directors or by the Fiscal Council.

The Board of Directors may not work without the presence of the majority of its members in office. The Chairman of the Board of Directors may, when clearly urgent, waive the presence of such majority if the same is ensured through voting by correspondence or through a power of attorney, although a director may not represent more than one other director.

The resolutions of the Board of Directors are passed by a majority of votes cast, and the Chairman has a casting vote.

23. NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS AND DEGREE OF ATTENDANCE OF EACH MEMBER

During the 2015 financial year, 20 meetings of the Board of Directors took place, 12 were as PT SGPS and 8 were as PHAROL. The degree of attendance of directors at these meetings of the Board of Directors of PT SGPS was 95% and PHAROL was 100%. The Chairman of the Board of Directors sends to the Board of Directors and to the

Chairman of the Fiscal Council all notices and minutes of the Board and the Executive Committee meetings, in order to allow for the adequate information and disclosures. In this way, CMVM Recommendation no. II.1.9 – as well as evaluation of compliance in material terms – are understood as applicable to PHAROL' management body and its Chairman.

24. INDICATION OF THE CORPORATE BODIES EMPOWERED TO CARRY OUT THE PERFORMANCE EVALUATION OF EXECUTIVE DIRECTORS

The Compensation Committee determines the remunerations of the executive members of the management body based on objective criteria as approved by such Committee.

Furthermore, pursuant to the law, the General Meeting of shareholders makes an annual general appraisal of the management (and supervision) of the Company.

25. PRE-DETERMINED CRITERIA FOR THE PERFORMANCE EVALUATION OF EXECUTIVE DIRECTORS

On 3 September 2014, PT SGPS' Compensation Committee, under proposal by the Evaluation Committee, and considering notably PT SGPS' situation and the changes made to the Business Combination with Oi, resolved to instruct the Company's corporate bodies, committees and relevant services not to make any payments in connection with variable remunerations and/or any other form of performance and/or office termination bonus or compensation (other than any fixed remuneration due), even if under passed resolutions adopted by the Compensation Committee (notably, amounts pending calculation/allocation and/or deferred), until the Compensation Committee, supported by the Evaluation Committee would identify and examine the situations in question and resolve as to the same.

On 29 May 2015, the General Meeting of Shareholders adopted the Declaration of the Compensation Committee on the Remuneration Policy for the members of the management and supervisory bodies of the still PT SGPS, included on Annex III.

However, on 20 July 2015, the Compensation Committee of PHAROL, after several recitals, in particular considering:

- listening to reference shareholders of the Company;
- corporate governance organization model implemented for the new mandate of the governing bodies, in particular the fact that the Executive Committee consists of two elements, that there is only one specialized Committee in the Board of Directors and increased relevance in this model of the Fiscal Council's role;
- the scope and nature of the activity, assets and liabilities of the Company;

deliberated on a fixed monthly remuneration for management and supervisory Board and deferred to a later date the definition of criteria for assessing the performance of Executive Directors.

In 2016, the Remuneration Committee decided on the basis of criteria defined at the above mentioned General Meeting of Shareholders, does not assign any variable remuneration to executive directors.

26. AVAILABILITY OF EACH MEMBER OF THE BOARD OF DIRECTORS AND INDICATION OF FUNCTIONS EXERCISED SIMULTANEOUSLY IN OTHER COMPANIES, INSIDE AND OUTSIDE THE GROUP, AND OTHER RELEVANT ACTIVITIES EXERCISED BY THE MEMBERS OF THE BOARD OF DIRECTORS

The functions exercised by the Company' directors in other companies as well as their other relevant activities are shown in Appendix I, there being highlighted the duties performed and the attendance and active participation of the directors in the meetings of the Board of Directors (in respect of all its members) – see item 23 of Part I above – evidence the availability of each member of the Board of Directors to perform duties as director of the Company.

COMMITTEES WITHIN THE MANAGEMENT OR SUPERVISION BODIES AND DELEGATED DIRECTORS

27. COMMITTEE CREATED WITHIN THE BOARD OF DIRECTORS AND LOCAL FOR THE CONSULTATION OF ITS OPERATING RULE

The Regulation for the Monitoring Committee may be consulted on the Company's website, link:

http://conteudos.pharol.pt/Documents/EN/Regulation/2015/06_June/RegulamentoComissaoAcompanhamento_en.pdf

28. COMPOSITION OF THE EXECUTIVE COMMITTEE AND/OR IDENTIFICATION OF MANAGING DIRECTORS

According to the Bylaws, the Board of Directors appoints the Chief Executive Officer ("CEO") and all other members of the Executive Committee.

The Executive Committee shall schedule the dates and periodicity of its own ordinary meetings, and shall meet extraordinarily whenever called upon by its Chief Executive Officer.

The Executive Committee may not deliberate without the presence or representation of the majority of its members and, in case it is composed of two members, without being present or represented by all of its members.

As of 31 December 2015, the composition of the Executive Committee was as follows:

Composition

Luís Maria Viana Palha da Silva	President
Rafael Luís Mora Funes	Member

29. DUTIES OF EACH COMMITTEE CREATED WITHIN THE BOARD OF DIRECTORS AND SUMMARY OF THE ACTIVITIES DEVELOPED IN THE EXERCISE OF SUCH DUTIES

Regarding this matter, please see items 21 and 27 of Part I above.

III. SUPERVISION

COMPOSITION

30. IDENTIFICATION OF THE SUPERVISORY BODY

The supervisory body is the Fiscal Council.

31. COMPOSITION OF THE FISCAL COUNCIL

The Fiscal Council is composed of three members which are appointed by the General Meeting of shareholders and one of them as a Chairman.

As at 31 December 2015, the Company's Fiscal Council was composed as follows:

Composition

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

32. IDENTIFICATION OF THE MEMBERS OF THE FISCAL COUNCIL COMMITTEE CONSIDERED INDEPENDENT UNDER ARTICLE 414,5 OF THE PORTUGUESE COMPANIES CODE

The Fiscal Council members meet the requirements on incompatibilities, independence and specialization arising from legal and regulatory requirements and other market rules to Corporate issuers of securities admitted to trading on a regulated market.

33. PROFESSIONAL QUALIFICATIONS AND OTHER RELEVANT CURRICULUM ELEMENTS OF THE MEMBERS OF THE FISCAL COUNCIL

The *curricula* of the members of PHAROL's Fiscal Council are shown in Appendix I.

OPERATION

34. OPERATING RULES OF THE FISCAL COUNCIL

The Fiscal Council adopted its Internal Regulation, which may be consulted on the following electronic address:

http://conteudos.pharol.pt/Documents/EN/Regulation/2015/10_October/Regulamento_Conselho_Fiscal_en.pdf

According to such Regulation, the Fiscal Council meets at least once every three months, on the day and at the place established by its Chairman, although extraordinary meetings may be called upon by its Chairman or at the request of a majority of its members.

The Fiscal Council shall not function without the presence of the majority of its members in office. Its Chairman may, when clearly urgent or there is a justified impossibility, waive the presence of that majority if the same is ensured through voting by correspondence or by power of attorney.

The Fiscal Council's resolutions are approved by a majority of the votes cast, and its Chairman has a casting vote.

35. NUMBER OF MEETINGS OF THE FISCAL COUNCIL AND DEGREE OF ATTENDANCE OF EACH MEMBER

During the 2015 financial year, 7 meetings of the Fiscal Council took place. The degree of attendance of each member to these meetings was 100%.

36. AVAILABILITY OF EACH MEMBER OF THE FISCAL COUNCIL AND INDICATION OF FUNCTIONS EXERCISED SIMULTANEOUSLY IN OTHER COMPANIES, INSIDE AND OUTSIDE THE GROUP, AND OTHER RELEVANT ACTIVITIES EXERCISED BY THE MEMBERS OF THE FISCAL COUNCIL

The functions exercised by the members of PHAROL's Fiscal Council in other companies as well as their other relevant activities are shown in Appendix I.

COMPETENCES AND DUTIES

37. PROCEDURES AND CRITERIA APPLICABLE TO THE INTERVENTION OF THE SUPERVISORY BODY WHEN HIRING ADDITIONAL SERVICES FROM THE EXTERNAL AUDITOR

In the year 2015, PHAROL did not contract to the external auditor or any entity with a group relationship or that incorporate the same network, for any other services than audit services.

Therefore, PHAROL believes that it complies with CMVM Recommendation no. IV.2.

38. OTHER DUTIES OF THE SUPERVISORY BODIES

Regarding this matter, please see item 21 of Part I above.

IV. STATUTORY AUDITOR (*REVISOR OFICIAL DE CONTAS / ROC*)

39. IDENTIFICATION OF THE STATUTORY AUDITOR AND OF ITS REPRESENTING PARTNER

The 2015-2017 three-year term of office of the Statutory Auditor commenced on 29 May 2015, its effective member being the firm BDO & Associados, SROC. Lda., registered in the Statutory Auditor's Professional Association ("OROC") under no. 29 and at CMVM under no.20161384, represented by its partner and manager Rui Carlos Lourenço Helena, registered at OROC as Statutory Auditor, under no. 923.

40. NUMBER OF YEARS DURING WHICH THE STATUTORY AUDITOR PERFORMS DUTIES CONSECUTIVELY IN THE COMPANY AND/OR GROUP

The firm BDO & Associados, SROC. Lda., performs duties as Statutory Auditor in the Company since 29 May 2015.

Pursuant to its duties, PHAROL's Fiscal Council confirmed the independence of the Statutory Auditor, and appraised its work during the 2015 financial year.

41. OTHER SERVICES RENDERED TO THE COMPANY BY THE STATUTORY AUDITOR

In 2015, the Statutory Auditor also rendered the external audit service to PHAROL.

V. EXTERNAL AUDITOR

42. IDENTIFICATION OF THE EXTERNAL AUDITOR AND OF ITS REPRESENTING PARTNER, AS WELL AS THEIR RESPECTIVE REGISTRY NUMBER BEFORE THE CMVM

PHAROL's current External Auditor, appointed in 2015 for the purposes of article 8 of the Portuguese Securities Code, is BDO & Associados – SROC, Lda., registered at OROC under no. 29 and at CMVM under no. 20161384, and it is represented by its partner and director Rui Carlos Lourenço Helena, registered at OROC as Statutory Auditor under no. 923.

43. NUMBER OF YEARS DURING WHICH THE EXTERNAL AUDITOR AND ITS REPRESENTING PARTNER PERFORM DUTIES CONSECUTIVELY IN THE COMPANY AND/OR GROUP

PHAROL's current External Auditor, appointed in 2015 for the purposes of article 8 of the Portuguese Securities Code, is BDO & Associados – SROC, Lda., registered at OROC under no. 29 and at CMVM under no. 20161384, began its functions in March 2015.

44. POLICY AND PERIOD FOR THE ROTATION OF THE EXTERNAL AUDITOR AND OF ITS REPRESENTING PARTNER

There is no internal policy for the External Auditor's mandatory rotation, apart from the one legally applicable to public interest entities. The mandatory rotation period applicable to the Statutory Auditor that represents the External Auditor in the performance of its duties results from article 54,2 of the OROC Statutes (7 years) and the stricter requirement set forth in letter (j) of Section 10A of US Securities Exchange Act of 1934, with the wording provided by Section 203 of Sarbanes-Oxley Act of 2002 (5 years), applicable to US Foreign Private Issuers.

45. CORPORATE BODY RESPONSIBLE FOR THE EVALUATION OF THE EXTERNAL AUDITOR AND FREQUENCY FOR SUCH EVALUATION

In 2015, the External Auditor's independence was safeguarded, in particular, by the implementation of the Company's policy on pre-approval of the services to be hired to external auditors (or any entity in a holding relationship with or incorporating the same network as the External Auditors), which results from the application of legal rules and the rules issued by SEC on this matter. According to such policy, the Fiscal Council makes an overall pre-approval of the services proposal made by the External Auditors.

The Fiscal Council annually evaluates the External Auditor's performance and independence, as described in the annual Report of the Fiscal Council's activities which is made available on the Company's website. Pursuant to its duties and in line with CMVM Recommendation no. II.2.3, the Company's Fiscal Council assessed and confirmed the independence of BDO & Associados, SROC, Lda., and appraised its work relating to the Company's 2015 financial audit.

46. SERVICES, OTHER THAN AUDITING SERVICES, PROVIDED BY THE EXTERNAL AUDITOR TO THE COMPANY AND/OR ENTITIES IN A CONTROL RELATIONSHIP, AS WELL AS INDICATION OF INTERNAL PROCEDURES FOR THE PURPOSES OF APPROVING THE HIRING OF THOSE SERVICES AND REASONS FOR SUCH HIRING

There were no services other than auditing services provided to the Company and to companies in a control relationship with PHAROL by the External Auditor and entities in a holding relationship with or incorporated in the same network beyond the role of the Statutory Auditor.

47. INDICATION OF THE AMOUNT OF ANNUAL REMUNERATION PAID TO THE AUDITOR AND OTHER INDIVIDUALS OR CORPORATIONS IN THE SAME NETWORK SUPPORTED BY THE COMPANY AND OR BY CORPORATIONS IN A CONTROL OR GROUP RELATIONSHIP, AS WELL AS SPECIFICATION OF THE PERCENTAGE OF EACH TYPE OF SERVICE

BDO & Associados, SROC, Lda. for the external audit and Statutory Auditor simultaneously will bill a total of 325,284 euros to which VAT is added at the legal rate.

C. INTERNAL ORGANIZATION

I. BYLAWS

48. RULES APPLICABLE TO AMENDMENT TO THE BYLAWS OF THE COMPANY

Constitutive quorum for the General Meeting of Shareholders

Where an amendment to the Bylaws is at issue, the General Meeting of shareholders may only resolve, on a first call, if shareholders owning shares corresponding to at least one-third of the share capital are present or represented. On a second call, no such requirement exists, and the General Meeting may resolve on any matter whatever the number of shareholders present.

Resolution quorum for the General Meeting of Shareholders

Where an amendment to the Bylaws of the Company is at issue, the General Meeting of shareholders resolves by a majority of two-thirds of the votes cast.

However, if shareholders holding at least half the share capital are present or represented at a General Meeting held on second call, an amendment to the Bylaws may be resolved by a majority of the votes cast, and no two-third majority is therefore required.

Thus, PHAROL's Bylaws establish no quorum other than established by the law for the General Meeting to be held or to approve resolutions.

The Board of Directors is, however, authorised to increase the share capital, subject to an opinion in favour issued by the Fiscal Council and following a resolution of the General Meeting of shareholders, fixing the parameters to which the increase or increases of capital are subject to. The Board of Directors may also move the registered office of the Company within the national territory.

II. WHISTLEBLOWING

49. WHISTLEBLOWING

In September 2015, PHAROL revised a set of procedures called "System for Qualified Communication of Undue Practices", or Whistleblowing, which was implemented in

2005 and revised in January 2014. The amendments were to take into consideration the changes in the company - change of name, space reduction, staff reduction and even the model of governance which resulted in particular the replacement of the Audit Committee by a Fiscal Council.

Within Whistleblowing, “undue practices” mean all acts or omissions, wilful or negligent, performed within the activities of the companies pertaining to PHAROL, that may have an impact on the financial statements or information sent to the Portuguese regulatory authority, CMVM, or the US regulatory authority, SEC, or those that cause damage to PHAROL’s assets and reputation.

Suitable safety measures were implemented for the protection of information and data contained in communications. In particular, restricted access will be guaranteed, from a physical and logical perspective, to the System servers, and the means for gathering and filing information must be exclusive to the System.

Both confidentiality of the communication and anonymity of the person reporting will be ensured at all times, unless the person concerned unequivocally intends and declares otherwise.

In no case is any kind of retaliation against those that make the said communications tolerated.

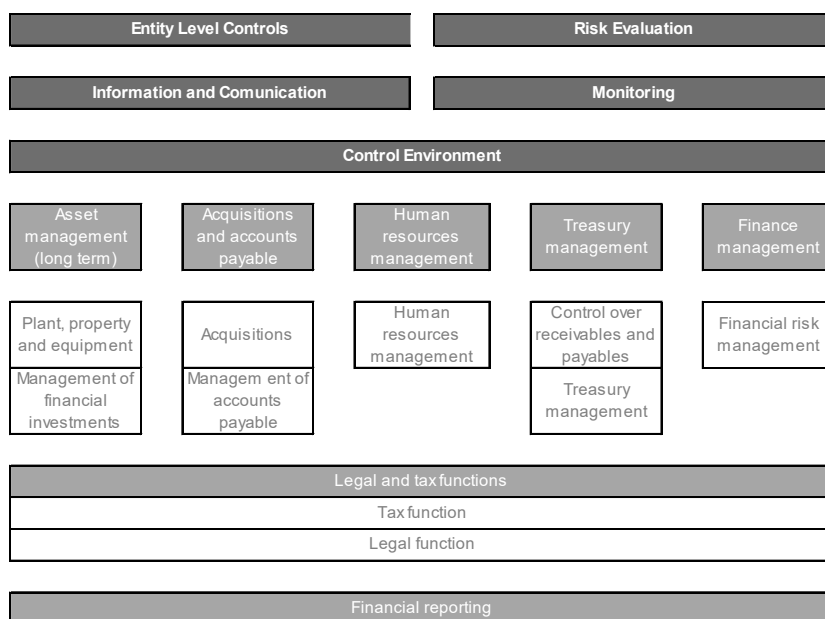
III. INTERNAL CONTROL AND RISK MANAGEMENT

Internal Control System

The Internal Control System implemented at PHAROL was based on an internationally acknowledged model – COSO (Committee of Sponsoring Organisations of the Treadway Commission) – making use of the layers established according to such model, notably: (i) Entity Level Controls; (ii) IT Level Controls; and (iii) Process Level Controls.

PHAROL designed a manual and implemented controls for the most representative business cycles within the Company. As to lesser business cycles, and within the framework of improvement of internal control and risk management environment, PHAROL defined a set of minimum internal control requirements.

PHAROL’s internal control manual and most relevant business cycles may be summarised in the table below:



The identification and design of the controls that are relevant to financial reporting, whether preventive, detective or corrective, are documented in the proper manual according to the layers established by COSO. The manual is revised where changes in the processes occur or periodically, in order to attest their adhesion to the reality of PHAROL's operations.

Currently, PHAROL has already identified around 60 controls, of which 38 are considered as key controls.

The internal control system is checked by the External Auditors and in full compliance with the CMVM Recommendation no. IV.1, the External Auditors also verify the implementation of remuneration policies and systems in force in the Company.

50. PERSONS, BODIES OR COMMITTEES RESPONSIBLE FOR INTERNAL AUDITING AND/OR IMPLEMENTATION OF INTERNAL CONTROL SYSTEMS

The Fiscal Council monitors PHAROL permanently as follows:

- a) evaluate internal procedures for accounting and auditing matters;
- b) assess the effectiveness of the Risk Management System regarding tax, legal, economic and financial aspects;
- c) evaluate the effectiveness of the internal control system;
- d) review the External Audit function.

The internal control system is monitored by the Board of Directors, which identifies the risks of the company, the results of the risk management process, the materiality level of financial reporting and proposes the implementation of measures.

51. HIERARCHICAL AND/OR FUNCTIONAL DEPENDENCE RELATIONS VIS-À-VIS OTHER CORPORATE BODIES OR COMMITTEES

The annual plan in respect of the External Audit and Risk Management function is annually approved by the Executive Committee and informed to the Fiscal Council of PHAROL, wherein are defined the audits to be performed and the scope of internal control reviews. The objective of these procedures is to ensure that internal control mechanisms are in place to ensure the reliability and integrity of financial and operational reports, operational efficiency and compliance with applicable laws and regulations.

The progress of the execution of the annual audit plan as defined, as well as the aggregate results of audits carried out, are reported to the Fiscal Council for the follow-up of the progress of the internal control and risk management system and definition of action plans for mitigation and resolution of risks detected.

As referred to above, the Company considers itself to comply with CMVM Recommendations no. II.2.4 and no. II.2.5.

52. OTHER FUNCTIONAL AREAS HAVING RISK CONTROL POWERS ROLE

Risk Management is promoted by the Board of Directors and the Executive Committee in such a way as to identify, assess and manage uncertainties, threats and opportunities that might affect the pursuance of the plan and strategic goals, to decide on the level of exposure and overall risk limits to be undertaken by PHAROL in its different activities and to ensure that management risk policies and procedures are followed.

PHAROL risk level results from the degree of the Board's acceptance for risk, which is kept within limits according to criteria as agreed between the Board of Directors, the Executive Committee and the Fiscal Council, this latter under legal terms, responsible for evaluating the effectiveness of the Risk Management System under the fiscal, legal, economic and financial viewpoint.

Risk Management is entrusted to the Board of Directors, performed by the Executive Committee, although it depends on the supervision of the Fiscal Council.

53. MAIN ECONOMIC, FINANCIAL AND LEGAL RISKS TO WHICH THE COMPANY IS EXPOSED IN THE CONDUCT OF ITS BUSINESS

Among the various risks that may adversely affect the business of PHAROL, the following should be highlighted:

Relevant Risks		
Economic Risks	Oi's Performance	<p>The main risk to which PHAROL is subject to derives from Oi's operational and financial performance, notably Oi's ability to generate profits and cash flow and pay dividends.</p> <p>Oi's performance is also dependant on the performance of the Brazilian economy.</p>
Financial Risks	Exchange Rates	<p>Foreign currency exchange rate risks relate mainly to PHAROL in Oi (Brazil). Any exchange rate fluctuations of the Real against the Euro affect the translation of the results attributable to PHAROL, and therefore impact PHAROL's results and financial position.</p> <p>The Company does not have a hedging policy regarding the value of these investments.</p>
	Interest Rate	<p>Interest rate risks basically related to financial expenses and the floating interest rate debt and cash applications. PHAROL is exposed to this risk specially in Brazil. It is important to point out that, at the end of 2015, PHAROL has no debt.</p> <p>Regarding debt, Oi is consolidated by the equity method in PHAROL's Financial Statements.</p> <p>Market interest rates also affect the discount rates used for impairment testing to the various assets of the entity.</p>
	Treasury Applications	<p>PHAROL is mainly subject to credit risks in its treasury activities.</p> <p>In order to dilute these risks, in July 2014 the Board of Directors defined a policy for treasury applications.</p>
	Default by Rio Forte as to the reimbursement of the instruments that PHAROL holds following the execution of the Exchange	<p>The Rio Forte Instruments currently held by PHAROL, following the consummation of the Exchange on 30 March 2015, are not guaranteed by assets. Therefore, even though there may exist amounts available for reimbursement to Rio Forte's creditors the right to reimbursement of PHAROL will be shared pro rata with the other unsecured creditors of Rio Forte and only after the repayment of all debts to any secured creditors.</p>
	Exercise of the call option on Oi's shares	<p>The value of the Call Option on Oi's shares will depend primarily on the market price for Oi's ordinary and preferred shares, the price of which will depend, in its turn, on Oi's performance, including its operations, financial position and business outlook.</p> <p>The Board of Directors of PHAROL closely monitors Oi's business on regular basis and is further engaged in periodically following up the Call Option for purposes of financial statement recording, as well as the price of Oi's shares.</p>
	Legal Risks	Court proceedings
Tax contingencies		<p>PHAROL may incur future liabilities under its tax obligations with the Tax Authorities. In the context of the agreement with Oi, where Oi assumes responsibility for the direct payment of all contingencies until May 5, 2014, PHAROL directly and severally liable for these contingencies.</p>
Disputes or investigations triggered under		<p>PHAROL may incur in liability under disputes and other future proceedings and incur in legal costs in such disputes or other proceedings. Any liability incurred may adversely affect PHAROL's</p>

<p>the Rio Forte Instruments or the Business Combination</p>	<p>financial position and the capacity to fully implement the Business Combination.</p> <p>On 13 January 2015, PHAROL received a subpoena (“Subpoena”) from SEC in relation to a private inquiry demanding that PHAROL deliver documents and other information on several topics, including the Rio Forte Instruments and treasury applications in entities pertaining to the Espírito Santo Group, the Business Combination between PHAROL and Oi, communications made by PHAROL, internal controls and the investigation conducted by international auditors in relation to the procedures adopted and the actions undertaken by PHAROL in respect of the Rio Forte Instruments and other investments in entities pertaining to GES. On 1 June 2015, PHAROL received another subpoena asking for more information related to these matters. PHAROL is cooperating with SEC in respect of the investigation and the Subpoenas.</p>
<p>SEC’s comments on Form 20-F for 2013</p>	<p>In 2013, the PHAROL presented its financial statements to various entities and institutions.</p> <p>Form 20-F for 2013 is still subject to revision by SEC, which has requested additional information for its analysis. SEC’s comments include topics related to the Rio Forte Instruments, the communication of information on related party transactions, communications on the concentration of credit risks, the accounting treatment of the investment in Unitel as of 31 December 2013 and other aspects. SEC’s comments may lead to the amendment of Portugal Telecom’s consolidated accounts for 2013 and previous years and other disclosures in Form 20-F. PHAROL cannot predict when SEC’s revision and comments will end.</p> <p>As to the 2013 Form 20-F, the Board of Directors appointed a law firm for purposes of legal advice and follow up of the progress of the procedure.</p> <p>General Secretariat have made efforts to respond to SEC’s requests as fully and swiftly as possible. Additionally, a new timeline has been established with the new PHAROL External Auditor for compliance with the reporting periods established both by CMVM and by SEC.</p>

54. RISK IDENTIFICATION, ASSESSMENT, MONITORING, CONTROL AND MANAGEMENT PROCEDURE

Risk Management Procedure

The Risk Management procedure implemented in PHAROL is based on an internationally acknowledged methodology – COSO II, developed by the Committee of Sponsorship Organisations of the Treadway Commission. This approach is based on the identification and analysis of key value drivers and uncertainty factors that might affect value generation and compliance with the plan and strategic goals.

PHAROL’s priority commitment consists in the implementation of mechanisms for assessment and management of risks that might affect its operations. Such mechanisms are based on an integrated transversal risk management model, which seeks to ensure, implementation of good corporate governance practices and transparency in communication to the market and shareholders.

The whole process is monitored and supervised by the Fiscal Council. Within the functions of this body regarding the supervision of the efficiency of the risk

management system, we point out the analysis of the quality, integrity and effectiveness of the risk management system and internal control system, including the annual review of its adequacy and effectiveness, and generally supervise the execution of the functions performed by the Executive Committee.

Risk Management Methodology

Considering PHAROL’s need for clear assessment and management mechanisms for the risks affecting its businesses, the following components were defined in the implementation of the risk assessment and management procedure:

- **Risk Typology**, which defines the risk factors that might generally affect PHAROL.
 - **Economic Risks:** reflect the risks from the macroeconomic environment as well as the impact of entities and assets not controlled by PHAROL;
 - **Financial Risks:** associated to the PT SGPS’ financial performance and to the transparency in its communication to the market;
 - **Legal Risks:** result of past situations, current and future associated with hiring, assumption of rights and responsibilities and relationships with regulators and authorities.
- **Risk Management**, which formalises the analysis of processes and procedures, the mitigation and reporting of relevant risks.

Identified risks

The table below shows the risks currently identified at the level of the Risk Management Model of PHAROL on which all risk management procedures are developed.

Economic Risks	Oi’s Performance
Financial Risks	Exchange rates Interest rates Credit Liquidity Default by Rio Forte as to the reimbursement of the instruments that PT SGPS holds following the execution of the Exchange Exercise of the call option on Oi’s shares
Legal Risks	Agreements with Oi / Business Combination Court proceedings Disputes or investigations triggered under the Rio Forte Instruments or the Business Combination SEC’s comments on Form 20-F for 2013

Risk assessment

In its risk assessment, the Board of Directors and Executive Committee considers the existence of predictable and unpredictable events. While most events are recurrent

and have already been dealt with in already prepared management programs and budgets, there are events that are often unpredictable. The Board of Directors and Executive Committee assesses the risks that may cause a significant impact on the Company, taking into account both the inherent risk of materialization of the risk and the residual risk (the risk that still exists after measures have been taken by the Board of Directors and the Executive Committee).

Risk monitoring, control and management

The Board of Directors allocates responsibilities to the Executive Committee in order to formalise procedures that are aligned with the strategy and exposure level/risk tolerance determined for PHAROL, in such a way as to identify:

- Monitoring procedures to mitigate for each risk, according to the risk management strategy adopted by the Board of Directors and supervised by the Fiscal Council;
- Disclosure and reporting procedures for information issued regarding the risk management procedure.

Operational implementation of the risk management methodology is an interactive cyclical process that may be summarised in the following table:

Risk Management Methodology	
Board of Directors	Identifies main risks affecting PHAROL; Decides on action and prioritisation of mitigating actions.
Executive Committee	Implement policies and controls in accordance with the strategy set by the Board of Directors. Monitors the implementation of controls.
Fiscal Council	Supervises and evaluates risk management model; Proposes improvements & changes to model; Reviews the main risks.

55. MAIN ELEMENTS OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IMPLEMENTED IN THE COMPANY IN CONNECTION WITH THE FINANCIAL INFORMATION DISCLOSURE PROCEDURE

The wider scope of the internal control system implemented by PHAROL includes existing controls both as to the accuracy and completeness of disclosures and as to compliance thereof with the Company's financial information. At the beginning of the process, the Executive Committee, together with the Company services, the External Auditor and the Statutory Auditor, establish a timeline for the process and identify the participants/responsibility aimed at the preparation/disclosure of the financial information.

Before approval by the Board of Directors, financial information disclosures are submitted to the Fiscal Council within the context of the Company's governance model. Both the Board's approval and the Fiscal Council's opinion are preceded by a set of validation and accuracy procedures carried out by the Company services.

IV. INVESTOR SUPPORT

56. INVESTOR SUPPORT OFFICE, COMPOSITION, DUTIES, INFORMATION PROVIDED BY THE SAME AND CONTACT DETAILS

It is PHAROL's policy to supply clear and transparent information, on a regular basis, to its shareholders and other members of the financial community.

The purpose of the Investor Relations Office consists in ensuring adequate relations with shareholders, investors, analysts and financial markets in general, in particular with the Markets and Stock Exchanges where PHAROL is listed and their respective regulatory entities: CMVM and SEC.

PHAROL regularly prepares communications and press releases on quarterly, interim and annual results, as well as any inside information affecting the Company. It also provides all sorts of clarifications to the financial community in general – shareholders, investors and analysts.

Any interested party may have access to the Investor Relations Office through the following contacts:

Luís Sousa de Macedo	
Investor Relations Director	
Telephone:	+351.212.697.698
Fax:	+351.212.697.949
E-mail:	ir@pharol.pt
Address:	Rua Joshua Benoliel, 1, 2C - Edifício Amoreiras Square 1250-133 Lisboa - Portugal
Company Switchboard:	+351.212.697.690
Website:	www.pharol.pt

In addition to other information, PHAROL keeps the following information updated on its website, in Portuguese and in English, fully complying with CMVM Recommendation no. VI.1:

- Company name, its nature of public company, registered office and other data pursuant to article 171 of the Portuguese Companies Code;
- The Bylaws;
- Operating rules of the corporate bodies and of the committees created within the Board of Directors;
- The identity of the members of the corporate bodies and of the representative for relations with the market;

- Duties of and access means to the Investor Relations Office as described above;
- For a period of five years, the annual, interim and quarterly financial statements;
- A schedule of corporate events, which includes, among other information, scheduled General Meetings of shareholders and disclosure of annual, interim and quarterly accounts;
- Notices of the General Meetings of shareholders, as well as proposals to be submitted to discussion and voting by the shareholders, at least 21 days in advance of the meeting date;
- Historical collection with the resolutions passed at the Company's General Meetings of shareholders, the share capital therein represented and the voting results, regarding the previous three years;
- In general, information allowing an updated knowledge about the Company's evolution and reality in economic, financial and corporate governance terms.

57. REPRESENTATIVE FOR RELATIONS WITH THE MARKET

Regarding this matter, please see item 56 of Part I above.

58. INFORMATION ON RESPONSE PROPORTION AND PERIOD TO INFORMATION REQUESTS MADE DURING THE YEAR OR PENDING FROM PREVIOUS YEARS

The Investor Relations Office regularly receives calls with various questions, including clarifications on dividends, General Meetings of shareholders and others, typically answered immediately, when the information is public.

In addition, the Investor Relations Office regularly receives requests by e-mail or post, and depending on the technical complexity of the query it may take longer to answer, but typically it takes less than five business days.

Therefore, PHAROL believes that its Investor Relations Office ensures a permanent contact with investors, analysts and the market in general as well as a treatment of investors' requests in compliance with CMVM Recommendation no. VI.2.

V. INTERNET WEBSITE

59. ADDRESS

PHAROL makes available, through its website (<http://www.pharol.pt/>), all information of a legal nature or on corporate governance, updates on the conduct of the business of the Company, as well as a complete set of Company financial and operational data, in order to facilitate inspection and access to such information by PHAROL's shareholders, financial analysts and other parties concerned.

60. LOCATION OF INFORMATION ON THE COMPANY NAME, ITS NATURE OF PUBLIC COMPANY, REGISTERED OFFICE AND OTHER DATA PURSUANT TO ARTICLE 171 OF THE PORTUGUESE COMPANIES CODE

All information pursuant to article 171 of the Portuguese Companies Code may be found on PHAROL website at:

<http://pharol.pt/en-us/a-empresa/pages/informacao-corporativa.aspx>

61. LOCATION OF INFORMATION ON THE BYLAWS AND OPERATING RULES OF THE CORPORATE BODIES AND/OR COMMITTEES

The bylaws and operating rules of the corporate bodies and of the committees created within the Board of Directors may be found on PHAROL' website at:

<http://pharol.pt/en-us/governo-sociedade/pages/estatutos.aspx>

<http://pharol.pt/en-us/governo-sociedade/comissoes-internas/pages/enquadramento.aspx>

62. LOCATION OF INFORMATION ON THE IDENTITY OF THE MEMBERS OF THE CORPORATE BODIES, THE REPRESENTATIVE FOR RELATIONS WITH THE MARKET, THE INVESTOR RELATIONS OFFICE OR EQUIVALENT, THEIR DUTIES AND ACCESS DETAILS

The identity of the members of the corporate bodies, the representative for relations with the market, the Investor Relations Office or equivalent, their duties and access details may be found on PHAROL' website at:

<http://pharol.pt/en-us/governo-sociedade/pages/conselho-administracao.aspx>

<http://pharol.pt/en-us/governo-sociedade/pages/conselho-fiscal.aspx>

<http://pharol.pt/en-us/contactos/pages/relacao-investidores.aspx>

63. LOCATION WHERE THE COMPANY MAKES AVAILABLE THE FINANCIAL STATEMENTS, WHICH MUST BE ACCESSIBLE FOR FIVE YEARS AT LEAST, AS WELL AS A SCHEDULE OF CORPORATE EVENTS, DISCLOSED AT THE BEGINNING OF EACH HALF-YEAR, INCLUDING, AMONG OTHERS, GENERAL MEETINGS OF SHAREHOLDERS, DISCLOSURE OF THE ANNUAL, HALF-YEAR AND, IF APPLICABLE, QUARTERLY FINANCIAL STATEMENTS

The financial statements, as well as the schedule of corporate events may be found on PHAROL' website at:

<http://pharol.pt/en-us/informacao-financeira/relatorios/pages/2015.aspx>

<http://pharol.pt/en-us/informacao-financeira/calendario-financeiro/Pages/calendario-financeiro.aspx>

64. LOCATION WHERE THE COMPANY MAKES AVAILABLE NOTICES OF THE GENERAL MEETING OF SHAREHOLDERS AND ALL PREPARATORY AND SUBSEQUENT INFORMATION RELATED TO THE SAME

Notices of the General Meeting of Shareholders and all preparatory and subsequent information related to the same may be found on PHAROL's website at:

<http://pharol.pt/en-us/governo-sociedade/assembleia-geral-acionistas/Pages/assembleia-geral-acionistas.aspx>

65. LOCATION WHERE THE COMPANY MAKES AVAILABLE THE HISTORICAL COLLECTION WITH THE RESOLUTIONS PASSED AT THE GENERAL MEETINGS OF SHAREHOLDERS, THE SHARE CAPITAL THEREIN REPRESENTED AND THE VOTING RESULTS, REGARDING THE PREVIOUS THREE YEARS

The historical collection with the resolutions passed at the Company's General Meetings of shareholders, the share capital therein represented and the voting results may be found on PHAROL' website at:

<http://pharol.pt/en-us/governo-sociedade/assembleia-geral-acionistas/Pages/assembleia-geral-acionistas.aspx>

D. REMUNERATION

I. COMPETENCE FOR DETERMINATION

66. COMPETENCE FOR THE DETERMINATION OF THE REMUNERATION OF CORPORATE BODIES, MEMBERS OF THE EXECUTIVE COMMITTEE OR MANAGING DIRECTOR AND COMPANY OFFICERS

The Compensation Committee is elected by the shareholders at a General Meeting and serves the purpose of defining the remuneration policy of the members of the corporate bodies, determining the remunerations applicable taking into consideration the performance and the economic position of the Company.

For the completion of this task, the Compensation Committee continuously follows up and evaluates the directors' and the Company's performance, checking the extent to which the proposed targets have been achieved. The Compensation Committee meets whenever necessary.

The remuneration policy applicable to the PHAROL's officers other than those incorporating the management and supervisory bodies, is determined by the Executive Committee.

II. COMPENSATION COMMITTEE

67. COMPOSITION OF THE COMPENSATION COMMITTEE, INCLUDING THE IDENTIFICATION OF THE PERSONS OR CORPORATIONS HIRED TO SUPPORT IT AND INDEPENDENCE STATEMENT REGARDING EACH OF ITS MEMBERS AND CONSULTANTS

The current members of the Compensation Committee, elected for the 2015-2017 three-year term of office, are the following:

Composition

Álvaro Pinto Correia

Francisco Barros Lacerda

António Sarmento Gomes Mota

Notwithstanding the necessary articulation of this Committee with the Board of Directors, the composition of the Compensation Committee seeks to obtain the highest possible level of independence of its members from the members of the management body. No member of the Compensation Committee is a member of any corporate body or committee within the Company, and no member of the Compensation Committee has any family connection to any member of the management body by way of marriage, kindred or affinity in a direct line and up to and including the third degree. PHAROL therefore complies with CMVM Recommendation no. II.3.1.

68. KNOWLEDGE AND EXPERIENCE OF THE MEMBERS OF THE COMPENSATION COMMITTEE IN THE MATTER OF REMUNERATION POLICY

All members of the Compensation Committee have knowledge and experience in the matter of remuneration policy. Some of them belong or have belonged to compensation committees of other listed companies. Appendix I hereto sets out the most relevant curriculum elements of the members of the Compensation Committee.

III. REMUNERATION STRUCTURE

69. DESCRIPTION OF THE REMUNERATION POLICY FOR THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES AS REFERRED TO UNDER ARTICLE 2 OF LAW NO. 28/2009 OF 19 JUNE 2009

The remuneration policy for executive and non-executive members of the Board of Directors (such policy including the members of the supervisory body) in force during the 2015 financial year is described on the declaration by the Compensation Committee on this matter as approved by the 2014 Annual General Meeting of Shareholders on 29 May 2015, pursuant to article 2,1 of Law no. 28/2009, of 19 June 2009. Such declaration is reproduced in Appendix III hereto.

However, for the reasons set out above in point 25, the Remuneration Committee,

during 2016, based on the criteria defined in the General Assembly above, does not assign any variable remuneration to its executive directors.

At the same time, the remuneration policy applicable to non-executive members of the Board of Directors does not include any variable component, -i.e - the value of which dependant on the performance of the Company or its value. Therefore PHAROL complies with CMVM Recommendation no. III.2.

70. INFORMATION ON HOW THE REMUNERATION IS STRUCTURED IN ORDER TO PERMIT THE ALIGNMENT OF THE DIRECTORS' INTERESTS WITH LONG TERM INTERESTS OF THE COMPANY, AS WELL AS HOW THE REMUNERATION IS BASED ON PERFORMANCE AND DISINCENTIVES EXCESSIVE RISK TAKING

As results from the remuneration policy approved at the General Meeting of 29 May 2015 and contained in Annex III, the remuneration was based on a fixed and variable component. As already mentioned in paragraphs 25 and 69, already in 2016, the Remuneration Committee decided, on the basis of criteria defined at the General Meeting of 2015, to not allocate any variable remuneration to the executive directors.

The information provided in **itens 71 to 74** of the form attached to CMVM Regulation No. No. 4/2013 is not applicable to PHAROL, as during the 2015 financial year, as stated in points 25 and 69, the remuneration policy in force does not include the allocation of variable remuneration.

75. MAIN PARAMETERS OF AND GROUNDS FOR ANY ANNUAL BONUS SYSTEM AND ANY OTHER NON-PECUNIARY BENEFITS

In 2015, there were no bonus, annual bonus or non-pecuniary benefit systems of any nature whatsoever in force in PHAROL.

76. MAIN CHARACTERISTICS OF COMPLEMENTARY PENSION OR EARLY RETIREMENT SYSTEMS FOR DIRECTORS, SPECIFYING WHETHER THE SAME WERE SUBJECT TO APPRAISAL, IN INDIVIDUAL TERMS, BY THE GENERAL MEETING OF SHAREHOLDERS

No PHAROL director is covered by complementary pension or early retirement system.

IV. REMUNERATION DISCLOSURE

77. REMUNERATION INDIVIDUALLY AND GLOBALLY EARNED BY THE MEMBERS OF THE COMPANY'S MANAGEMENT BODY

Pursuant to Law no. 28/2009 of 19 June 2009, individual and global gross remunerations paid to the members of the management body shown hereinafter:

		Remunerations 2015 (euros)		
		Fixed	Variable (1)	Total
Board of Directors (year of designation)				
Alfredo Baptista (2011)	(2)	92,286	0	92,286
André Cardoso de Meneses Navarro (2015)		11,577	0	11,577
Eurico Teles Neto (2014)	(2)	23,173	0	23,173
Francisco Ravara Cary (2014)		67,097	0	67,097
Francisco Teixeira Pereira Soares (2006)	(3)	45,488	0	45,488
Gerald S. McGowan (2003)	(2)	46,347	0	46,347
João de Mello Franco (1998)	(2)	142,751	0	142,751
João do Passo Vicente Ribeiro (2015)		20,417	0	20,417
João Manuel Pisco de Castro (2015)		51,771	0	51,771
Jorge Freire Cardoso (2014)		40,610	0	40,610
José Mauro Mettrau Carneiro da Cunha (2015)		20,417	0	20,417
José Xavier de Basto (2007)	(2)	66,575	0	66,575
Luís Maria V. Palha da Silva (2015)		172,469	0	172,469
Luís Pacheco de Melo (2006)	(4)	113,396	0	113,396
Marco Schroeder (2014)	(2)	23,173	0	23,173
Maria do Rosário Pinto Correia (2015)		11,577	0	11,577
Maria Helena Nazaré (2009)	(5)	19,168	0	19,168
Mário João de Matos Gomes (2009)	(2)	96,640	0	96,640
Milton Almicar Silva Vargas (2009)	(6)	59,793	0	59,793
Nuno Rocha dos Santos de Almeida e Vasconcellos (2006)	(7)	27,901	0	27,901
Paulo José Lopes Varela (2009)	(8)	40,911	0	40,911
Pedro Zañartu Gubert Morais Leitão (2015)		20,417	0	20,417
Rafael Luís Mora Funes (2007)		213,540	0	213,540
Ricardo Malavazi Martins (2015)		20,417	0	20,417
Rolando António Durão Ferreira de Oliveira (2014)	(2)	46,347	0	46,347
Total		1,337,363	0	1,337,363

- 1) No variable values were paid during the year 2015.
- 2) He resigned from his duties in PT SGPS on 29 May 2015.
- 3) He resigned from his duties in PT SGPS on 27 February 2015.
- 4) He resigned from his duties in PT SGPS in 18 March 2015.
- 5) He resigned from his duties in PT SGPS in 31 March 2015.
- 6) He resigned from his duties in PHAROL on 30 June 2015.
- 7) He resigned from his duties in PHAROL on 2 September 2015.
- 8) He resigned from his duties in PHAROL on 16 March 2015.

78. AMOUNTS PAID, FOR ANY REASON WHATSOEVER, BY OTHER COMPANIES IN A CONTROL OR GROUP RELATIONSHIP OR SUBJECT TO COMMON CONTROL

During 2015, no amounts were paid to PHAROL's members of the Board of Directors by companies in a control or group relationship.

79. REMUNERATION PAID IN THE FORM OF PROFIT SHARING AND/OR BONUS PAYMENT, AND THE REASONS WHY SUCH BONUSES AND/OR PROFIT SHARING WERE GRANTED

The remuneration policy of the members of the Board of Directors in 2015 does not provide for the allocation, in general terms, of this type of remuneration.

80. COMPENSATIONS PAID OR DUE TO FORMER EXECUTIVE DIRECTORS IN RESPECT OF TERMINATION OF OFFICE DURING THE FINANCIAL YEAR

During the year 2015, there is no compensation paid for the contract termination of executive directors.

81. REMUNERATION INDIVIDUALLY AND GLOBALLY EARNED BY THE MEMBERS OF THE COMPANY'S SUPERVISORY BODY

The remuneration of the Supervisory Board is composed of a fixed annual amount based on the Company's situation and market practices and there is no variable remuneration.

The gross remuneration of the Fiscal Council for the year 2015 was as follows:

Fiscal Council	Remunerations 2015 (euros)		
	Fixed	Variable	Total
José Maria Rego Ribeiro da Cunha	28,583	0	28,583
Isabel Maria Beja Gonçalves Novo	18,375	0	18,375
Pedro Miguel Ribeiro de Almeida Fontes Falcão	18,375	0	18,375
Total	65,333	0	65,333

82. INDICATION OF THE REMUNERATION OF THE CHAIRMAN OF THE BOARD OF THE GENERAL MEETING OF SHAREHOLDERS

The net remuneration of the Chairman of the Board of the General Meeting of Shareholders for the year 2015 was as follows:

Chairman of the General Meeting	Remuneration 2015 (euros)
António Menezes Cordeiro (1)	21,000
João Vieira de Almeida (2)	8,000
Total	29,000

(1) Until 29 May 2015

(2) After 29 May 2015

V. AGREEMENTS WITH REMUNERATION IMPLICATIONS

83. CONTRACTUAL LIMITATION AS ESTABLISHED FOR ANY COMPENSATION TO BE PAID UPON REMOVAL WITHOUT JUST CAUSE OF A DIRECTOR, AND ITS RELATIONSHIP WITH THE VARIABLE COMPONENT OF THE REMUNERATION

There are no agreements that establish a right to compensations upon removal without just cause of a director, other than as provided for by law.

84. AGREEMENTS WITH MEMBERS OF THE BOARD AND OFFICERS PROVIDING FOR COMPENSATION IN THE EVENT OF TERMINATION OF OFFICE FOLLOWING A CHANGE OF CONTROL

There are no agreements between PHAROL and the members of the management body or officers providing for compensation in the event of resignation, removal without just cause or termination of employment relationship following a change of control in the Company.

VI. SHARE ALLOTMENT OR STOCK OPTION PLANS

The information set forth in **items 85 to 87** of the form attached to CMVM Regulation no. 4/2013 is not applicable to PHAROL, as during the 2015 financial year, the Company did not adopt any share allotment or share call option plans, nor did any such plans remain in force, regarding PHAROL directors or employees or any third parties.

88. CONTROL MECHANISMS PLANNED FOR ANY EMPLOYEE CAPITAL HOLDING SYSTEM TO THE EXTENT THAT VOTING RIGHTS ARE NOT EXERCISED BY SUCH EMPLOYEES

Not applicable, since there is no system specifically providing for any share capital holding by employees in the Company.

E. RELATED PARTY TRANSACTIONS

I. CONTROL MECHANISMS AND PROCEDURES

89. MECHANISMS IMPLEMENTED BY THE COMPANY TO CONTROL RELATED PARTY TRANSACTIONS (IAS 24)

In December 2009 and December 2010, the Regulation on related party transactions was subject to some changes essentially aimed at adjusting it to the modifications made to IAS 24 and to the Corporate Governance Code issued by CMVM, as well as adopting the market best practices in this matter. In 2015, this Regulation was revised again in order to clarify the concepts used and also define the procedures applicable to transactions with related parties of PHAROL and its subsidiaries, and exclude transactions with owners of qualified holdings from its scope. These latter transactions

now have their own specific regulation, in additional and equivalent terms to the regulation for related party transactions.

As such, the most significant amendments are (i) the redefinition of the concept of "Related Parties" which is now based exclusively on the concept foreseen in IAS 24 (and therefore no longer includes the owners of qualified holdings in PHAROL share capital) and (ii) the introduction of quantitative limits to the exceptions to the control mechanisms foreseen, as recommended by PwC in its analysis of the procedures and actions carried out within the Rio Forte Instruments and also the relevant aspects related to the treasury applications in entities pertaining to the Espírito Santo Group.

According to the current version of this Regulation, notwithstanding its exclusion of certain transactions (notably if not exceeding certain amounts), in case of transactions between PHAROL, or any of its subsidiaries, and related parties (as redefined exclusively by reference to the concept in IAS 24), or any renewals thereof, the aggregate amount per party of which is in excess of 100,000 Euros (one hundred thousand Euros), the execution of the same may be approved only upon a prior favourable opinion by the supervisory body.

For such purpose, the supervisory body shall be provided with relevant information on the transaction as to which it has to give its opinion, including sufficient information on the characteristics of the transaction in question, notably under the strategic, financial, legal and fiscal viewpoint, information on the nature of the relationship existing between PHAROL and the other party in question, and the impact of the transaction on the financial position of the Company.

The following related party transactions are excluded from the scope of the mentioned internal regulation:

- a) Purchases of goods or provision of services agreed in compliance of the internal rules relating to purchases, suppliers and service providers in force at the time of the agreement;
- b) Banking operations of PHAROL and its subsidiaries, including collection, payment, deposits and other financial applications, short- and mid-term financing operations, issue of commercial paper, exchange transactions, hedge derivatives and obtaining of bank guarantees, provided that they do not exceed the aggregate amount of 300,000 Euros per year;
- c) Made between companies in a control or group relationship with PHAROL or between these and PHAROL;
- d) In which the consideration is based on official price quotations (e.g., exchange-rate or interest-rate contracts and commodities), in case the intervals agreed correspond to normal market practices;
- e) In which the consideration is based on tariffs or rates determined by the competent regulatory authorities;
- f) The payment by PHAROL of the remuneration of the Key Corporate Members and Employees (as defined in the Service Order) for the performance of their duties;
- g) Operations available to all employees or shareholders of the PHAROL in equivalent conditions;

- h) The hiring of technical services, notably legal or tax consultancy, whenever the respective approval procedure may compromise the timely provision of such services, given the specificity of the services to be provided, notably considering the qualifications and the level of knowledge required for the provision of the services in question, as well as the timeframe for their execution;
- i) Operations consisting on the execution of transactions already agreed upon under general contracts already in force in the PHAROL.

As a result of the afore mentioned redefinition of the concept of "Related Parties" for the purposes of the respective internal regulation – which no longer includes the owners of qualified holdings in PHAROL share capital, as opposed to what happened before, and now adopts the criterion resulting from IAS 24 – the Company considered it was convenient to create specific rules applicable to transactions with owners of qualified holdings, as detailed in item 91 below.

As such, PHAROL considers that CMVM Recommendation No. V.2 is complied with.

90. TRANSACTIONS SUBJECT TO CONTROL

In March 2015, the Exchange Agreement was concluded as indicated in paragraph 10 of this report, formally approved in AG and preceded by a favourable vote, at that time, of the Audit Committee within the Board of Directors.

91. INTERVENTION OF THE SUPERVISORY BODY IN THE PRIOR EVALUATION OF TRANSACTIONS WITH OWNERS OF A QUALIFIED HOLDING

As mentioned in item 89 above, an autonomous regulation, which has now been revised, on the procedures applicable to transactions with owners of qualified holdings in PHAROL share capital was approved in 2015.

As such, the execution of transactions with owners of qualified holdings or entities related to them under article 20 of the Portuguese Securities Code, with an aggregated amount per entity above 100,000 Euros, can only be approved after PHAROL supervisory body has issued a prior favourable opinion.

In addition, the execution of transactions with owners of qualified holdings or entities related to them under article 20 of the Portuguese Securities Code, with an aggregated amount per entity above 1,000,000 Euros per year, are subject to approval by the Board of Directors, after the supervisory body has issued its prior favourable opinion.

Currently, the following situations are excluded from the rules applicable to transactions with owners of qualified holdings:

- a) Purchases of goods or provision of services agreed in compliance of the internal rules relating to purchases, suppliers and service providers in

force at the time of the agreement;

- b) Banking operations of PHAROL, including collection, payment, deposits and other financial applications, short- and mid-term financing operations, issue of commercial paper, exchange transactions, hedge derivatives and obtaining of bank guarantees, provided that they do not exceed the aggregate amount of 300,000 Euros per year;
- c) In which the consideration is based on official price quotations (e.g., exchange-rate or interest-rate contracts and commodities), in case the intervals agreed correspond to normal market practices;
- d) In which the consideration is based on tariffs or rates determined by the competent regulatory authorities;
- e) Operations available to all employees or shareholders of the PHAROL in equivalent conditions;
- f) The hiring of technical services, notably legal or tax consultancy, whenever the respective approval procedure may compromise the timely provision of such services, given the specificity of the services to be provided, notably considering the qualifications and the level of knowledge required for the provision of the services in question, as well as the timeframe for their execution;
- g) Operations consisting on the execution of transactions already agreed upon under general contracts already in force in the PHAROL

There were no transactions between the Company and owners of qualified holdings or entities related to them under article 20 of the Portuguese Securities Code which have not been demonstrably made under normal market conditions. Thus, PHAROL considers CMVM Recommendation No. V.1 complied with in respect of the fiscal year ended on 31 December 2015.

II. TRANSACTION DETAILS

92. LOCATION, IN THE ANNUAL FINANCIAL STATEMENTS, WHERE INFORMATION ON RELATED PARTY TRANSACTIONS, IN ACCORDANCE WITH IAS 24, IS AVAILABLE

Information on related party transactions is available on Note 24 to the consolidated financial statements for the year 2015. There are no transactions with related parties' shareholders to disclose in respect of the fiscal year ended on 31 December 2015.

Information on the transactions executed during the fiscal year ended on 31 December 2015 with owners of qualified holdings who are not related parties in accordance with IAS 24 is available in Note 25 to the consolidated financial statements for the year of 2015.

PART II – CORPORATE GOVERNANCE EVALUATION

1. IDENTIFICATION OF THE CORPORATE GOVERNANCE CODE ADOPTED

PHAROL complies with a high proportion the recommendations set out on CMVM Corporate Governance Code as published in July 2013 (“CMVM Code” or “CMVM Recommendations”)1 – which assessment is set out on this report –, which are reflected on its Classic-type corporate governance model as provided for under article 278,1(a) of the Portuguese Companies Code.

The characteristics of PHAROL’s governance model have been reinforced as well by the Company’s compliance with the binding rules and best practices applicable to foreign private issuers registered with SEC (such as certain provisions under the Sarbanes-Oxley Act), all as described in Appendix II hereto.

In this connection, it should be mentioned that, on 9 March 2015, the Company served notice that the Board of Directors had approved the withdrawal of, at that time, PT SGPS’ ADSs from trading on NYSE. The last day of trading of PT SGPS’ ADSs on NYSE was 27 March 2015. Since 30 March 2015, the date of effective withdrawal of the ADSs on NYSE, the Company ceased to be subject to certain US rules related to the issuance of securities admitted to trading on NYSE (such as those set forth in the NYSE Listed Company Manual or Rule 10A-3, Listing Standards Relating to Fiscal Councils), still applicable as at 31 December 2014 and up to 30 March 2015, and became subject only to the rules applicable to issuers of securities registered with SEC, as mentioned above.

Subsequently, the Board of Directors approved on 28 March 2016 the deregistration of its securities registered at SEC as a foreign private issuer. On 26 April 2016, PHAROL filed with the SEC Form 15F to effect the deregistration, and the rules of the SEC, PHAROL's obligations to file annual reports (Form 20-F) and type Form reports 6-K with the SEC are immediately suspended from that date. The formal effective date of deregistration of securities to PHAROL the SEC will be on 26 July 2016, from which date PHAROL will no longer be subject to a set of rules on corporate governance, the current mandatory nature to date indicated in Annex II.

PHAROL is also subject to other rules adopted at internal level, which are relevant in its corporate governance structure, particularly the Regulations of the Board of Directors and its internal committees.

Additionally, PHAROL complies with several internal conduct and transparency rules, namely the Code of Ethics, the Code of Ethics for Senior Financial Officers, rules on Officer Transactions, rules on Transactions with Related Parties and rules on Transactions with Owners of Qualified Holdings. A short description of all these rules is attached hereto as Appendix IV. PHAROL further adopts rules and structures for internal control, risk management and whistleblowing.

PHAROL, for the 2015-2017 three-year term, following the Annual General Meeting of Shareholders held in 2015, returned to its former management model, namely delegating functions in an Executive Committee.

Additionally, the Board has already approved a set of internal rules that determine,

notably (i) the obligation of dispersion of cash availabilities over several banks, (ii) the limitation of the kind of applications to term deposits, and (iii) the establishment of maximum quantitative limits within the scope of the delegation of certain binding powers, thus amending the previous situation under which certain transactions (as, for instance, short-term applications) were subject to delegation with no quantitative limit.

Similarly, the rules establishing the procedures for contracting and disclosing related party transactions, on the one hand, and transactions with owners of qualified holdings, on the other hand, have already been revised in order to clarify the scope of application of the control and report procedures adequate to PHAROL.

2. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE ADOPTED

PHAROL feels it is appropriate to maintain a certain stability regarding recommendations which serve as a reference for the declaration of compliance to be included in this report referring to 2015, thus following to this end the CMVM Code.

Within this context, PHAROL's current corporate governance model and principles:

- Observe all legal rules of a binding content applicable to the Classic-type corporate governance model as provided for under article 278,1(a) of the Portuguese Companies Code;
- Comply with mandatory rules and best practices applicable to foreign private issuers registered with SEC under US laws; and
- Take in a significant set of recommendations and best practices in this field as established under the CMVM Code.

PHAROL adopts the CMVM Recommendations, available here:

http://www.cmvm.pt/en/Legislacao/National_legislation/Recommendations/Documents/Final.trad.Cod.Gov.Soc.09.10.2013.MM.pdf

The items in Part I of this Corporate Governance Report that contain a description of the measures taken by the Company for compliance with the CMVM Recommendations are identified hereunder.

CMVM RECOMMENDATION		COMPLIANCE	REPORT
I. VOTING AND CORPORATE CONTROL			
I.1.	Companies shall encourage shareholders to attend and vote at general meetings and shall not set an excessively large number of shares required for the entitlement of one vote, and implement the means necessary to exercise the right to vote by mail and electronically.	Yes	Item 12
I.2.	Companies shall not adopt mechanisms that hinder the passing of resolutions by shareholders, including fixing a quorum for resolutions greater than the one provided for by law.	Yes	Item 14
I.3.	Companies shall not establish mechanisms intended to cause mismatching between the right to receive dividends or the subscription of new securities and the voting right of each common share, unless duly justified in terms of long-term interests of shareholders.	Yes (a)	Item 5
I.4.	The articles of association that provide for the restriction of the number of votes that may be held or exercised by a sole shareholder, either individually or jointly with other shareholders, shall also foresee for a resolution by the General Meeting (5 year intervals), on whether that statutory provision is to be amended or prevails – without super quorum requirements as to the one legally in force – and that in said resolution all votes issued are to be counted without applying said restriction.	Yes (a)	Item 5
I.5.	Measures that require payment or assumption of fees by the company in the event of change of control or change in the composition of the Board and that which appear likely to impair the free transfer of shares and free assessment by shareholders of the performance of Board members, shall not be adopted.	Yes	Item 4
II. SUPERVISION, MANAGEMENT AND OVERSIGHT			
II.1 SUPERVISION AND MANAGEMENT			
II.1.1	Within the limits established by law, and except for the small size of the company, the board of directors shall delegate the daily management of the company and said delegated powers shall be identified in the Annual Report on Corporate Governance	Yes	Item 21
II.1.2	The Board of Directors shall ensure that the company acts in accordance with its objectives and shall not delegate its responsibilities as regards the following: (i) define the strategy and general policies of the company, (ii) define business structure of the group, (iii) decisions considered strategic due to the amount, risk and particular characteristics involved.	Yes	Ponto 21
II.1.3	The General and Supervisory Board, in addition to its supervisory duties, shall take full responsibility at corporate governance level, whereby through the statutory provision or by equivalent means, shall enshrine the requirement for this body to decide on the strategy and major policies of the company, the definition of the corporate structure of the group and the decisions that shall be considered strategic due to the amount or risk involved. This body shall also assess compliance with the strategic plan and the implementation of key policies of the company	Not Applicable	--
II.1.4	Except for small-sized companies, the Board of Directors and the General and Supervisory Board, depending on the model adopted, shall create the necessary committees in order to:(a) Ensure a competent and independent assessment of the performance of the executive directors and its own overall performance, as well as of other committees; and (b) Reflect on the system structure and governance practices adopted, verify its efficiency and propose to the competent	Yes	Items 21 e 27

	bodies, measures to be implemented with a view to their improvement.		
II.1.5	The Board of Directors or the General and Supervisory Board, depending on the applicable model, should set goals in terms of risk-taking and create systems for their control to ensure that the risks effectively incurred are consistent with those goals.	Yes	Items 50 e 55
II.1.6	The Board of Directors shall include a number of non- executive members ensuring effective monitoring, supervision and assessment of the activity of the remaining members of the board.	Yes	Item 17
II.1.7	Non-executive members shall include an appropriate number of independent members, taking into account the adopted governance model, the size of the company, its shareholder structure and the relevant free float. The independence of the members of the General and Supervisory Board and members of the Fiscal Council shall be assessed as per the law in force. The other members of the Board of Directors are considered independent if the member is not associated with any specific group of interests in the company nor is under any circumstance likely to affect an exempt analysis or decision, particularly due to: a. Having been an employee at the company or at a company holding a controlling or group relationship within the last three years; b. Having, in the past three years, provided services or established commercial relationship with the company or company with which it is in a control or group relationship, either directly or as a partner, board member, manager or director of a legal person; c. Being paid by the company or by a company with which it is in a control or group relationship besides the remuneration arising from the exercise of the functions of a board member; d. Living with a partner or a spouse, relative or any first degree next of kin and up to and including the third degree of collateral affinity of board members or natural persons that are direct and indirectly holders of qualifying holdings; e. Being a qualifying shareholder or representative of a qualifying shareholder	Yes	Item 18
II.1.8	When board members that carry out executive duties are requested by other board members, said shall provide the information requested, in a timely and appropriate manner to the request.	Yes	Item 17
II.1.9	The Chairman of the Executive Board or of the Executive Committee shall submit, as applicable, to the Chairman of the Board of Directors, the Chairman of the Supervisory Board, the Chairman of the Fiscal Council, the Chairman of the General and Supervisory Board and the Chairman of the Financial Matters Board, the convening notices and minutes of the relevant meetings.	Yes	Item 23
II.1.10	If the chairman of the board of directors carries out executive duties, said body shall appoint, from among its members, an independent member to ensure the coordination of the work of other non-executive members and the conditions so these can make independent and informed decisions or to ensure the existence of an equivalent mechanism for such coordination	Not Applicable	--

II.2 SUPERVISION			
II.2.1	Depending on the applicable model, the Chairman of the Supervisory Board, the Fiscal Council or the Financial Matters Committee shall be independent in accordance with the applicable legal standard, and have the necessary skills to carry out their relevant duties.	Yes	Item 32
II.2.2	The supervisory body shall be the main representative of the External Auditor and the first recipient of the relevant reports, and is responsible, <i>inter alia</i> , for proposing the relevant remuneration and ensuring that the proper conditions for the provision of services are provided within the company.	Yes	Item 21
II.2.3	The supervisory board shall assess the External Auditor on an annual basis and propose to the competent body its dismissal or termination of the contract as to the provision of its services when there is a valid basis for said dismissal.	Yes	Items 21 e 45
II.2.4	The supervisory board shall assess the functioning of the internal control systems and risk management and propose adjustments as may be deemed necessary	Yes	Items 21 e 51
II.2.5	The Fiscal Council, the General and Supervisory Board and the Supervisory Board decide on the work plans and resources concerning the internal audit services and services that ensure compliance with the rules applicable to the company (compliance services), and should be recipients of reports made by these services at least when matters related to accountability, identification or resolution of conflicts of interest and detection of potential improprieties are concerned	Yes	Items 21 e 51
II.3 REMUNERATION SETTING			
II.3.1	All members of the Remuneration Committee or equivalent should be independent from the executive board members and include at least one member with knowledge and experience in matters of remuneration policy.	Yes	Item 67 e 68
II.3.2	Any natural or legal person that provides or has provided services in the past three years to any structure under the board of directors, the board of directors of the company itself or who has a current relationship with the company or consultant of the company, shall not be hired to assist the Remuneration Committee in the performance of its duties. This recommendation also applies to any natural or legal person that is related by employment contract or provision of services with the above.	Yes	Item 67
II.3.3	A statement on the remuneration policy of the management and supervisory bodies referred to in article 2 of Law no. 28/2009, of 19 June, shall also contain the following: a) Identification and details of the criteria for determining the remuneration paid to the members of the corporate bodies; b) Information regarding the maximum potential, in individual terms, and the maximum potential, in aggregate form, to be paid to members of corporate bodies, and identify the circumstances whereby these maximum amounts may be payable; d) Information regarding the enforceability or unenforceability of payments for the dismissal or termination of appointment of board members.	Yes	Items 25 e 69
II.3.4	Approval of plans for the allotment of shares and/or options to acquire shares or based on share price variation to board members shall be submitted to the General Meeting. The proposal shall contain all the necessary information in order to correctly assess said plan.	Not Applicable	--
II.3.5	Approval of any retirement benefit scheme established for members of corporate members shall be submitted to the General Meeting. The proposal shall contain all the	Not Applicable	--

	necessary information in order to correctly assess said scheme.		
III. REMUNERATION			
III.1.	The remuneration of the executive members of the board shall be based on actual performance and shall discourage excessive risk-taking.	Yes	Item 69
III.2.	The remuneration of non-executive board members and the remuneration of the members of the supervisory board shall not include any component whose value depends on the performance of the company or of its value	Yes	Items 69 e 77
III.3.	The variable component of remuneration shall be reasonable overall in relation to the fixed component of the remuneration and maximum limits should be set for all components	Not Applicable	Items 25, 69 e 75
III.4.	A significant part of the variable remuneration should be deferred for a period not less than three years, and the right to receive it shall depend on the continued positive performance of the company during that period	Not Applicable	Items 25, 69 e 75
III.5.	Members of the Board of Directors shall not enter into contracts with the company or with third parties which intend to mitigate the risk inherent to remuneration variability set by the company.	Yes	Items 25 e 69
III.6.	Executive board members shall maintain the company's shares that were allotted to them by virtue of variable remuneration schemes, up to twice the value of the total annual remuneration, except for those that need to be sold for paying taxes on the gains of said shares, until the end of their term of office.	Not Applicable	Item 25 e 69
III.7.	When the variable remuneration includes the allocation of options, the beginning of the exercise period shall be deferred for a period not less than three years.	Not Applicable	Item 25 e 69
III.8.	When the removal of a board member is not due to serious breach of his duties nor to his unfitness for the normal exercise of his functions but is yet due to inadequate performance, the company shall be endowed with the adequate and necessary legal instruments so that any damages or compensation, beyond that which is legally due, is unenforceable.	Yes	Item 83
IV. AUDITING			
IV.1.	The External Auditor shall, within the scope of its duties, verify the implementation of remuneration policies and systems of the corporate bodies as well as the efficiency and effectiveness of the internal control mechanisms and report any shortcomings to the supervisory body of the company	Yes	Part I C.III
IV.2.	The company or any entity with which it maintains a control relationship shall not engage the External Auditor or any entity with which it finds itself in a group relationship or that incorporates the same network, for services other than audit services. If there are reasons for hiring such services - which must be approved by the supervisory board and explained in its Annual Report on Corporate Governance - said should not exceed more than 30% of the total value of services rendered to the company.	Yes	Item 37
IV.3.	Companies shall support auditor rotation after two or three terms of office, depending on the term of office being of four or three years, respectively. Its continuance beyond this period must be based on a specific opinion of the supervisory board that explicitly considers the conditions of the auditor's independence and the benefits and costs of its replacement.	Yes	Item 44
V. CONFLICTS OF INTEREST AND RELATED PARTY TRANSACTIONS			

V.1.	The company's business with holders of qualified holdings or entities with which they are in any type of relationship pursuant to article 20 of the Portuguese Securities Code shall be conducted in normal market conditions.	Sim	Item 91--
V.2.	The supervisory or oversight board shall establish the necessary procedures and criteria to define the relevant level of significance of business with owners of qualified holdings or entities with which they are in any of the relationships described in article 20.of the Portuguese Securities Code. Execution of significant relevant business shall be dependent on prior opinion of said body.	Sim	Item 89
VI. INFORMATION			
VI.1.	Companies shall provide, via their websites in both Portuguese and English language, access to information on their progress as regards the economic, financial and governance state of play.	Sim	Items 56 e 59
VI.2.	Companies shall ensure the existence of an investor support and market liaison office, which responds to requests from investors in a timely fashion, and a record of the submitted requests and their processing shall be kept.	Sim	Items 56 a 58

a) Although the Company's Bylaws consider a limitation on the counting of votes, the Board has already decided to discuss this subject and the facts described in paragraph 10 especially of their sixth paragraph.

APPENDIX I

Functions performed by members of the management body in other companies

The functions performed by each director in companies other than PHAROL are as follows:

Luís Maria Viana Palha da Silva (Chairman of the Board of Directors and the Executive Committee)

Member of Board of Directors of Oi, S.A.

André Cardoso de Meneses Navarro (Director)

General Manager of Millennium Investment Bank
Non-Executive Board of Member of Oi, S.A.
Board of Member of Interoceânico, SGPS S.A.

Francisco Ravara Cary (Director)

Executive Director of Novo Banco, S.A.
Member of the Board of Directors of Oi, S.A.
Director of Banque Espírito Santo et de la Vénétie, S.A.
Chairman of the Board of Directors of Banco BEST, S.A.
Chairman of the Board of Directors of Espírito Santo Ventures, Sociedade de Capital de Risco, S.A.
Chairman of the Board of Directors of GNB – Companhia de Seguros de Vida, S.A.
Chairman of the Board of Directors of GNB – Gestão de Activos, S.A.

João do Passo Vicente Ribeiro (Director)

Alternate Member of the Board of Directors of Oi, S.A.

João Manuel Pisco de Castro (Director)

Alternate member of the Board of Directors of Oi, S.A.
Vice-President of Grupo Visabeira, SGPS S.A.
President of Visabeira Global, SGPS, S.A.
Vice-President of Visabeira Imobiliária, SGPS, S.A.
Vice-President of Visabeira Indústria, SGPS, S.A.
Vice-President of Visabeira Participações Financeiras, SGPS, S.A.
President of Vista Alegre Atlantis, SGPS, S.A.
President of Visagreen, S.A.
Director of Ambitermo - Engenharia e Equipamentos Térmicos, S.A.
Director of Gevisar, SGPS, S.A.
Director of Granbeira - Soc. Exploração e Comércio de Granitos
Director of Granbeira II - Rochas Ornamentais, S.A.
Director of Visacasa S.A.
Director of Constructel (Bélgica)

Director of Constructel Sweden AB
Director da Constructel (Rússia)

Jorge Telmo Maria Freire Cardoso (Director)

Member of the Board of Directors and CFO of Novo Banco, S.A.
Member of the Board of Directors of NB Finance, Ltd.
Non-Executive Member of the Board of Directors of Enternext, S.A.

José Mauro Mettrau Carneiro da Cunha (Director)

Chairman of the Board of Directors of Oi, S.A.

Maria do Rosário Amado Pinto-Correia (Director)

Chairman of Ferreira Marques & Irmão/Topázio
Teacher on Catolica Lisbon School of Business and Economics

Pedro Zañartu Gubert Morais Leitão (Director)

Chairman of the Board of Directors of Prio Energy SGPS
Chairman of the Board of Directors of MoteDALma SGPS
Non-Executive Director of Quifel Natural Resources, SGPS
Non-Executive Director of Villas Boas ACE, S.A.
Managing Partner of Fikonline Lda

Rafael Luís Mora Funes (Director and Member of the Executive Committee)

Member of the Board of Directors of Oi, S.A.
Chairman of Comité of Engenharia of Oi, S.A.
Chairman of the Board of Directors of Webspectator Corp.
Member of the Advisory Board of ISCTE Business School

Ricardo Malavazi Martins (Director)

Member of the Board of Directors of Oi, S.A.
Member of the Board of Directors of Jeiressati Participações, S.A.
Partner and Director of TPYX Gestão e Assessoria Empresarial Ltda.
Member of the Committee of Corporate Governance of American Chambe -SP

Professional qualifications and professional activities performed during the last 5 years

Luís Maria Viana Palha da Silva (Chairman of the Board of Directors and the Executive Committee)

Portuguese, 60 years old

Vice Chairman of the Board of Directors da Galp Energia, SGPS, S.A. | Member of the Board of Directors of Petróleos de Portugal – Petrogal, S.A. | Member of the Board of Directors of Galp Exploração e Produção Petrolífera, S.A. | Member of the Board of Directors of GDP – Gás de Portugal, SGPS, S.A. (redenominated Galp Gas & Power, SGPS, S.A. in February 12, 2015) | Member of the Board of Directors of Galp Gás Natural Distribuição, S.A. | Member of the Board of Directors of Galp Energia, S.A. | Member of the Board of Directors of Galp Energia España, S.A. | Member of the Board of Directors of Galp Energia E&P B.V. | Member of the Board of Directors of Galp Exploração e Produção (Timor-Leste), S.A. | Chairman of the Board of Directors of Galp Marketing International, S.A. | Chairman of the Management Board of Petrogal Angola, Lda. | Chairman of the Management Board of Petrogal Guiné-Bissau, Lda. | Chairman of the Management Board of Petrogal Moçambique, Lda. | Chairman of the Executive board of Galp Moçambique, Lda. | Chairman of the Board of Directors of Galp Gambia, Limited | Chairman of the Board of Directors of Galp Swaziland, Limited | Chairman of the Board of Directors of CLC – Companhia Logística de Combustíveis, S.A. | Director of Galp Sinopec Brazil Services B.V. | Member of the Board of Directors of Petrogal Brasil, S.A. | Member of the Board of Directors of Galp Energia Brasil, S.A. | Member of the Board of Directors of Fima – Produtos Alimentares, S.A. | Member of the Board of Directors of Victor Guedes Indústria e Comércio, S.A. | Member of the Board of Directors of Indústrias Lever Portuguesa, S.A. | Member of the Board of Directors of Olá – Produção de Gelados e Outros Produtos Alimentares, S.A. | Manager of Unilever Jerónimo Martins, Lda. | Manager of Gallo Worldwide, Lda. | Member of the Technologic and Scientific Committee of ISPG – Instituto de Petróleo e Gás, Associação para a Investigação e Formação Avançada | Chairman of APETRO – Associação Portuguesa de Empresas Petrolíferas | Chairman of the Board of AEM – Associação dos Emitentes Portugueses | Member of the Board of Directors (non executive) of NYSE Euronext and Member of Audit Committee of NYSE Euronext | Chairman of the Fiscal Council of Fórum para a Competitividade | Chairman of the Fiscal Council of Fundação Francisco Manuel dos Santos | Chairman of the Board of the General Meeting of Gesbanha – Gestão e Contabilidade, S.A. | Chairman of the Board of EPIS - Empresários pela Inclusão Social | Chairman of the Fiscal Council of Companhia de Seguros Tranquilidade, S.A. | Member of the Strategy Council of Faculdade de Ciências Económicas e Empresariais of Universidade Católica Portuguesa | Degree in Economics from Instituto Superior de Economia | Degree in Business Management from Universidade Católica Portuguesa | AMP – University of Pennsylvania – Wharton School of Economics.

André Cardoso de Meneses Navarro (Director)

Portuguese, 52 years old

Chief Executive Officer of Banco Privado Atlântico – Europa, S.A. from 2008 to 2014 | Chief Executive Officer of Société Générale – Corporate and Investment Bank (Lisbon, Portugal) from 2002 to 2008 | Non-Executive Board Member of Crediagora (Lisbon Portugal) from 2006 to 2008 | Law Degree from Universidade Estadual Rio de Janeiro

(Rio de Janeiro, Brasil) | Pos Graduation in Finance from Fundação Getúlio Vargas (Rio de Janeiro, Brasil | MBA from Thunderbird, American Graduate Scholl of International Business (Arizona, EUA).

Francisco Ravara Cary (Director)
Portuguese, 50 years old

Director of BESI Brasil, S.A. (Brazil) up to 2015 | Director of Empark Aparcamientos y Servicios, S.A. up to 2015 | Non-Executive Member of the Board of Directors of Espírito Santo Investimentos, S.A. (Brazil) up to 2015 | Vice - Chief Executive Officer of the Board of Directors of BES Investimento, S.A. (BESI) up to 2015 | Non-Executive Chairman of the Board of Directors of Espírito Santo Capital – SCR, S.A. up to 2015 | Non-Executive Member of the Board of Directors of BESI UK Limited up to 2015 | Non-Executive Member of the Board of Directors of Swan Street Limited up to 2015 | Non-Executive Member of the Board of Directors of Coporgest – Companhia Portuguesa de Gestão e Desenvolvimento Imobiliário, S.A. | Member of the Supervisory Board of Casa da América Latina up to 2015 | Chairman of the Board of Directors of ESSI, SGPS, S.A. up to 2014 | Chairman of the Board of Directors of ESSI Investimentos, SGPS, S.A. up to 2014 | Chairman of the Board of Directors of ESSI Comunicações, SGPS, S.A. up to 2014 | Non-Executive Chairman of SES IBERIA PRIVATE EQUITY, S.A. from June 2004 to 2014 | Non-Executive Member of the Board of Directors of 2b Capital, S.A. (Brazil) from September 2010 to 2014 | Non-Executive Member of the Board of Directors of Emparque – Empreendimentos e Exportação Parqueamentos, S.A. from 2009 to 2014 | Non-Executive Member of the Board of Directors of DORNIER, S.A. (Spain) from 2009 to 2014 | Non-Executive Member of the Supervisory Board of Separex Developpement (France) from 2006 to September 2014 | Non-Executive Member of the Board of Directors of BRB Internacional, S.A. from March 2007 to February 2014 | Non-Executive Member of the Board of Directors of Screen Veintiuno, S.A. from January 2007 to February 2014 | Non-Executive Member of the Board of Directors of Fomentinvest, SGPS, S.A. from September 2006 to January 2014 | Non-Executive Member of the Supervisory Board of Financière Mandel from October 2007 to June 2014 | Non-Executive Member of the Board of Directors of Apolo Films, S.L. from July 2007 to December 2013 | Non-Executive Member of the Board of Directors of Pro Sport Comercializaciones Deportivas, S.A. from January 2007 to June 2012 | Graduate in Business Administration and Management by Universidade Católica Portuguesa (1982-1988) | MBA Insead (Fontainebleau, France, 1993).

João do Passo Vicente Ribeiro (Director)
Portuguese, 67 years old

Chairman of the Board of Directors of AMP - Sociedade Gestora de Fundos de Investimento Mobiliários from 2014 to 2015 | Member of the Fiscal Council of Grupo Bensaude SGPS since 2014 | From November 2011 till March 2012 he coordinated the Working Group on Financial Mechanisms to support Tourism Companies, appointed by the Secretary of State of Tourism of the Portuguese Government | Since 2011 he is a member of the Project Evaluation Committee of NAVES, a venture capital company | From 2008 till 2009 he was a Board Member of SLN – Sociedade Lusa de Negócios, as well as President of several sub-holdings | In 2008 we was an Executive Board Member of the Portuguese bank BPN – Banco Português de Negócios (Presidency of Miguel Cadilhe) | From 2007 to June 2008 he was President and CEO of Quadrantis Capital, a

Portuguese venture capital company that he founded | From 2004 till 2007 he was the President and CEO of PME Investimentos, a Portuguese state vehicle for venture capital funding of SME,s and new companies | Prior to this, and for over most of his 30 years of professional experience, he has enjoyed a number of senior positions at both the private and state Portuguese banking institutions. The most relevant by inverse chronological order are Chairman of the Portuguese Association of Asset and Portfolio Management Companies, Executive Director of AF Investimentos (Group Millennium BCP), General Manager of the International and Domestic Private Banking Departments (Group Millennium BCP), General Manager of Corporate Banking of Banco Português do Atlântico. Member of the Board of Leasing Atlântico and General Manager of Retail Banking department of Banco Português do Atlântico | Internationally, João Vicente Ribeiro held the positions of Deputy General Manager of the London and Paris Branches of Banco Português do Atlântico and that of Manager of the International department of Instituto de Crédito de Angola in Luanda | Graduated in Finance from Instituto Superior de Economia, Lisbon, where he also lectured, and a MBA graduate of INSEAD (Fontainebleau).

João Manuel Pisco de Castro (Director)
Portuguese, 61 years old

President of Instituto de Gestão Financeira e de Infra-Estruturas da Justiça, I.P. from 2007 to 2009 | Member of the Board of Directors of Grupo Visabeira from 2002 to 2007 | Member of the Board of Directors of Visabeira Telecomunicações e Construção, SGPS S.A. from 2002 to 2006 | Director of Visabeira Serviços SGPS, S.A. from 2003 to 2005 | Graduated in Electrotechnical Engineering, Telecommunications and Electronics track from Instituto Superior Técnico (1983) | MBA from Faculdade de Economia, Universidade de Lisboa (1990).

Jorge Telmo Maria Freire Cardoso (Director)
Portuguese, 44 years old

Non-Executive Member of the Board of Directors of Visabeira from April 2014 to September 2014 | Non-Executive Vice Chairman of the Board of Directors of Banco Caixa Totta Angola, S.A. from April 2014 to September 2014 | Non-Executive Chairman of the Board of Directors of Caixa Capital – Sociedade de Capital de Risco, S.A. from March 2014 to September 2014 | Non-Executive Chairman of the Board of Directors of Caixa Desenvolvimento, SGPS, S.A. from March 2014 to September 2014 | Non-Executive Vice Chairman of the Board of Directors of Banco Caixa Geral Brasil, S.A. from September 2013 to September 2014 | Non-Executive Chairman of the Board of Directors of Caixa – Banco de Investimento, S.A. from August 2013 to September 2014 | Non-Executive Member of the Board of Directors of Caixa Seguros e Saúde, SGPS, S.A. from August 2013 to September 2014 | Non-Executive Member of the Board of Directors of Gerbanca, SGPS, S.A. from August 2013 to September 2014 | Non-Executive Member of the Board of Directors of Partang, SGPS, S.A. from September 2013 to September 2014 | Non-Executive Chairman of the Board of Directors da Wolfpart, SGPS, S.A. from November 2013 to September 2014 | Member of the Board of Directors and Member of the Executive Committee of Caixa Geral de Depósitos, S.A. from July 2013 to September 2014 | Non-Executive Chairman of the Board of Directors of CGD Investimentos Corretora de Valores e Câmbio, S.A. from May 2012 to April 2014 | Director of CaixaBI Brasil – Serviços de Assessoria Financeira Ltda. from May 2012 to November 2013 | Chairman of the Executive Committee of Caixa – Banco de Investimento, S.A. from May

2011 to August 2013 | Non-Executive Vice Chairman of the Board of Directors do Banco Nacional de Investimento, S.A. from May 2012 to December 2012 | Non-Executive Member of the Board of Directors of ZON Multimédia – Serviços de Telecomunicações e Multimédia, SGPS, S.A. from January 2008 to July 2012 | Non-Executive Member of the Board of Directors da Dornier, S.A. from February 2010 to July 2012 | Non-Executive Member of the Board of Directors of Empark Portugal – Empreendimentos e Exploração de Parqueamentos, S.A. from February 2010 to June 2012 | Member of the Board of Directors of Caixa – Banco de Investimento, S.A. from March 2008 to May 2011 | Graduate in Economics by Universidade Nova de Lisboa | MBA by Insead.

José Mauro Mettrau Carneiro da Cunha (Director)

Brazilian, 66 years old

Chairman of the Board of Directors of Dommo Empreendimentos Imobiliários, previously known Calais Participações S.A., company with public resources that performs the holding activity, since 2007, Full Member of the Board of Directors of Santo Antonio Energia S.A., hydroelectric power production company privately held, since 2008. His main professional experiences over the past five years include: (i) Full Member of the Board of Directors of Telemar Participações S.A, company with public resources , phone industry holding, since 2008 until his annexation September of 2015; (ii) Full Member of the Board of Directors of Vale S/A (since 2010 to April 2015); (iii) Director, Chairman of Oi S.A. (2013); (iv) Chairman of the Board of Directors of: Tele Norte Leste Participações S.A. (since 1999 to 2003 and 2007 to 2012), and where he also performed as alternate member of the Board of Directors in 2006, Telemar Norte Leste S.A. (since 2007 to 2012), TNL PCS S.A. (since 2007 to 2012), Tele Norte Celular Participações S.A. (since 2008 to 2012), phone industry, and Coari Participações S.A. (since 2007 to 2012), a company that invests in other companies; (v) Full Member of the Board of Directors of Log-In Logística Intermodal S/A (since 2007 to 2011), company with public resources of intermodal transport; and (vi) Full Member of the Board of Directors of Lupatech S/A (since 2006 to 2012), company with public resources that develops energy and plays flow and metallurgy control activities. In addition to the companies mentioned above, Full Member of the Board of Directors of the following companies with public resources: (a) Braskem S.A (since 2007 to 2010), petrochemical company, which previously held the position of Vice President of Strategic Planning (since 2003 to 2005); (b) LIGHT Serviços de Eletricidade S/A (since 1997 to 2000), electricity distribution; (c) Aracruz Celulose S.A. (since 1997 to 2002), paper factory; (d) Politeno Indústria e Comércio S/A (since 2003 to 2004), petrochemical company; and (e) BANESTES S.A. - Banco do Estado do Espírito Santo (since 2008 to 2009), financial institution. Degree in Mechanical Engineering from Universidade Católica de Petrópolis, Rio de Janeiro, December 1971 | Executive Program in Management from Anderson School, University of Califórnia, Los Angeles, EUA, December 2002.

Maria do Rosário Amado Pinto-Correia (Director)

Portuguese, 57 years old

Senior Advisor at Bewith and CEA/CLSBE from 2008 to 2012 | Director of Gestão do Conhecimento of PT Comunicações, Director of Qualidade e Satisfação do Cliente in Grupo Portugal Telecom, Board Member of PT Asia, Chairman da CTTC – Archway (Pequim) and CEO da Macau Cable TV from 2003 to 2008 | Head of Office da OgilvyOne from 1994 to 2002 | Publisher of the Marie Claire magazine from 1992 to 1994 | Director of Client Service at McCann – Erickson from 1987 to 1992 | Financial Products Manager, Director

of the Direct Mail in CTT – Correios de Portugal from 1981 to 1987 | Degree in Economics by Universidade Católica de Lisboa | Master of Business by Universidade Nova de Lisboa | MBA by Wharton School.

Pedro Zañartu Gubert Morais Leitão (Director)
Portuguese, 50 years old

Chairman of the Board of Directors of ONI, SGPS from 2012 to 2013 | Director of Unyleya Brasil and Unyleya Portugal from 2010 to 2011 | Graduated in Business Management from Universidade Católica Portuguesa de Lisboa | Masters in Business Management from Kellogg Graduate School of Management at Northwestern University in Chicago, EUA

Rafael Luís Mora Funes (Director and Member of the Executive Committee)
Spanish, 50 years old

Vice Chairman of the Board of Directors of Ongoing Strategy Investments, SGPS S.A. | Vice CEO of Ongoing Strategy Investments, SGPS S.A. | Chairman of the Board of Directors of Realtime Corp. | Chairman of the Board of Directors of IBT Internet Business Technologies | Member of the Board of Directors of RS Holding SGPS | Managing Partner of Heidrick & Struggles | Associate Partner of Accenture | Graduate in Economics and Management by Malaga University.

Ricardo Malavazi Martins (Director)
Brazilian, 51 years old

Partner and Director of Stratus Investimentos from 2009 to 2012 | Adviser at Fras-Le S.A., Trisul, S.A. and Ecosorb S.A. | Manager authorized by CVM | Degree in Economics and holder of Master credits from Unicamp | MBA in Management from IBMEC – RJ.

CV data of the members of the Compensation Committee

Álvaro João Duarte Pinto Correia (Chairman of the Compensation Committee)

Member of the Compensation Committee since 2007.

Graduate in Civil Engineering by Instituto Superior Técnico, where he was an assistant professor.

Engineer at Sonefe in Portugal and Angola (Cambambe Dam) | State Secretary for Civil Construction and Housing and Urban Planning | Manager at Caixa Geral de Depósitos | Chairman of Banco Totta & Açores and Companhia de Seguros Fidelidade | Chair of the Negotiation Committee for the Debt of Angola | Director of Hidroeléctrica de Cahora Bassa | Chairman of the Fiscal Council of Montepio Geral – Associação Mutualista.

Chairman of Fundação Cidade de Lisboa since July 2000 | Chairman of the Inspection Board of Autoridade de Supervisão de Seguros e Fundos de Pensões de Portugal (ASF) since December 2004 | Chairman of INAPA – Investimentos e Participações e Gestão, S.A: since May 2010 | Chairman of the General and Supervisory Board of Caixa

Económica Montepio Geral since October 2015 | Member of Portuguese Honour Orders: *Comendador da Ordem de Mérito Industrial* and *Grande Oficial da Ordem do Infante D. Henrique*.

Francisco Barros Lacerda (Member of the Compensation Committee)

Member of the Compensation Committee of PHAROL, SGPS S.A. (ex- Portugal Telecom, SGPS S.A.) since 2009 (suspended his office between August 2012 and March 2014).

Graduate in Business Administration and Management, Universidade Católica Portuguesa (1982).

Chairman and CEO of CTT – Correios de Portugal since August 2012. Non-Executive Director of Endesa Energia since April 2015 and Chairman of Cotec Portugal since June 2015. All along 25 years up to 2008, he held various positions in investment, corporate and retail banking, including CEO of Banco Mello and Executive Member of the Board of Directors of Millennium BCP, a Portuguese listed bank with relevant operations in Central and Eastern Europe, for which he was responsible, upon which he performed duties in also listed Portuguese organisations, such as CEO of Cimpor – Cimentos de Portugal SGPS, S.A., an international cement group operating in 12 countries and one of 5 largest companies on the NYSE Euronext Lisbon securities market, and Non-Executive Director and Member of the Audit Committee of EDP Renováveis, the third largest renewable energy company in the world.

Chairman of Banco CTT, S.A. since 2015 | Chairman of CTT Expresso – Serviços Postais e Logística, S.A. since 2014 | Chairman of Tourline Express Mensajería, S.L.U. since 2014 | Non-Executive Director of Norfin – Portuguese Property Group, S.A. from May to October 2014 | Chairman and CEO of CTT - Correios de Portugal, S.A. since 2012 | CEO of Cimpor – Cimentos de Portugal SGPS, S.A. from 2010 to 2012 | Chairman of Cimpor Inversiones, S.A. from 2010 to 2012 | Chairman of Sociedade de Investimento Cimpor Macau, S.A. from 2010 to 2012 | Non-Executive Director of EDP Renováveis, S.A. from 2008 to 2012 and Member of the Audit Committee from 2008 to 2011 | Managing Partner of Deal Winds – Sociedade Unipessoal, Lda. from 2008 to 2012 | Director of Mague – SGPS, S.A. from 2008 to 2010 | Director of International Post Corporation since 2014 | Member of the Directorate of AEM - Associação de Empresas Emitentes de Valores Cotados em Mercado since 2014 | Chairman of the Board of the General Meeting of Shareholders of Correio Expresso de Moçambique, S.A. since 2013 | Member of the Advisory Board of Nova School of Business & Economics since 2011 | Member of the Advisory Board of the Finance Master of Católica Lisbon School of Business & Economics since 2006 | Member of the General Council of Clube Naval de Cascais since 2006.

António Sarmiento Gomes Mota (Member of the Compensation Committee)

Member of the Compensation Committee since 2013.

Graduate in Business Organisation and Management, ISCTE - Instituto Universitário de Lisboa (1981). MBA, Universidade Nova de Lisboa (1984). Doctor in Business Management, ISCTE (2000).

He has a corporate career of over 20 years in management positions in the banking, consulting and financial services fields. He was Director of ISCTE Business School from

2003 to 2012 and President of INDEG/ISCTE from 2005 to 2012. He is a Professor at ISCTE Business School since 2005 and MBA invited Professor of Nova/Católica de Lisboa since 2013. He has a large experience as consultant in the areas of strategy, corporate assessment and risk management for Portuguese and international corporations. He is the author of various reference works in the financial field. He has held leadership positions in various Boards of Directors and Supervisory Boards in Portuguese listed corporations.

Vice Chairman of the Board of Directors of CTT, S.A., Lead Independent Director and Chairman of the Audit and Corporate Governance, Evaluations and Appointments Committees since 2014 | Vice Chairman of the Board of Directors (non-executive) of Soares da Costa Construção SGPS, S.A. from 2014 to 2015 | Chairman of the Board of Directors (non-executive) of Soares da Costa Investimentos, SGPS, S.A. since 2013 | Member of the General and Supervisory Council; Member of the Audit Committee (2009/2015) and Performance and Competition (2012/2015) and Chairman of the Committee of EDP - Energias de Portugal, S.A. since 2015 | Member of the Board of Directors and Chairman of the Appointments and Remunerations Committee of CIMPOR – Cimentos de Portugal SGPS, S.A. from 2009 to 2012 | Vice Chairman of the Instituto Português de Corporate Governance since 2010.

CV data of the members of the Fiscal Council

José Maria Rego Ribeiro da Cunha (Chairman of the Fiscal Council)

Degree in Finance from Instituto Superior de Ciências Económicas e Financeiras (ISCEF – 1972)

Between 1975 and 1977 worked as auditor at the international company Arthur Andersen & Co.

Between 1977 and 1981 worked as auditor manager at the Statutory Auditor company “António Almeida e Augusto Martins Moreira”.

In 1981, after become Statutory Auditor, he entered as a member of the Ordem dos Revisores Oficiais de Contas (the professional body) in which has the number 497.

In 1981 he joined and has become partner of “Amável Calhau, Ribeiro da Cunha e Associados”, having been managing partner in the company since that date, performing several professional works within the following areas: auditing, evaluation of companies and consulting, among others.

Since 1981, also, he has been working as Statutory Auditor in representation of the above mentioned company, either as Statutory Auditor or integrating Supervisory Boards or Audit Committees, in a great deal of companies covering several business activity sectors, such as: Financial Institutions and Insurance, Industry and Construction, Public Entities, Services, Tourism, Commerce, etc.

On a personal basis, also, he carries out positions in governing bodies, in compliance with the professional Knowledge required to the members of those corporate bodies or Supervisory Boards: President of Supervisory Board at GNB Seguros de Vida, S.A., President of Supervisory Board at GNB Companhia de Seguros, S.A., President of Supervisory Board at Novo Banco dos Açores, S.A.

Isabel Maria Beja Gonçalves Novo (Member of the Fiscal Council)

Educational background and professional training

International Management Programme – INSEAD, Fontainebleau
Post graduation in Finance (European Business Certificate) – South Bank Polytechnic, Londres
Graduated in Organization and Business Management – Instituto Superior de Ciências do Trabalho e da Empresa (ISCTE)
Managing for Success – BNP Paribas, Bruxelas
Leadership for Growth – Fortis Bank, Mello
Certificate of Proficiency in English – Universidade de Cambridge, Lisbon
Diplôme Supérieur d'Études Françaises Modernes – Alliance Française, Lisbon
Pedagogical Skills Certificate – F607896/2013, Lisboa

Professional activity in the past five years

Current Positions:

Member of the Fiscal Council of PHAROL, SGPS S.A. (May 2015 to present)
Financial and Business Advisory (April 2013 to present)
International Banking - Technical Translation (November 2012 to present)
Vice-Chairman of Federação de Triatlo de Portugal (December 2012 to present)

Past Positions:

Director of the Credit Analysis Department, BNP Paribas Fortis – Portuguese Branch (September 2010 – October 2012)
Director of the Risk and Credit Analysis Department, Fortis Bank – Portuguese Branch (October 1995 – September 2010)

Pedro Miguel Ribeiro de Almeida Fontes Falcão (Member of the Fiscal Council)

Educational background and professional training

Graduated in Business Management (Universidade Católica Portuguesa, Lisbon)
MBA (Harvard Business School)
PhD in Management (ISCTE)

Professional activity in the past five years

Current Positions:

Member of the Fiscal Council of PHAROL, SGPS S.A. | Non-executive Member of the Board of Directors of Caixa Geral de Depósitos (July 2013 to present) | Member of the Audit Commission of Caixa Geral de Depósitos (July 2013 to present) | Member of the Remuneration Committee of Caixa Geral de Depósitos since 2015 | Visiting Assistant Professor in ISCTE since 2015 | Associate Dean of ISCTE Business School since 2014 | Executive Director of the Executive MBA of INDEG – IUL since 2004 | Visiting Lecturer in INDEG – IUL and in Instituto Superior Técnico since 2015.

Past Positions:

Advisory in management (until 2013)

APPENDIX II

United States rules applicable to PHAROL, as a Foreign Private Issuer

Until the effective date of deregistration of securities PHAROL filed with the SEC, expected for 26 July 2016, PHAROL will be subject to a set of rules on corporate governance mandatory:

- › The following provisions of the Sarbanes-Oxley Act of 2002 ("SOX")¹, as well as the rules approved by SEC implementing such provisions²:

Sarbanes-Oxley Act	
<i>Sections 201 and 202</i>	Prohibition of rendering of certain non-audit services by auditors and prior approval of audit services.
<i>Section 203</i>	Rotation of the audit partner.
<i>Section 204</i>	Auditor's report to the Fiscal Council.
<i>Section 206</i>	Prohibition on engaging as auditor any firm for which certain of the issuer's officers (CEO, Controller, CFO, Chief Accounting Officer or any person otherwise in a financial reporting oversight role with the issuer) was an employee and participated in the issuer's audit in the preceding year.
<i>Section 301</i>	Standards relating to Fiscal Councils (including independence).
<i>Section 303</i>	Prohibition of exercising improper influence on audits by directors and officers or any other person acting under their direction.
<i>Section 304</i>	CEO and CFO disgorgement of incentive compensation following restatement of financial reports.
<i>Section 306</i>	Prohibition of certain transactions by insiders during certain blackout periods.
<i>Section 307</i>	Professional liability and reporting duties by the issuer's attorneys regarding potential breaches of securities laws and fiduciary duties.
<i>Section 402</i>	Prohibition on issuer loans to directors and executive officers.

¹ Available at <http://www.sec.gov/about/laws/soa2002.pdf>.

² Available at <http://www.sec.gov>.

APPENDIX III

Statement of the Compensation Committee on the Remuneration Policy for the members of the management and supervisory bodies of Portugal Telecom, SGPS SA in force during the 2015 financial year

Whereas:

1. Under Law no. 28/2009 of 19 June 2009 ("Law on Remunerations") and Decree no. 225/2008, of 20 November 2008, the management body or the remuneration committee, when there is one, of companies with securities admitted to trading on a regulated market ("Listed Companies") shall annually submit a statement on the remuneration policy of the members of the management and supervisory bodies to the approval of the General Meeting ("Statement on the Remuneration Policy");
2. In its turn, nos. 69 to 76 of section D. III of the "*Model Report of the Corporate Governance*" as approved in an annex to CMVM Regulation no. 4/2013 ("CMVM Corporate Governance Code") state the incorporation, in the Report of the Corporate Governance adopted by the Listed Companies, of the Statement on the Remuneration Policy as well as a set of additional information regarding, namely, the structure of the remuneration and its alignment with the companies' long-term interests, the evaluation of the performance and the discouragement of an excessive risk-taking, the relationship between the performance evaluation and the variable remuneration component, the deferment of payment of the variable component, among other aspects.
3. In case of approval of the proposed amendments to the Report of the Corporate Governance, PT SGPS will have a Board of Directors and a Fiscal Council;

The present Statement on the Remuneration Policy is hereby submitted to the General Meeting of shareholders taking place on the 29th of May, 2015, which, if approved, shall be applicable to the members of administration and supervision corporate bodies during the 2015-2017 term of office, and which includes the following models drawn up and implemented in line with the best national and international practices.

I. Remuneration policy of non-executive Directors, including the members of the Fiscal Council:

The remuneration of non-executive members of the Board of Directors and of the members of the Fiscal Council is determined on the basis of a rigid model which consists of an annual fixed remuneration, as established by the Compensation Committee (to be paid 14 times/year), without attendance tickets. Such remuneration shall be aligned with the average remuneration earned by non-executive directors of PSI-20 companies.

This fixed remuneration takes into account the fact that some Directors also perform functions in certain delegated internal committees assisting the Board of Directors in its functions, as well as the performance of own powers not subject to delegation.

In particular, the president of any internal committee of the Board (who does not cumulate the position of Chairman of the Board of Directors or of the Executive

Committee, should it exist) as well as the members who are part of one or more internal committee shall receive a supplement corresponding to twice the remuneration of a Member.

For the 2015-2017 term of office, the current amounts to be paid to non-executive Members of Board of Directors shall be maintained.

The Members of the Fiscal Council shall receive an amount equal to that of the non-executive Members of Board of Directors.

This remuneration policy is structured in order to allow an alignment with the interests of the Company and a remuneration level which promotes a suitable performance. No variable remuneration component is stated with regard to the non-executive Members of Board of Directors or the Members of the Audit Committee.

II. Remuneration policy of executive Directors:

The remuneration of executive Directors takes into account the short-and medium-term performance of PT SGPS, as well as referential examples from comparable companies in the sector in Europe.

The amounts earned by the members of the Executive Committee or by the Directors to whom management functions have been delegated remunerate their function performance in PT SGPS and in its 100% held subsidiaries during each financial year.

The remuneration of executive Directors is composed of a fixed component and a variable component as described hereinafter.

a. Fixed Component

For the 2015-2017 term of office it is proposed that the amount of each Executive Director's remuneration fixed component does not exceed 75% of the remuneration fixed component applied to the same function during the previous term of office.

b. Variable Component

For the 2015-2017 term of office the variable remuneration component of the executive members of the Board of Directors shall continue aligned with the positive performance of the Company and the fulfilment of its medium and long-term goals.

The variable remuneration component may amount to 100% of the fixed remuneration should a 100% of the defined goals be achieved. If this is the case, it should be maintained the previous practice of deferring the payment of 50% of the remuneration for a three-year period, depending on the fulfilment of the above mentioned goals as explained *infra*.

Thereby, the variable remuneration component policy at PT SGPS is governed by the following principles aiming to ensure a clear alignment between executive Directors' interests and the Company's interests:

- Pursuing and achieving goals through the quality, work capacity, dedication and business know-how;
- A PT SGPS' incentive and compensation policy allowing to capture, motivate and

retain the “best professionals” within the market as well as the executive team stability;

- Implementing a professionalised management approach based upon the definition and control of the pursuance of ambitious (although achievable) and measurable goals on a short- and medium-long-term basis, thus considering the evolution on the performance of the Company and of the Group;
- Developing a market-oriented culture in line with its best practices, measured to the extent possible by a comparison of the Company’s performance towards its goals vis-à-vis a benchmarking of its (national and international) reference market;
- Pursuing a high standard in the Company’s management, through a set of entrepreneurial reference practices allowing the Company’s business sustainability. For this purpose, a management philosophy with economic, environmental and social dimensions is being implemented.

Currently, there is neither share allotment nor stock option plans in force in the Company.

Properly, the variable component to be allocated for the performance of the year shall be determined by a percentage of the annual fixed remuneration calculated on the basis of a weighted average of the level of achievement of a set of indicators connected to the performance and sustainability of the Company, provided that at least 85% of the goals established for each such indicator must be achieved.

The performance evaluation is made taking into account the evolution of the following indicators:

- The growth of OI’s value (*Total Shareholder Return of OI*);
- The achievement of the recovering plan of the Rio Forte’s dept.;

In each year of the current term of office, only 50% of the variable remuneration determined in the relevant year will be paid in cash by the Company, and the payment of the remaining 50% will be deferred for a three-year period.

The payment of such variable remuneration to each member of the Executive Committee will be subject to the condition of the Company’s positive performance – deemed as such by the Evaluation Committee – during the deferment period.

In verifying the Company’s positive performance during the relevant period, the Evaluation Committee shall take into account any indicators as eventually defined, the financial sustainability, the economic context of the Company, as well as of the sector where it is inserted, apart from exceptional factors out of the management’s control that might affect the performance of the Company.

In the event the executive Director terminates his office, for any reason other than a due cause dismissal, the payment of the variable remuneration amounts determined and deferred will only be made at the time of termination of the management relationship, if up to that date there is sufficient and sustained evidence that the Company’s performance will be predictably positive within the remaining period, in such a way that, most probably, it would allow the payment of the said deferred component.

After the determination of the variable component according to such methodology, the Compensation Committee may increase or reduce in no more than 10% the variable component of the executive Directors under proposal of the Board of Directors.

c. Alignment of Directors' interests with Company's interests

As results from all the above, the variable remuneration of PT SGPS' executive Directors is subject to their performance, as well as to the sustainability and ability to achieve certain strategic goals of the Group.

The current remuneration policy further allows for a reasonable overall balance between the fixed and variable components and the deferment of a significant portion of the variable remuneration, as its payment is subject to not affecting the Company's positive performance throughout that period as described above.

Thus being envisaged to contribute to: (i) optimise the long-term performance and discourage excessive risk undertaking; (ii) pursue the Group's strategic goals and compliance with the rules applicable to its business; and (iii) align management interests with the Company's and its Shareholders' interests.

Also for the purpose of strengthening the component of the performance evaluation of the Directors, unless otherwise agreed or resolved by the Compensation Committee, the Company and its Directors should act in accordance with the following principles:

- 1) The Directors shall not enter into agreements either with the Company or with any third party that might result in mitigating the risk inherent to the variability of their remuneration as fixed by the Company;
- 2) An unsuitable performance may affect the level of compliance with the above mentioned goals, and consequently the variable remuneration in terms of individual and joint evaluation;
- 3) In the event of removal or agreed termination of the management relationship, no compensation will be paid to the Directors if the same is confirmedly due to their unsuitable performance.

d. Payments related to removal or agreed termination of director functions

The Company has no defined general policy on payments related to removal or agreed termination of director functions.

However, on a case-by-case basis, taking into account the circumstances of each termination, the Company has fixed the compensation amounts due to the directors leaving their office as per information disclosed on the Corporate Governance Report.

III. Remuneration policy of the Statutory Auditor:

The Company's Statutory Auditor is remunerated in accordance with the usual remuneration practices and conditions for similar services, receiving in 2014 a remuneration in line with the amount detailed in Chapter V of the Annual Corporate Governance Report of PT SGPS concerning 2013, further to its services' agreement and the proposal of the Company's Audit Committee.

The Compensation Committee of PT SGPS

APPENDIX IV

Code of Ethics

PHAROL's Code of Ethics is, with the necessary adjustments arising from the changes occurring, the Code of Ethics of PT SGPS as revised in 2015 and applies to all employees of the Company in order to guarantee a set of common ethical standards. Its update and implementation are permanently monitored by the management bodies.

The full text of the PHAROL's Code of Ethics is available for consultation on the Company's official website (www.pharol.pt) and may also be made available through the Investor Relations Office.

Code of Ethics for Senior Financial Officers

PHAROL applies the Code of Ethics for Senior Financial Officers in force in PT SGPS, as revised in 2015 and with the necessary adaptations to the significant corporate changes that occurred.

This Code is also available on the Company's website.

A new version of this Code according to the current corporate reality is being prepared aimed at respective implementation in the first quarter of 2016.

Procedures implemented by PHAROL for compliance with the rules applicable to Officer Transactions, Related Party Transactions and Transactions with Owners of Qualified Holdings

In order to fulfil the legal and regulatory requirements applicable to the Company concerning Officer Transactions, Transactions with Related Parties and Transactions with Owners of Qualified Holdings, PHAROL has adopted a set of procedures aiming at fully complying with such rules.

Following the appointment of new members of PHAROL corporate bodies for the 2015-2017 three-year term of office and in the context of the intended revision of the corporate governance structures currently in force, the rules for Officer Transactions, Related Party Transactions and Transactions with Owners of Qualified Holdings are being revised.

Contacts

Investor Relations

Luís Sousa de Macedo
Investor Relations Director
PHAROL SGPS
RUA JOSHUA BENOLIEL, 1, 2C
EDIFÍCIO AMOREIRAS SQUARE
1250-133 LISBOA, PORTUGAL
Tel: +351 21 269 7698
Fax: +351 21 269 7949
E-mail: ir@pharol.pt

Shareholders, investors, analysts and other interested parties should send their requests for information and clarifications (annual, half year, and quarter reports, Form 20-F, press releases, etc.)

Depository bank

Deutsche Bank Trust Company Americas
ADR Division
Floor 27
60 Wall Street
New York 10005-2836
Fax: +1(732)544-6346

Holders of ADRs may also request additional information directly from PHAROL's depository bank for ADRs in New York.

Website

All publications and communications, as well as information regarding the businesses performed by the Company, are available on PHAROL's Internet page, at the following address: www.pharol.pt

Registered Office

RUA JOSHUA BENOLIEL, 1, 2C
EDIFÍCIO AMOREIRAS SQUARE
1250-133 LISBOA, PORTUGAL
Tel: +351 21 269 7690

Registered with the Commercial Registry Office of Lisbon under no. 503 215 058