

# CONSOLIDATED

## REPORT AND ACCOUNTS

First Semester 2018

- PHAROL presented a loss for the period of Eur. 2,8 million mainly explained by the operational costs;
- The company's equity decreased Eur 27,3 million mainly explained by 1) the decrease in Oi's participation amounting Eur. 24,7 million, deeply affected by the depreciation of the Real against the Euro (Euro 18.8 million), and 2) operational costs amounting Eur. 2,4 million.
- PHAROL's operational costs by the end of period was Eur. 2.4 million, that represents a decrease of 10% compared to 1H2017.
- The first half of 2018 culminated in the beginning of the execution of the Judicial Recovery Plan of Oi, in which PHAROL held 27.18%. After the capital increase by conversion of debt, PHAROL holds now a participation of less than 8%. The market capital of this participation on June, 30 2018 compared to December decreased Real 24.5 million, equivalent to Eur. 5.9 million.

### Oi's Highlights in 1H2018:

- Net revenues to reduce by 7% compared to the same period in 2017, ending the semester with R \$ 11,214 million;
- EBITDA also followed the Revenue trend, falling to to R \$ 3,135 million in 2018, less 6% from the same period in 2017, and continued to show an operating improvement reflected in the increase in the EBITDA margin of +0.11 p.p.;
- In the first half of the year, with the implementation of the PRJ and consequent capital increase for debt conversion, Oi had a net equity of 27.4Bi reais.

#### MESSAGE FROM CEO

Luís Palha da Silva

*"In the first half of 2018, Pharol saw the Judicial Recovery process of its main asset take significant steps. Despite the critical position assumed by its subsidiary Bratel in the face of incomprehensible decisions taken by the company's management and most often sanctioned by the Brazilian judicial system, Pharol, submitted to a plan that benefited opportunistic creditors to the detriment of shareholders with a long past of investment and support to the company, was successively deprived of his rights and his ability to intervene directly in Oi. As early as July of this year, following the execution of the Judicial Recovery Plan, the participation in that company was reduced from 27,18% to less than 8%, according to the general level of dilution of shareholder positions. The quote price of Oi shares, which, according to the company's outlook and taking into account the operation of debt reduction, should have shown strong growth, on the contrary, has been falling to modest levels, a trend aggravated by the difficult situation in Brazil and, by drag, its currency. The capital increase that is planned by Oi in order to start a new cycle of investments, opens, however, a door of hope to the valuation of this asset of Pharol.*

*Internally, there was a strong containment of operating costs, with visible effects on the income statement."*

### Highlights

#### PHAROL

(Euro million)	1H18	1H17 <sup>Re</sup>	1H17
<b>EBITDA</b>	(2.4)	(2.6)	(2.6)
<b>Losses (gains) in Associates</b>	-	-	(61.6)
<b>Net Income</b>	(2.8)	0.2	61.8
<b>Equity</b>	234.5	261.8	261.8

<sup>Re</sup> Adjusted for non-recurring effects of Oi Investment

#### Oi

(Reals millions)	1S18	1S17
<b>Net revenue</b>	11,214	11,998
<b>Routine EBITDA</b>	3,135	3,340
<b>Net income consolidated</b>	29,286	(4,319)
<b>Net Debt</b>	10,021	44,499
<b>Equity</b>	27,346	(10,419)

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# PHAROL, SGPS S.A.

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CONSOLIDATED REPORT  
FIRST SEMESTER 2018

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

## 01. FINANCIAL REVIEW

### FINANCIAL REVIEW

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As at June 30, 2018, PHAROL had as its main assets (1) 183,483,304 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 25,614,831 common shares and 51,229,662 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 December 30, 2014, after the capital increase of Oi, concluded on May 5, 2014 (the "Oi Capital Increase"), PHAROL held a 39.7% direct and indirect stake in Oi. This included a portion classified as a non-current asset held for sale, following the Exchange agreement ("Exchange") entered into on September 8, 2014 and completed on March 8, 2015, and the remaining stake of 22.8% classified as investment in joint ventures and associates and therefore accounted for using the equity method.

On March 30, 2015, the Exchange was completed, whereby PHAROL (1) transferred to Portugal Telecom International Finance, B.V. ("PT Finance"), a subsidiary of Oi, an aggregate amount of 47,434,872 common shares and 94,869,744 preferred shares of Oi, and (2) received from PT Finance debt securities of Rio Forte with a nominal value of Euro 897 million and a call option on the transferred shares ("Call Option"). After the completion of the Exchange, PHAROL held an effective stake of 27.48% in Oi corresponding to the 22.8% stake referred above plus 4.7% due to the decrease in the number of outstanding shares of Oi.

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

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

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

With the implementation of the New Structure on July 30, 2015, the shareholder's 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. PHAROL has considered it had significant influence over Oi and classifies it as an associate company. As a result, from July 30, 2015, the investment in Oi was accounted according to the equity method, based on PHAROL's economic stake in Oi's results (27.18%).

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

On 15 September 2017, to concentrate all its operations in Luxembourg, PHAROL transferred the ownership of all the shares that BRATEL BV had in Oi SA to its subsidiary BRATEL S.à.r.l., 100% owned by BRATEL B.V.

In December 2017, and after the decision by the Court of the 7th Business Court of Rio de Janeiro, which it handles the Judicial Recovery of Oi and which decided to withdraw the rights of the members of the Board of Directors of Oi in the approval of the Judicial Recovery Plan, and subsequent events, it was understood that PHAROL lost the significant influence it had until then on its associate Oi. Consequently, on 31 December

2017, PHAROL began to measure its investment in Oi at market value and was classified as "Financial Assets".

Oi, in the disclosure of its consolidated results for 2017, announced that it had restated its Consolidated Equity on January 1, 2016 and December 31, 2016, amounting to BRL 18 billion and BRL 19 billion, respectively. Following this restatement, PHAROL's investment in Oi, being recorded under the equity method, was restated and valued at zero in the periods of 1 January 2016 and 31 December 2016.

On June 30, 2018, PHAROL held 183,483,304 ordinary shares. On July 20, 2018, after the homologation of Capital Increase through debt convert of Oi, PHAROL hold less than 8%.

In the first semester of 2018, the consolidated net loss represents an amount of Euro 2.8 million that, mainly reflects (1) operational costs of Euro 2.4 million (2) a loss of Euro 128 thousand decrease in the value of the call option, and (3) other financial costs including a Euro 251 thousand due to of the depreciation of the Real against the Euro.

## CONSOLIDATED INCOME STATEMENT

	Euro million	
	1H18	Restated 1H17
Wages and salaries	0.8	1.0
Supplies, external services and other expenses	1.4	1.5
Indirect taxes	0.1	0.2
<b>Loss before financial results and taxes</b>	<b>(2.4)</b>	<b>(2.6)</b>
Depreciations	0.0	0.0
<b>Earnings before interest and taxes</b>	<b>(2.4)</b>	<b>(2.7)</b>
Net other gains	12.5	(2.5)
<b>Loss before financial results and taxes</b>	<b>(14.9)</b>	<b>(0.2)</b>
Net interest income	(0.0)	(0.0)
Net losses on financial assets and other investments	0.1	(0.7)
Net other financial losses (gains)	0.3	0.4
<b>Loss before taxes</b>	<b>(15.3)</b>	<b>0.2</b>
Income taxes	(12.5)	0.0
<b>Attributable to equity holders of PHAROL, SGPS S.A.</b>	<b>(2.8)</b>	<b>0.2</b>

Consolidated operating costs amounted to Euro 2.4 million in the first semester of 2018 compared to Euro 2.6 million in the first semester of 2017. This difference is explained by (1) lower third parties expenses mainly related to financial and legal services and (2) lower wages and salaries expenses. On 2018, other net gains include a constitution of a provision of Euro 12.5 million, detailed in the consolidated financial statements. On 2017, other net gains include a reversion of financial services costs which were renegotiated and reverted on June 2017.

Losses on financial assets and other investments in the first semester of 2018 totaled Euro 128 thousand, reflecting the decrease in value of the Call Option. In the first semester of 2017, the Call Option had a valorization of Euro 746 thousand.

Tax reimbursement amounted to Euro 12.5 million in the first semester of 2018.

Net loss attributable to equity holders of PHAROL amounted to Euro 2.8 million in the first semester of 2018 compared to Euro 0.2 million gain in the first semester of 2017. The net loss in 2018 reflects mostly the operational costs, the decrease in value of the Call Option e and depreciation of the Real against the Euro.

The net gain in 2017 reflects mainly the renegotiation of financial services costs and the increase in value of the Call Option.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Consolidated Statement of Financial Position		
	Euro million	
	30 jun 18	31 dec 2017
<b>ASSETS</b>		
Cash and cash equivalents	30.1	25.2
Accounts receivable	1.6	0.1
Tangible assets	0.1	0.1
Taxes receivable	0.1	0.1
Financials assets	143.1	167.8
Other assets	75.5	75.8
<b>Total assets</b>	<b>250.6</b>	<b>269.1</b>
<b>LIABILITIES</b>		
Short-term debt	0.0	0.1
Accounts payable	1.4	4.7
Accrued expenses	1.0	1.5
Taxes payable	0.2	0.2
Provisions	12.5	0.0
Other liabilities	0.9	0.9
<b>Total liabilities</b>	<b>16.0</b>	<b>7.4</b>
<b>Total equity</b>	<b>234.5</b>	<b>261.8</b>
<b>Total liabilities and shareholders' equity</b>	<b>250.6</b>	<b>269.1</b>

The cash position net of gross debt, accounts payable, accrued expenses, and taxes payable was Euro 16.6 million at June 30, 2018 and Euro 18.7 million at December 31, 2017.

Financial Assets correspond to PHAROL's effective stake in Oi on June 30, 2018 and at December 31, 2017, a total of Euro 143.1 million and Euro 167.8 million, respectively. The Euro 24.7 million decrease mainly explained by (1) depreciation of the Real against the Euro and (2) the decrease in Oi's market value in the first half of 2018.

Other assets at June 30, 2018, amounting to Euro 75.5 million, include the fair value of assets received on March 30, 2015 in connection with the Exchange: (1) Euro 74.6 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 767 thousand related to the fair value of the Call Option.

Shareholders' equity amounted to Euro 234.5 million on June 30, 2018 compared to Euro 261.8 million on December 31, 2017, a decrease of Euro 27.3 million, mainly reflecting (1) the net loss of Euro 2.8 million recorded in the first semester of 2018, (2) the decrease in Oi in the first semester of 2018.

## OI RESULTS KEY HIGHLIGHTS

**The information within this section is an excerpt from the First Semester 2018 Report of Oi.**

- Oi completes the debt conversion, prepares to consolidate new governance and execute the capital increase, which will finance the business growth.
  - With the conclusion of the conversion of debt into shares, Oi reorganized its corporate structure and now the new shareholders will vote in EGM the company's new permanent board, which will

be formed by independent members with a high level of governance, in line with the Corporation's principles.

- Oi works on the execution of the capital increase planned in RJ and, in parallel, continues to prepare for the execution of the incremental CAPEX Plan, which is focused on investment in fixed and mobile access, to increase the offer of high speed fixed broadband and 4G and 4.5G coverage.
- Expansion of infrastructure investments. Broadband is the main driver of penetration of bundled products.
  - Investments in Brazilian operations reached R\$ 1,366 million in 2Q18, 11.1% more than in 2Q17 and up 21.5% over 1Q18.
  - In preparation for the implementation of the Capex Plan, the Company started a structuring project, with the objective of leveraging the robustness and extensive capillarity of its network, to accelerate the deployment of fiber to the home. This project, based on existing fiber reuse, brings much more agility and lower deployment costs. In the first pilot, in just eight weeks, Oi Fibra captured almost 20% of Market Share in the region where the product was made available.
- Continuity in improving operational efficiency and strict control of costs.
  - In 2Q18, in the y.o.y comparison, the Company decreased by R\$ 256 million (-6.1%) and, in the year to date, compared to 1H17, cost reduction reached R\$ 575 million.
- Greater operational efficiency coupled with consistent improvements in operational and quality indicators.
  - Preventive actions and increased productivity.
  - Focus on digital transformation, which permeates all segments of the Company and contributes to cost reduction and improvement of customer experience and satisfaction.
  - Consistent year-on-year reduction in ANATEL (-24.1%), Small Claims Court- JEC (-23%) and PROCON (-5.1%) complaint indicators, in relation to 2Q17.
- EBITDA and the EBITDA margin remained in line with the Judicial Reorganization Plan.
  - Routine EBITDA totaled R\$ 1,555 million in 2Q18 and the routine EBITDA margin reached 28.3%, higher than in 2Q17 and 1Q18.
- Oi presented a net loss of R\$1.2 billion in 2Q18, a reduction of 70.4% over the same period of last year.



	in R\$ million*			
	1H18	1H17	2T18	2T17
<b>Oi S.A. Pro-forma</b>				
Total Net Revenues	11,214	11,998	5,545	5,839
EBITDA	3,135	3,340	1,563	1,617
EBITDA Margin (%)	28.0%	27.8%	28.2%	27.7%
Consolidated Net Earnings (Loss)	29,286	(3,504)	(1,258)	(3,303)
Net Debt	10,021	44,499	10,021	44,499
Available Cash	5,199	7,431	5,199	7,431
CAPEX	2,495	2,501	1,368	1,234

\*Or otherwise stated

	in R\$ million*			
	1H18	1H17	2T18	2T17
<b>BRAZIL</b>				
Revenue Generating Unit ('000)	59,071	63,216	59,071	63,216
Residential	15,413	16,272	15,413	16,272
Personal Mobility	36,477	39,802	36,477	39,802
Corporate / SMES	6,541	6,501	6,541	6,501
Public Telephones	640	641	640	641
Total Net Revenues	11,112	11,858	5,490	5,792
Net Services Revenues (1)	11,027	11,742	5,452	5,733
Residential	4,315	4,581	2,114	2,227
Personal Mobility	3,524	3,704	1,756	1,814
Clients (2)	3,274	3,462	1,638	1,713
Corporate / SMEs	3,072	3,330	1,524	1,627
Net Clients Revenues (2)	10,654	11,366	5,280	5,573
Routine EBITDA	3,122	3,293	1,555	1,601
Routine EBITDA Margin (%)	28.1%	27.8%	28.3%	27.6%
CAPEX	2,490	2,455	1,366	1,229
Routine EBITDA - CAPEX	632	837	190	372

\*Or otherwise stated

(1) Excludes handset revenues.

(2) Excludes handset and network usage revenues.

The 2Q17 period was restated.

## 02. BUSINESS PERFORMANCE

Below we list all the events that occurred between January 1 and September 7, 2018, that can be read in full at PHAROL's website ([www.pharol.pt](http://www.pharol.pt)).

### QUALIFIED PARTICIPATIONS IN PHAROL

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The main changes in qualifying holdings of PHAROL were as follows:

**11/Jan/2018** | Discovery Capital Management, LLC decreased its position from 5.14% to 4.89% of PHAROL's share capital and voting rights.

**31/Jan/2018** | Grupo Visabeira SGPS, S.A. reported that it sold a total of 1,630,001 shares, representing 0.1818% of the share capital and voting rights of PHAROL.

As a result of these sales, Grupo Visabeira SGPS, S.A. held 9,893,212 shares, representing 1.1035% of the share capital and voting rights of PHAROL.

Furthermore, pursuant to article 20 of the Portuguese Companies Code, Fernando Campos Nunes (Portuguese Tax ID: 175,776,083) is deemed to be responsible for the total of 16,067,041 shares representing the share capital of PHAROL SGPS, SA, corresponding to 1.7922% of the share capital and voting rights.

**31/Jan/2018** | PHAROL informed that Grupo Visabeira SGPS, SA and Visabeira PRO - Estudos e Investimentos, SA sold a total of 7,575,844 shares, representing 0.846% of the share capital and voting rights of PHAROL.

Because of the sales, Grupo Visabeira SGPS, SA became the holder of 9,893,212 shares representing 1.1035% of the share capital and voting rights of PHAROL, SGPS, SA, and Visabeira PRO - Estudos e Investimentos, SA now holds 6,173,829 shares representing 0.6886% of the share capital and voting rights of the company.

The shareholders identified above have thus jointly held a total of 16,067,041 shares, representing 1.7922% of the share capital and voting rights of PHAROL, SGPS, SA, with the sale of 2,000,000 shares on 28-12-2017, reduced their joint participation to less than 2% of the voting rights corresponding to the capital stock of PHAROL.

**02/Feb/2018** | Norges Bank held a qualifying holding of 3,079% of PHAROL's share capital and voting rights.

**14/Feb/2018** | Norges Bank held a qualifying holding of 3.293% of PHAROL's share capital and voting rights.

**16/Feb/2018** | Norges Bank held a qualifying holding of 3.203% of PHAROL's share capital and voting rights.

**26/Feb/2018** | Norges Bank held a qualifying holding of 3.19% of PHAROL's share capital and voting rights.

**08/Mar /2018** | Norges Bank held a qualifying holding of 3.18% of PHAROL's share capital and voting rights.

**19/Mar/2018** | Norges Bank held a qualifying holding of 3.22% of PHAROL's share capital and voting rights.

**20/Mar/2018** | Norges Bank held a qualifying holding of 3.17% of PHAROL's share capital and voting rights.

**02/Apr/2018** | Norges Bank held a qualifying holding of 3.23% of PHAROL's share capital and voting rights.

**05/Apr/2018** | Norges Bank held a qualifying holding of 3.23% of PHAROL's share capital and voting rights.

**11/Apr/2018** | Norges Bank held a qualifying holding of 3.02% of PHAROL's share capital and voting rights.

**16/Apr/2018** | Norges Bank held a qualifying holding of 2.89% stake in PHAROL's share capital and voting rights.

**17/Apr/2018** | Discovery Capital Management, LLC decreased its stake from 4.89% to 1.99% of PHAROL's share capital and voting rights.

**18/Apr/2018** | Solus Alternative Asset Management LP decreased its share of 2.16% to 1.86% of PHAROL's share capital and voting rights.

**23 / Apr / 2018** | Norges Bank held a qualifying holding of 1.37% of PHAROL's share capital and voting rights, divided into 6,573,482 shares directly held and 5,712,423 shares in a loan with the right to recall at any time.

**24 / Apr / 2018** | Solus Alternative Asset Management LP, decreased its share of 2.16% to 1.86% of PHAROL's share capital and voting rights.

**25 / Apr / 2018** | Adar Capital Partners Ltd. held a qualifying holding of 7.01% of PHAROL's share capital and voting rights.

**27 / Apr / 2018** | Adar Capital Partners Ltd. held a qualifying 10.28% stake in PHAROL's share capital and voting rights, divided into 76,444,022 indirectly owned shares and 15,758,280 shares through a swap agreement.

## CORPORATE EVENTS OF PHAROL AND OI

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Below we list the main corporate events of PHAROL and Oi:

**15/Jan/2018** | Oi informed that the Company's Annual General Meeting will be held on April 27, 2018.

**28/Feb/2018** | Oi informed that the date of the Ordinary General Meeting of the Company ("OGM"), originally scheduled for April 27, 2018 was changed and the AGM shall be held on April 30, 2018.

**07/Mar/2018** | Oi informed that the Board of Directors approved changes in the Company's organizational structure, which involved confirmation of the election of Mr. Carlos Augusto Machado Pereira de Almeida Brandão to the position of Chief Financial Officer and Investor Relations Officer of the Company and Mr. João do Passo Vicente Ribeiro of the position of Director without specific designation. At that meeting, was also received the request for dismissal presented by Mr. Hélio Calixto da Costa as Director without specific designation, which was accepted by the Board of Directors.

**08/Mar/2018** | PHAROL informed that it took cognizance on this date of decision of the 7th Business Court of the District of Rio de Janeiro that determined (a) the suspension of the political rights of its subsidiary BRATEL S.À.R.L. ("Bratel"), (b) the removal of members of the Board of Directors who were allegedly elected and nominated by Bratel and (c) a manifestation of interest in the initiation of a mediation procedure.

**22/Mar/2018** | Oi informed that the Board of Directors approved changes in the structure of its Advisory Committees and changes in the Company's organizational structure.

Mr. José Claudio Moreira Gonçalves was appointed to the position of Operations Director, while Mr. Bernardo Kos Winik will hold the position of Commercial Director. Both were elected by the Board of Directors to join the Company's Statutory Board as Officers without specific designation.

**29/Mar/2018** | Oi called AGM for April 30, 2018.

**12/Apr/2018** | Oi disclosed the meeting minutes of the fiscal council held on April 12, 2018.

**20/Apr/2018** | Oi informed that it received from its shareholder Tempo Capital Principal Stock Investment Fund a request for appointment of a member and respective alternate for a separate vote by shareholders holding preferred shares upon the election of members to the Fiscal Council at the AGM.

**14/May/2018** | Oi issued the minutes of the Extraordinary General Meeting of Oi, held on May 14, 2018.

**16/May/2018** | Oi informed that its Comprehensive Annual Report (Form 20-F) for the years ended December 31, 2016 and December 31, 2017 has been filed with the United States Securities and Exchange Commission (SEC) on this date.

**25/Apr/2018** | PHAROL reported on Notice to the Annual Shareholders' Meeting of May 25, 2018.

**18/May/2018** | PHAROL informed that, following the receipt of a letter from Mrs. Maria Rita de Sousa Coutinho, a member of the list proposed by the Shareholders for the Board of Directors to be elected for the 2018/2020 triennium, in which she stated that did not collected the conditions to assume the director position, for personal reasons, the Chairman order that "In view of the supervening impossibility, I understand that the name of Mrs. Rita de Sousa Coutinho should be removed from the list to be submitted to the General Meeting.

**25/May/2018** | PHAROL informed that that the following resolutions were adopted by the Shareholders at the Annual Meetings of Shareholders:

1. Approval of the management report, balance sheet and accounts for the year 2017;
2. Approval of the consolidated management report, balance sheet and accounts for the year 2017;
3. Approval of the transfer of the net loss for the year ended on December 31, 2017, in the amount of 782,767,357 Euros, to retained earnings;
4. Approval of a general appraisal of the Company's management and supervision;
5. Approval of on the ratification of new members of the Board of Directors, Jorge Augusto Santiago das Neves, Nelson Sequeiros Rodriguez Tanure, Thomas Cornelius Azevedo Reichenheim e Aristóteles Luiz Menezes Vasconcelos Drumond for the remaining of the three-year period 2015-2017;
6. Election of the members of the corporate bodies and the Compensation Committee for the three-year period 2018-2020:

#### **Board of the General Meeting**

Chairman: Diogo Campos Barradas de Lacerda Machado

Secretary: Maria de Lourdes Vasconcelos Pimentel da Cunha Trigo

#### **Board of Directors**

Chairman: Luís Maria Viana Palha da Silva

Directors:

Jorge Telmo Maria Freire Cardoso

Nelson Sequeiros Rodriguez Tanure

Aristóteles Luiz Menezes Vasconcellos Drummond

Bryan Schapira

Maria do Rosário Amado Pinto Correia

Pedro Zañartu Gubert Moraes Leitão

Jorge Augusto Santiago das Neves

João Manuel Pisco de Castro

#### **Fiscal Council**

Chairman:

José Maria Rego Ribeiro da Cunha

Members:

Isabel Maria Beja Gonçalves Novo

Thomas Cornelius Azevedo Reichenheim

Alternate Member:

Paulo Ribeiro da Silva

#### **Remuneration Committee**

Chairman:

António Sarmento Gomes Mota

Francisco José Queiroz de Barros Lacerda

Pedro Miguel Ribeiro de Almeida Fontes Falcão

7. Election of BDO & Associados – SROC, Lda., represented by Rui Carlos Lourenço Helena, as Statutory Auditor, for the term of office of 2018-2020, and of Pedro Manuel Aleixo Dias as alternate Statutory Auditor.
8. Approval of the Amendment of article 4, number 3 and article 8 number 3 of the by-laws of the Company;
9. Approval of the acquisition and disposition of own shares;
10. Approval of the statement of the Compensation Committee on the remuneration policy for the members of the management and supervisory bodies of the Company.

**08/Jun/2018** | PHAROL informed that, at a meeting held on May 25, 2018, its Board of Directors resolved to appoint as Secretary of the Company, for the term of office 2018-2020, Luís Manuel da Costa de Sousa de Macedo (effective) and Maria de Lourdes Vasconcelos Pimentel da Cunha Trigo (alternate).

**02/Aug/2018** | Oi convened an Extraordinary General Meeting for September 3, 2018 to deliberate on: (1) To approve the amendment to Article 5 of the Bylaws, in view of the partial approval of the Capital Increase - Capitalization of Credits, pursuant to Clause 4.3.3.5 of the Company's Judicial Reorganization Plan, by the Board of Directors on July 20, 2018; (2) To approve the proposed amendment to the Company's authorized capital limit, with the consequent alteration of Article 6 of the Bylaws; (3) To approve the proposed amendment to the new Article in the Section " Final and Transitory Provisions" of the Bylaws in order to adapt the Bylaws to the provisions of the Company's Judicial Reorganization Plan with respect to the composition of the New Board of Directors; (4) To approve the broad reform of the Bylaws, as amended by the Management Proposal, among which the following should be highlighted: (a) the termination of the

positions of alternate members of the Board of Directors; (b) the adjustment of certain rules for the election of the Chairman and the Vice Chairman of the Board of Directors; (c) the adjustment of certain rules of disability or temporary absence of the Chairman of the Board of Directors; (d) the adjustment of certain powers of the Board of Directors; (e) the adjustment of the rules regarding the creation of Advisory Committees by the Board of Directors; and (f) the adjustment of the rules related to the transfer of control of the Company, cancellation of the company's registration as a publicly-held company and the removal from the special listing segments of B3; and (5) To ratify the election of the Consensual Sheet indicated by the Company's management for the composition of the New Board of Directors, pursuant to Clause 9.3 and subclauses of the Company's Judicial Reorganization Plan.

**02/Aug/2018** | Oi reported on the postponement of the Extraordinary General Meeting for September 17, 2018.

**07/May/2018** | PHAROL informed that the following resolutions were adopted by the Shareholders at the Extraordinary General Meeting Of Shareholders:

1. Election for diretor Mrs. Maria Leonor Martins Ribeiro Modesto;
2. Approval of the share capital increase, in cash and limited to shareholders, from €26,895,375.00 (twenty-six million, eight hundred and ninety-five thousand, three hundred and seventy-five euros) up to €55,482,427.11 (fifty-five million, four hundred eighty-two thousand and four hundred twenty-seven euros and eleven cents), or a lower amount, as deemed convenient to participate in Oi's share capital increase;
3. Approval of the amendment of Article 4 of the Company's Articles of Association (Share capital).

## OTHER MATERIAL EVENTS OF PHAROL AND OI

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Below we list the other material events of PHAROL and Oi:

**22/Mar/2018** | Oi informed that Standard & Poor's ("S & P") announced today its review of the credit ratings assigned to the Company.

**22/Jun/2018** | PHAROL informed that it has filed, before the judge 18 of the Civil Central Division of the First Instance Court of Lisbon, an injunction against Oi, S.A. - In Judicial Reorganization and its subsidiaries with headquarters in Portugal, PT Ventures, SGPS, S.A., PT Participações, SGPS, S.A., TPT – Telecomunicações Públicas de Timor, S.A., Oi Investimentos Internacionais, S.A. and Directel – Listas Telefónicas Internacionais, Lda., requesting the seizure of goods, money and rights. This seizure aims to ensure the payment of Oi, S.A. to PHAROL of an indemnity in terms to be determined in the main proceedings.

## EVENTS RELATED TO THE OI JUDICIAL RECOVERY

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Below we list the main events related to the judicial recovery of Oi:

**08/Jan/2017** | PHAROL announced that BRATEL S.À.R.L., a subsidiary of PHAROL, as the largest shareholder of Oi S.A., convened an Extraordinary Shareholders' Meeting of Oi, to be held, on first call, on February 7, 2018.

**08 / Jan / 2018** | Oi informed that the Court of the 7th Business Court of the Capital District of the State of Rio de Janeiro granted the judicial recovery of the Company and its subsidiaries (all together, "Recuperandas"), and ratified the Judicial Recovery Plan for Recoveries ("Plan"), with the following

exceptions: "a) Section 11 of the Annex (called the Subscription and Commitment Agreement of the JRP) is invalid, with respect to the ability of the Reclaimers to repay expenses incurred by creditors in the search for satisfaction of its credits; b) the conditions set forth in item 5 of the same Annex, which provide for the payment of a commitment fee, extendable to all creditors under the same conditions ". The decision also called for an Extraordinary General Meeting of Shareholders to deliberate on matters that impact on the Plan, clarifying the following: "I consider, however, that the pertinent amendments, including the company's bylaws, approved in the JRP exempt the EGM and may be carried out by the company's management bodies, based on the authorization of the creditors' assembly, as provided for in the FRL, which is a special law in relation to the LSA in this regard. (...) The clause of the plan that governs governance during the transition phase is in line with Article 50 of the LRJ, and does not violate the Law of the S / A, insofar as it seeks to confer institutional stability to the corporate bodies and administrators of recoveries for purposes of compliance with the judicial recovery plan approved by the sovereign creditors' manifestation. Therefore, the convening of an EGM is absolutely unnecessary to give effect to the sovereign decision of the creditors. On the contrary, the convening of a shareholders' meeting, in this case, would reinstall the instability strongly rejected by the Judiciary throughout this judicial recovery process."

**09/Jan/2018** | PHAROL announced that on the afternoon of January 8 BRATEL S.À.R.L. filed a claim for part of the decision rendered by the Judicial Recovery Court, so that the clauses of the Judicial Recovery Plan that unduly alter the governance provided for in the Bylaws of Oi (Clause 9), or directly affect the rights reserved to shareholders, in particular with regard to capital increases (Clauses 4.3.3 and 6), have their effectiveness suspended until the Extraordinary Shareholders' Meeting of Oi, convened by BRATEL to be held in the first call on February 7, 2018.

**15/Jan/2018** | Oi informed that on January 12, 2018, he took note of the decision of the Directing Council of the National Telecommunications Agency - ANATEL, regarding Oi's request for prior consent for the inauguration of the new members that will form the Transitional Board of Administration, as provided for in the judicial reorganization plan approved by the General Meeting of Creditors and ratified by the 7th Business Court of the Capital District of the State of Rio de Janeiro ("Plan"), and Anatel approved the execution of Mr. Marcos Grodetzky, Eleazar de Carvalho Filho and Marcos Bastos Rocha.

**01/Feb/2018** | PHAROL, on the appeal filed by the Public Prosecutor's Office in which it appeals the decision that approved the Oi Judicial Recovery Plan, considers that the requests made by the Public Prosecutor's Office bring coherence to the discussion, since it clarifies that the conduct of a judicial recovery process must comply the Brazilian Corporate Law.

In the understanding of Pharol, any change in both the Bylaws and the composition of the Company's Board of Directors should be discussed by the shareholders at an Extraordinary General Meeting, as determined by the Brazilian Corporate Law and the CVM governance regulations, and not imposed in a Judicial Recovery Plan approved without any resolution of its Board.

Thus, the holding of the Extraordinary General Meeting scheduled for February 7, 2018 is essential to discuss the future of the company and the rights guaranteed by the law of its shareholders.

**02/Feb/2018** | Oi informed its shareholders and the market that it will not hold an Extraordinary General Meeting ("EGM") on February 7, 2018, since the schedule contained in the notice convened on the initiative of one of its shareholders is contrary to the judicial decision, rendered on January 8, 2018, by the Court of the 7th Business Court of the District of the Capital of the State of Rio de Janeiro.

**05/Feb/2018** | PHAROL informed that its subsidiary BRATEL S.à.r.l., as the largest shareholder of Oi SA - In Judicial Recovery ("Oi"), ratifies on this date, the regular and legitimate convocation of the Extraordinary Shareholders' Meeting of Oi, to be held in first call on February 07, 2018.

**05/Feb/2018** | Oi informed that on this date, a decision was issued by the Court of the 7th Business Court of the Capital District of the State of Rio de Janeiro, which approved the Judicial Recovery Plan of the Company and its subsidiaries (all together, "Recuperandas") and granted the judicial recovery of the Recuperandas.

As a result of the publication of the decision, the period of 20 days will begin, that is, from 00:00 from February 6, 2018 until 23:59 of February 26, 2018, so that the creditors of the Recuperandas can choose between the payment options of their respective claims.

**06/Feb/2018** | Oi, Portugal Telecom International Finance B.V. - In Judicial Recovery ("PTIF") and Oi Brasil Holdings Coöperatief U.A. - On Judicial Recovery announced today that they have initiated requests for payment option choices related to payments under the terms of the consolidated judicial reorganization plan applicable to the various bondholders.

**06/Feb/2018** | Oi informed that it took cognizance of the decision of the 7th Business Court of the District of the Capital of the State of Rio de Janeiro, which rejected the request of the shareholder Bratel S.A.R.L. a partial reconsideration of the decision that approved the judicial reorganization plan, and this decision was entirely maintained, including in relation to the non-holding of the Extraordinary General Meeting of the Company convened by Bratel S.A.R.L for February 7, 2018.

**06/Feb/2018** | PHAROL, reported that its subsidiary BRATEL S.À.RL, as Oi's largest shareholder, reiterates that, contrary to what was stated in the Notice to Shareholders held by Oi on this date, there is no judicial decision that would determine the cancellation of Extraordinary General Meeting that will have on its agenda other subjects besides those related to the Oi Judicial Recovery Plan presented by the Statutory Board of Executive Officers.

**07/Feb/2018** | Oi informed its shareholders and the market in general that the 7th Business Court of the Capital District of the State of Rio de Janeiro ("Judicial Recovery Court") in appreciating the Company's petition regarding initiatives adopted by Bratel S.A.R.L. insisting on the holding of an Assembly convened for February 7, 2018, declared invalid and ineffective any extrajudicial deliberation that threatens the issues already approved in the Plan.

**07/Feb/2018** | PHAROL informed that on this date General Meeting of Oi SA was held - In Judicial Recovery ("Oi"), in which it was approved the filing of a civil liability action, under the terms of article 159 of the Corporate Law, against the Directors Eurico de Jesus Teles Neto and Carlos Augusto Machado Pereira de Almeida Brandão.

Following the approval of the liability action, the aforementioned Officers are prevented from exercising their functions in the Company's management, which is why, pursuant to article 159, paragraph 2 of the Corporation Law, the shareholders approved the election of (i) Pedro Zañartu Gubert Moraes Leitão, to hold the position of Chief Executive Officer, and Mr. Thomas Cornelius Reichenheim shall perform this function on an interim basis, until the former obtains the residence visa in Brazil necessary for the exercise of the position (ii) Thomas Cornelius Reichenheim for the position of Director of Finance and Investor Relations; and (iii) Leo Julian Simpson to act as Legal Officer.

**08/Feb/2018** | Oi informed of a decision of the 7th Business Court of the Capital District of the State of Rio de Janeiro ("Judicial Recovery Court") that granted the urgency protection required by the Company to stop the effects of all deliberations taken in the alleged Extraordinary General Meeting held between a group of shareholders of the Company on February 7, 2018, further determining the summons of the Commercial Board of the State of Rio de Janeiro - JUCERJA and the Securities and Exchange Commission so that they



refrain from filling the minutes of said Meeting, or if it has already been done, that they be suspended until a subsequent judicial order of the Judicial Recovery Court.

**27/Feb/2018** | Oi informed in complement to the Notice to the Market released on February 6, 2018, that at the end of February 26, 2018, the deadline for the creditors of the Company and its subsidiaries to choose among the payment options of their in accordance with the Judicial Recovery Plan ("Plan"). With respect exclusively to bondholders, the Company took cognizance of a decision of the 7th Business Court of the Capital District of the State of Rio de Janeiro, rendered on February 26, 2018, which, among other determinations, disposed of:

"In view of the omission of the trustees and the loss resulting from it, I hereby determine, in favor of the bondholders who have been forsaken at this time, the extension of the deadline for exercising the option of the form of payment.

Thus, bondholders who wish to individualize their credits (through petition in the case and subsequent choice in the electronic platform) can do so until 03/03/2018. "

**05/Mar/2018** | Oi informed that the Board of Directors approved the conditions for a capital increase of the Company, through the capitalization of part of the Unsecured Credits of the Qualified Bondholders, with the issuance of new common shares and subscription bonuses that will be attributed to the subscribers of the object shares of the increase, as provided for in Clauses 4.3.3.2 and 4.3.3.5 of the Judicial Recovery Plan of Oi and its subsidiaries, approved by the General Meeting of Creditors and approved by the Judicial Recovery Court ("Capitalization of Credits").

**06/Mar/2018** | PHAROL informed its shareholders and the market in general that in the early afternoon of 05.03.2018, it was informed that in arbitration proceedings initiated by its subsidiary BRATEL S.À.R.L. against Oi SA - In Judicial Recovery in the Market Arbitration Chamber ("CAM"), the Arbitrator appointed by CAM decided to partially approve the request for urgent measures presented by Bratel.

**06/Mar/2018** | Oi said that it became aware of a demonstration by the Arbitrator of Support in arbitration proceedings initiated against the Company by the shareholder Bratel S.À.R.L. ("Bratel") in the Market Arbitration Chamber, to address issues related to the implementation of the Judicial Recovery Plan approved by the appellate court.

**07/Mar/2018** | Oi informed of a decision of the 7th Business Court of the Capital District of the State of Rio de Janeiro ("Judicial Recovery Court"), which, fully accepting the opinion of the Public Prosecutor, suspended the political rights of the undersigned members of the Extraordinary General Meeting of Shareholders February 7, 2018, except for those who abstained from voting, and determined the removal of the members of the Board of Directors elected by them until the capital increase provided for in the Company's judicial recovery plan.

Because of the decision, Bratel S.à.r.l., Société Mondiale Stock Investment Fund, Petrorio SA and Aurélio Valporto, among others, have their rights suspended and, consequently, the members of the Board of Directors elected by them, Messrs. Luis Maria Viana Palha da Silva, Pedro Zañartu Gubert Morais Leitão and Helio Calixto da Costa, are removed from their positions.

The decision also ordered the subpoena of the current Executive Officers and Chairman of the Company and of the shareholders whose political rights were suspended, to express their interest in initiating a mediation procedure.

**09/Mar/2018** | Oi informed that in addition to the Market Announcements released on February 06 and 27, 2018, to its shareholders and to the market in general, the deadline for the bondholders of the Company and its subsidiaries Oi Móvel SA - In Judicial Recovery, Copart 4 Participações SA - In Judicial Recovery, Copart 5 Participações SA - In Judicial Recovery, Portugal Telecom International Finance BV - In Judicial Recovery and Oi Brazil Holdings Coöperatief UA - In Judicial Recovery (collectively, "Recuperandas") to choose between the payment options of their respective credits, as provided in the Recovery Plan for Judicial Recovery ("Plan"), which had been extended by the 7th Business Court of the Capital of the State of Rio de Janeiro on February 26, 2018, ended at the end of March 08, 2018.

**14/Mar/2018** | Oi informed that he took note on March 13, 2018, of a decision of Minister Marco Buzzi of the Second Section of the Superior Court of Justice that granted an injunction requesting a conflict of jurisdiction presented by the Company, suspending the effects of the decision rendered by the arbitral tribunal in the arbitration proceeding initiated against the Company by Bratel S.A.RL, appointing the 7th Business Court of Rio de Janeiro / RJ to resolve, on a provisional basis, any urgent measures, pending further deliberation of that rapporteur.

**14/Mar/2018** | Oi informed about the amount of the increase and the new capital stock deliberated by the board of directors.

**16/Mar/2018** | Oi informed that it received a preliminary indication, subject to confirmations and documentary evidence, of the results of the choices made by the bondholders of the Company and its subsidiaries Oi Móvel SA - In Judicial Recovery, Telemar Norte Leste SA - In Judicial Recovery, Copart 4 Participações SA - In Judicial Recovery, Copart 5 Participações SA - In Judicial Recovery, Portugal Telecom International Finance BV - In Judicial Recovery and Oi Brazil Holdings Coöperatief UA - In Judicial Recovery (all together "Recuperandas") with respect to the payment options of their respective credits, as provided for in the Judicial Recovery Plan ("Plan").

**28/Mar/2018** | Oi informed that due to the complexity of the impacts of the judicial recovery process and the approval and homologation of its Judicial Recovery Plan in the preparation of the Company's financial statements and the independent auditors' report for the fiscal year of 2017, in the quality and adequacy of the treatment of its accounting information, the Company announces the postponement of the disclosure of its financial statements related to the fiscal year of 2017, from March 28, 2018 to April 12, 2018.

The Ordinary General Meeting of the Company was convened on March 29 to be held on April 30, 2018, according to the Annual Calendar of Corporate Events published by the Company, having as its agenda the management accounts for the fiscal year closed on December 31, 2017, the election of members of the Fiscal Council and their respective alternates and the determination of the annual global amount of the remuneration of the administrators and members of the Fiscal Council. The examination, discussion and voting of the financial statements shall be resolved at the Extraordinary General Meeting to be convened immediately after the disclosure of the audited financial statements.

Oi also proceeded to anticipate the following accounting information:

*The process of judicial reorganization, with the approval and homologation of its Plan, and the commitment to the adequacy of the treatment of its accounting information and the quality of its disclosure to the market, led the Company to discuss with the external auditor details about the accounting recognition of certain assumptions of the Plan and its consequences on the opening balance of 2016 and on the Company's financial statements for the 2016 and 2017 fiscal years.*

*The accumulated accounting effects to be recorded in the Company's Shareholders' Equity for 2017 will be approximately R \$ 21 billion. Of this amount, the main items to be recognized in accounting are: (i)*

adjustment in the amount of the Deferred Income Tax provision recorded in relation to the projection of expected future profits; (ii) write-off of assets related to judicial deposits; (iii) write-off of the capital gain registered on the merger of Telemar Participações S.A. ("TmarPart") by the Company; and (iv) revision of the calculation criteria for provision for regulatory liabilities.

The other accounting effects not mentioned in this Material Fact will be timely detailed when the financial statements for the 2017 fiscal year are disclosed.

The table below summarizes the main impacts of the adjustments made with respect to the period at hand.

(R\$ billion)	Estimated accrued impact on the 2017 Shareholders' Equity
Provision of the Deferred Income Tax	(7.5)
Write off of Assets related to Judicial Deposits	(6.3)
Write off of Goodwill net of taxes	(2.2)
Provision for regulatory liabilities	(1.7)

The aforementioned accounting effects will result in negative shareholders' equity as of December 31, 2017. The value of the shareholders' equity will become positive in 2018 due to the expected adjustments in 2018 resulting from the recognition of the fair value of the Company's new debt pursuant to the approved and confirmed Plan.

The Company clarifies that such accounting effects will not have an impact on its cash or routine EBITDA for the years ended December 31, 2016 and 2017. It is important to stress out that these accounting effects do not affect the Plan nor the financial flows used to evaluate the Company and its subsidiaries in judicial reorganization (the "Recovering Entities") that show the viability of the Recovering Entities, in line with the economic and financial report presented along with the Plan.

Given the postponement of the disclosure of the financial statements for the fiscal year 2017 and to ensure the stability of the market's expectations, the Company opted to disclose the key financial indicators related to its unaudited 2017 results and used in the Plan:

(R\$ billion)	2016	2017 (preliminary)	2017 (Plan)
Routine EBITDA	6.3	6.2	6.0
Cash	7.8	7.0	7.1

The details of the adjustments are described below:

• **Adjustment of the amount of the provision of deferred income tax**

This involves impairment and adjustments to equity accounts related to deferred income tax and social contribution that are calculated based on the forecast of profits to be earned by the Company. CVM Normative Ruling No. 371, dated June 27, 2002, provides for the recording of deferred tax asset arising from temporary differences and tax losses and negative basis of social contribution, and allows such credits to be recognized or maintained in accordance with the following requirements:

- To present the history of profitability;

- To present expectation of the generation of future taxable income, based on technical feasibility study that allows the realization of deferred tax credits.

With the feasibility study annexed to the Plan, the Company was able to determine the expectation of the generation of future taxable income and therefore record in its accounts only the amount of the income tax and social contribution credit that adequately reflects this forecast.

#### • **Write-off of assets related to judicial deposits**

The judicial reorganization process allowed the Company to scrutinize and reconcile the accounting balances and amounts of judicial deposits, in addition to the corresponding contingencies. Basically, the following factors favored this scenario:

- the possibility of discussion with the major creditor banks that are deposit holders, with a more effective collection of financial information and statements for the reconciliation;
- the scan of processes and the resulting improvement in the access and use of the research tool in the websites of the Courts of Justice for the reconciliation of procedural developments;
- the stay period restricted the making of deposits and the blocking of accounts; and
- the reduction in the number of filings of court proceedings.

As a consequence, in 2017 the Company created internal interdisciplinary groups and began organizing the system and research bases for the work. In addition, it hired independent external consultants to seek the diagnostic, reconciliation and identification of gaps, adjustments and improvement opportunities in its controls and processes.

In February 2018, the Company, together with its consultants, prepared reports with structured information at an executive level for the adequacy of the Company's financial accounts and identified the aforementioned negative effect of R\$6.3 billion in shareholders' equity corresponding to the write-off of judicial deposits assets.

Oi reports that it has identified the need for improvements in its internal controls and processes and has been taking a number of initiatives to correct procedures, and has been implementing new controls and defining their periodic monitoring.

#### • **Write-off of goodwill net of taxes**

Following the merger of TmarPart with and into Oi on September 1, 2015, the Company recorded on its balance sheet the total net assets of the merged entity, including the goodwill of its assets.

With the approval of the Plan at the General Creditors' Meeting on December 20, 2017 and its confirmation by the Judicial Reorganization Court on February 5, 2018, the Company understood that the necessary conditions were met for the definition of the assumptions to be used in the annual impairment test of defined and long-term assets for the years ended December 31, 2016 and 2015 under CPC 01 - Reduction of the Recoverable Value of Assets. The adjustment of this revaluation is reflected in a partial write-off of the

appreciation of the asset, net of taxes, in the amount of R\$2.2 billion, in the Company's shareholders' equity as of December 31, 2017.

- **Provision for Regulatory Liabilities**

Clause 4.3.4 of the Plan clearly establishes the criteria and conditions for payment of the credits of regulatory agencies, including those of Anatel.

As such, as it also did for other types of creditors, the Plan separated the payment of the liquid credits, which are recorded in the Debt Roster, from those that are not liquid, as not yet registered and discussed in Anatel's administrative sphere.

It should be noted that these fines are still, mostly, under review in administrative and judicial proceedings, and there is no consistent case law on their merits. The Company believes that Anatel's claims arising from fines are based on disproportionate and unreasonable criteria.

In this context, the Company has increased the balance of provision for regulatory liabilities in R\$ 1.7 billion, in order to reflect the terms of payment approved under the Plan.

**Oi notes that such information is preliminary and the Company's independent auditors have not completed their analysis of the information. The Company will keep its shareholders and the market informed of the development of the subject matters of this Material Fact.**

**02/Apr/2018** | PHAROL informed that the decision of the judge of the 7th Business Court of Rio de Janeiro was the decision to establish the mediation procedure between Bratel BV, Société Mondiale and the Recuperandas, and Mrs. Juliana Loss was appointed as mediator of the conflict.

**10/Apr/2018** | Oi reported that the Dutch Courts have set the dates for the verification meetings of the Dutch composition plans of PTIF and Oi Coop, both to be held on June 1, 2018, and that consent applications have been initiated with the intention of ensuring the European recognition for the RJ Plan.

**11/Apr/2018** | Oi informed Qualified Bondholders with credits in the amount of US \$ 8,462,921,552.92 (or its equivalent in reais or euros) opted for the payment as provided in Sections 4.3.3.2 and following of the Plan (Option Unsecured Bonds of Qualified Bondholders). The total dilution resulting from the delivery of the financial instruments package provided for in said Plan Clause, in the context of the capital increase approved at the Board of Directors' Meeting held on March 5, 2018, will be 72.12%, in the event that all Bondholders Qualifiers take the necessary steps to participate in the Exchange Offer.

**04/Jun/2018** | Oi informed that the verification meetings of Portugal Telecom International Finance B.V. – In Judicial Reorganization and Oi Brasil Holdings Coöperatief U.A. – In Judicial Reorganization were held starting at 10.00 am (CET) on 1 June 2018 at the Court of Amsterdam, the Netherlands in relation to each of their Dutch law composition plans will give effect to the RJ Plan internationally.

**11/Jun/2018** | Oi informed that the PTIF and Oi Coop ratification hearings were held at the Amsterdam Court of the Netherlands, and that the Amsterdam Court subsequently confirmed the Plans at the type-approval hearing. The approval decision is subject to a period of 8 days for appeal, after which the Plans will take effect and, in accordance with Dutch Law, PTIF and Oi Coop will be exempt from bankruptcy.

**11/Jun/2018** | Oi informed about the conditions for the exercise of preemptive rights by the holders of Oi's common and preferred shares with respect to the common shares, nominative and without par value to be issued in the Company's capital increase by means of the capitalization of part of the Unsecured Credits of the Qualified Bondholders as approved by the Company's Board of Directors in a meeting held on March 5, 2018.

**11/Jun/2018** | Oi informed that the waiver of the conditions precedent to the Capital Increase – Capitalization of Credits was approved at a Creditor's Meeting held on this date.

**14/Jun/2018** | Oi informed that the United States Bankruptcy Court for the Southern District of New York issued an order granting the relief requested in the motion submitted on behalf of Oi, Telemar Norte Leste S.A. – in Judicial Reorganization, Oi Brasil Holdings Coöperatief U.A. – in Judicial Reorganization and Oi Móvel S.A. – in Judicial Reorganization (all debtors together, the "Chapter 15 Debtors") seeking full force and effect the RJ Plan in the United States and for purposes of U.S. law with respect to each of the Chapter 15 Debtors. The order also authorizes steps required to consummate the RJ Plan.

**15/Jun/2018** | Oi reported that PTIF and Oi Coop initiated the settlement procedures for bondholders.

**19/Jun/2018** | Oi informed that it has been aware of the order given by the Brazilian Competition Authority (Conselho Administrativo de Defesa Econômica – CADE), which approved the Company's application for a declaration that there is no need to adjudicate on the capital increase of the Company through the capitalization of part of the Unsecured Credits held by the Qualified Unsecured Bondholders ("Capital Increase"), in accordance with the judicial reorganization plan.

**20/Jun/2018** | Oi informed that no appeal has been filed at the Amsterdam Court of Appeal against the decision that was rendered by the District Court of Amsterdam at the homologation hearing held on June 11, 2018 and confirmed the Dutch law composition plans. Given the expiration of the appeal period, the Plans are now effective as a matter of Dutch law and the bankruptcies of PTIF and Oi Coop have terminated.

**03/Jul/2018** | Oi and PTIF announce that they have amended the terms of the settlement procedures set forth in the Information Statement, dated June 15, 2018.

**05/Jul/2018** | Oi informed that is aware of the term for the filing of opposing statements against the order given by the Brazilian Competition Authority, which approved Oi's application for a declaration that there is no need to adjudicate on the capital increase of the Company through the capitalization of part of the Unsecured Credits held by the Qualified Unsecured Bondholders, in accordance with the judicial reorganization plan approved has expired with no opposing statements. Therefore, since the aforementioned decision has been fully confirmed, the proceeding before CADE has terminated and all Conditions Precedent set forth in the Plan for the Capital Increase have been duly satisfied or waived.

**10/Jul/2018** | PHAROL, for its special relevance, reports an opinion by Gesner Oliveira - Professor of the Getúlio Vargas Foundation in São Paulo - on the "Analysis of the Socioeconomic Impacts of the Approval of the Oi Judicial Reorganization Plan" and an article by the same professor published on June 29, 2018 entitled "Judicial Reorganization of Oi generate a Legal Insecurity in the Country."

**17/Jul/2018** | Oi informed that the term for the exercise of the preemptive right by the Company's shareholders to subscribe to the common shares to be issued in the capital increase, by means of Capitalization of Unsecured Credits of Qualified Bondholders ended on July 16, 2018.

**18/Jul/2018** | PHAROL clarifies that, regarding to the Oi Judicial Recovery Plan, two capital increases were planned:

a) Capital Increase - Capitalization of Credits

Through issuance of new shares to Bondholders who opted to convert their credits into capital of Oi, and the minimum price of the issuance of these new shares was established at R \$ 7.00.

The issuance of these new shares should observe the pre-emptive right to the current shareholders, as provided for in Brazilian Law.

b) Capital Increase - New Resources

Through cash inflows in the amount of R \$ 4 billion, whose conditions are not yet known.

Regarding the Capital Increase - Capitalization of Credits, the deadline for the use of the right of subscription reserved for the current shareholders ended on July 16.

Considering the price at which the subscription right could be exercised and the current price per share of Oi, in compliance with the decision of the PHAROL Board at its meeting on 4 July, PHAROL did not subscribe the capital increase in a).

The Board of Directors of PHAROL has not yet taken any decision on the capital increase referred to in b) above.

**20 / Jul / 2018** | Oi informed about the approval of the capital increase and extinction of the statutory restriction of voting.

**23/Jul/2018** | Oi informed that due to the confirmation in part of the Capital Increase, the Company will refund the amounts paid to by the subscribers that conditioned their participation in the Capital Increase to the subscription of the maximum amount of shares of the Capital Increase, without interest or monetary restatement, through custodians of such subscribers, on July 25, 2018.

**01/Aug/2018** | Oi informed that it learn on this date of a judgement rendered on July 30, 2018 by the Commercial Court of Lisbon – Judge Number 2 of the Judicial Court of the District of the Region of Lisbon, which reject at this moment the request submitted by the Company and its subsidiaries seeking the recognition in Portugal of the decision rendered by the 7<sup>th</sup> Corporate Court of the Judicial District of the Capital of the State of Rio de Janeiro on January 8, 2018 and published on February 5, 2018, which approved the Judicial Recovery Plan of the Recovering Entities approved at the General Meeting of Creditors held on December 19 and 20, 2017.

## OTHER MATERIAL EVENTS IN OI

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Below we list other material events about Oi:

**22/Jan/2018** | Oi received on this date, correspondence from SOCIÉTÉ MONDIALE INVESTMENT FUND IN SHARES, informing that it reduced, on January 19, 2018, its participation in the capital stock of Oi SA - in Judicial Recovery ("Company") of: (i) 43,637,500 Common Shares, equivalent to 6.53% of the Common Shares issued by the Company for 30,306,300 Common Shares, equivalent to 4.54% of the total number of Common Shares issued by the Company, totalling a reduction of 5.28% to 3.67%.

**28/Feb/2018** | Oi celebrated a memorandum of understanding with TIM Participações SA on February 26, 2018. The understanding between the companies was established by the CEOs of Oi, Eurico Teles and TIM, Stefano De Angelis, during the Mobile World Congress.

**02/Mar/2018** | Oi informed the merger of Oi Internet S.A. ("Oi Internet") by Oi Móvel SA - In Judicial Recovery ("Oi Móvel"), both indirect subsidiaries of the Company.

**27/Apr/2018** | Oi informed that it received on this date correspondence from JGP GESTÃO DE RECURSOS LTDA. and JGP GESTÃO PATRIMONIAL LTDA to inform that the Investors acquired common shares issued by Oi, to hold 39,027,862 shares of the Company's common stock. The aforementioned ownership represents 5.84% of the Company's common stock. 26,790,962 are common shares held directly by investors and 10,500,000 are shares acquired through stock loans. The investors hold 16,571,638 common shares referenced by unsecured derivatives instruments with exclusive financial liquidation and that do not aim to change the ownership of control or the administrative structure of the Company. There is no agreement or contract among the Investors regulating the exercise of voting rights or the purchase and sale of the securities issued by the Company.

**12/Jun/2018** | Oi informed that it received on this date correspondence from JGP GESTÃO DE RECURSOS LTDA. and JGP GESTÃO PATRIMONIAL LTDA to inform that "as a result of trades made in the past days at the Bolsa de Valores de São Paulo – BOVESPA, the Investors sold common stock of Oi and now own 26,243,562 of the Company's common stock. The aforementioned ownership represents 3.93% of the Company's common stock. We further inform that the investors hold 19,583,038 common shares referenced by unsecured derivatives instruments with exclusive financial liquidation. The abovementioned trades do not aim to change the ownership of control or administrative structure of the Company. There is no understanding or agreement among the Investors regarding the exercise of voting rights or the purchase and sale of the securities issued by the Company."

**25/Jun/2018** | Oi reported receiving correspondence from Goldman Sachs & Co. LLC. with the following information: On June 18, 2018, Goldman Sachs together with its affiliate Goldman Sachs International carried out transactions that resulted in a financial settlement derivative position equivalent to 36,064,923 Oi common shares or 5.4% of the company's common shares.

**06/Jul/2018** | Oi reported receiving correspondence from Goldman Sachs & Co. LLC. with the following information: on July 2, 2018, Goldman Sachs together with its affiliate Goldman Sachs International conducted transactions that resulted in a financial derivative position equivalent to 30,581,120 common shares issued by Oi or 4, 58%.

**19/Jul/2018** | Oi informed that it had received correspondence regarding the rectification of the share sale declaration of July 5, 2018, rectifying the transactions carried out that resulted in a position in financial settlement derivatives equivalent to 7,250,020 common shares issued by Oi or 1,09 % and to 12,375,663 preferred shares issued by Oi or 7.85%.

**14/Aug/2018** | Oi disclosed 2Q18 results.



### 03. 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 or increase in the market price of the ordinary shares of PHAROL.

Relevant Risks		
<b>Economic Risks</b>	<b>Oi's Performance</b>	<p>The main risk that PHAROL is subject in Brazil still due to the execution of the Oi Judicial Recovery. Is planned in Oi a second capital increase, with cash inflow, until March 31, 2019, which may bring further destruction of value, in case the price of subscription rights be below of their theoretical value. PHAROL is currently preparing a capital increase in the company in order to be able to participate in the Oi's capital increase.</p> <p>Oi's good operational and financial performance is also crucial to the success of the implementation and execution of the judicial recovery plan and, consequently, of the company's value.</p>
<b>Financial Risks</b>	<b>Exchange Rates</b>	<p>Foreign currency exchange rate risks relate mainly to PHAROL's investment in Oi (Brazil). Any exchange rate fluctuations of the Real against the Euro affect the valorization of Oi shares held by PHAROL, and therefore impact PHAROL's results and financial position.</p> <p>The Company does not have a hedging policy regarding the value of these investments.</p>
	<b>Interest Rate</b>	<p>Interest rate risks basically relate to financial expenses and the floating interest rate debt and cash applications. PHAROL is indirectly exposed to these first risks specially in Brazil. It is important to point out that, at December 31, 2017 PHAROL has no debt.</p> <p>Market interest rates also affect the discount rates used for impairment testing to the various assets of the entity.</p>
	<b>Treasury Applications</b>	<p>PHAROL is mainly subject to credit risks in its treasury applications.</p> <p>In order to dilute these risks, in July 2014 the Board of Directors defined a policy for treasury applications.</p>
	<b>Default by Rio Forte as to the reimbursement of the instruments that PHAROL holds following the execution of the Exchange</b>	<p>The Rio Forte Instruments currently held by PHAROL, are not guaranteed by assets. Therefore, even though there may exist amounts available for reimbursement to Rio Forte's creditors the right to reimbursement of PHAROL will be shared pro rata with the other unsecured creditors of Rio Forte and only after the repayment of all debts to any secured creditors, and after confirmation of the validity of the credits.</p> <p>PHAROL evaluates these instruments every year, with the supervision of the Fiscal Council and External Audit.</p>

	<b>Exercise of the call option on Oi's shares</b>	<p>The value of the Call Option on Oi's shares will depend primarily on the market price for Oi's ordinary and preferred shares, the price of which will depend, in its turn, on Oi's performance, including its operations, financial position, business outlook and its development of judicial recovery.</p> <p>The Board of Directors of PHAROL closely monitors Oi's business on regular basis and is further engaged in periodically following up the Call Option for purposes of financial statement recording, as well as the price of Oi's shares.</p>
<b>Legal Risks</b>	<b>Court proceedings</b>	The Board of Directors subcontracts the risk analysis as legal proceedings to external lawyers and consultants, to know, for each claim, their assessment as to PHAROL's liability (probable, possible and remote occurrence), the status of the proceedings, the amounts involved, provisioned and paid, and what steps should be taken to defend PHAROL's interests.
	<b>Tax contingencies</b>	In accordance with the agreements with Oi, Oi is responsible for the payment of all contingencies until May 5, 2014 and PHAROL remains and severally liable for these contingencies.
	<b>Disputes or investigations triggered under the Rio Forte Instruments or the Business Combination</b>	PHAROL may incur in liability under disputes and other future proceedings and incur in legal costs in such disputes or other proceedings. Any liability incurred may adversely affect PHAROL's financial position.

## 04. QUALIFIED HOLDINGS

### QUALIFIED HOLDINGS

As at June 30, 2018, qualified holdings represented over 41% of PHAROL share capital, as follows:

DATE OF INFORMATION	ENTITIES	NO. OF SHARES	% OF CAPITAL	% OF VOTING RIGHTS
<b>02/05/2018</b>	<b>Adar Macro Fund LTD</b>	<b>92.202.302</b>	<b>10,28%</b>	<b>10,00%</b>
	Adar Capital Partners Ltd.	92.202.302	10,28%	10,00%
	Adar Macro Fund Ltd.	92.202.302	10,28%	10,00%
	Total attributable	92.202.302	10,28%	10,00%
<b>31/05/2012</b>	<b>Telemar Norte Leste S.A.</b>	<b>89.651.205</b>	<b>10,00%</b>	<b>10,00%</b>
	Telemar's sole shareholder is OI S.A..			
	Total attributable	89.651.205	10,00%	10,00%
<b>02/04/2018</b>	<b>Novo Banco S.A.</b>	<b>85.665.125</b>	<b>9,56%</b>	<b>9,56%</b>
	Directly	85.665.125		
	Shares held by companies in a controlling or group relationship with Novo Banco, S.A.	916		
	Shares held by directors and members of the Corporate Bodies	595		
	Total attributable	85.666.636	9,56%	0,00%
<b>24/05/2017</b>	<b>High Bridge Unipessoal, Lda.</b>	<b>55.304.969</b>	<b>6,17%</b>	<b>6,17%</b>
	Full chain of controlled undertakings through which the voting rights and/or the financial instruments are effectively held starting with the ultimate controlling natural person or legal entity is formed Atlantis Global Investments, LLC.			
	Total attributable	55.304.969	6,17%	6,17%
<b>05/12/2016</b>	<b>High Seas Investments LLC</b>	<b>46.657.016</b>	<b>5,20%</b>	<b>5,20%</b>
	Full chain of controlled undertakings through which the voting rights and/or the financial instruments are effectively held starting with the ultimate controlling natural person or legal entity is formed Angra Capital Management LTD.			
	Total attributable	46.657.016	5,20%	5,20%

## THE BOARD MEMBERS AND SUPERVISORY BODIES SHAREHOLDINGS

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Under the terms of article 9, number 1 c), of Regulation number 5/2008 of CMVM, the following information is presented with respect to the qualified holdings held by the board members and supervisory bodies in PHAROL's share capital, which the company was informed about with reference to June 30, 2018 or the previous date, as indicated:

### Board of Directors

- Luís Maria Viana Palha da Silva owns 200,000 shares of PHAROL. 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. With the suspension of the political rights of Bratel S.à.r.l. determined by the Judicial Recovery Judge, on March 7, 2018, remained in Oi suspended from that date.
- Aristotles Luiz Menezes Vasconcellos Drummond does not own any securities of PHAROL or any other companies that are in a control or group relationship. He was appointed for the Board of Directors of PHAROL on September 28, 2017.
- Bryan Schapira does not own any securities of PHAROL or any other companies that are in a control or group relationship. He was appointed for the Board of Directors of PHAROL on May 25, 2018. He is director of Adar Capital Partners.
- João Manuel Pisco de Castro does not hold any securities of PHAROL or other companies that are in a controlling or group relationship. He was appointed for the Board of Directors of PHAROL on March 17, 2015. He is also director of Oi, with the approval of the Oi Judicial Recovery Plan on January 8, 2018, after Oi's Board of Directors was replaced by a Transitional Board of Directors, his office was suspended.
- Jorge Augusto Santiago das Neves does not hold any securities of PHAROL or other companies that are in a controlling or group relationship. He was appointed for the Board of Directors of PHAROL on June 30, 2017.
- Jorge Telmo Maria Freire Cardoso does not own any securities of PHAROL or other companies that are in a domain or group relationship. He was appointed for the Board of Directors of PHAROL, on November 5, 2014. He is also an administrator of Novo Banco, SA..
- Maria do Rosário Amado Pinto Correia is the holder of 40 PHAROL shares. She was co-opted for the Board of Directors of PHAROL on September 2, 2015. She has been an alternate member of Oi since February 17, 2016. With the approval of the Oi Judicial Recovery Plan on January 8, 2018, after Oi's Board of Directors was replaced by a Transitional Board of Directors, his office was suspended.
- Nelson Sequeiros Rodriguez Tanure does not own any securities of PHAROL or other companies that are in a control or group relationship. He was appointed for the Board of Directors of PHAROL on June 30, 2017.
- Pedro Zañartu Gubert Morais Leitão does not own any securities of PHAROL or any other companies that are in a control or group relationship. He was appointed for the Board of Directors of PHAROL on May 29,

2015. He was an alternate member of the Oi Board of Directors until July 4, 2016, when he was appointed as a member of the Board of Directors of Oi. With the suspension of the political rights of Bratel S.à.r.l. determined by the Judicial Recovery Judge, on March 7, 2018, remained in Oi suspended from that date.

## **Fiscal Council**

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

- José Maria Rego Ribeiro da Cunha
- Isabel Maria Beja Gonçalves Novo
- Thomas Cornelius Azevedo Reichenheim
- Paulo Ribeiro da Silva

## **Managing Director**

- The Managing Director, Luís Maria Viana Palha da Silva, is also a member of the Board of Directors.

## **Statutory Auditor ("ROC")**

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

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

## 05. OUTLOOK

PHAROL intends to maintain a high concentration in its current assets portfolio but does not neglect the possibility of investment and diversification on activities that may have a high correspondence with its business and fiscal profile, in particular with respect to its condition of holding and listed company.

Today, PHAROL has the main investment in Oi, following the recent capital increase due to debt conversion, one of its most important shareholders, with 183,483,304 ordinary shares and a participation of less than 8%; holds a call option on 25,614,831 common shares and 51,229,662 preferred shares of the Brazilian company.

Until the abovementioned capital increase, PHAROL was closely following Oi's activity through the presence of members appointed by PHAROL on the Board of Directors of Oi but following the approval of the PRJ - which PHAROL continues to consider to be fraught with illegalities - no longer has any presence in the provisional Board of Directors, PHAROL exercises its shareholder role following the public information provided by Oi. At the same time, as a result of the litigation created by the company in its misguided judicial recovery operation, PHAROL keeps close watch on the main decisions taken by the company's Executive Board.

Oi will soon have to decide on the conditions for a new capital increase through cash inflow. PHAROL has already taken all steps so that, if market conditions become favorable, it may be able to make such an increase by exercising its subscription rights, but does not exclude that, in order to finance this or other transactions, it may be more appropriate to sell a part of the Oi shares or the subscription rights. Given the history of very low profitability of the investments made by the company in the last decade and considering the recent evolution of treasury, PHAROL will become a shareholder to require the use of new resources in value creation projects with profitability rates higher than the cost of capital in Brazil and Oi.

PHAROL, in addition to the lawsuits initiated in Brazil by virtue of a PRJ designed to meet the interests of a recent set of institutions – alias vultures fund - that acquired credits at highly discounted amounts, considers that its investment in Oi since 2010, which totaled more than EUR 5.7 billion and is now worth EUR 143 million at market prices, was highly detrimental to the interests of PHAROL itself and its shareholders, made a request for the arrest of Oi's assets in Portugal in Portuguese Courts, based on the lack of transparency and reliability of the information provided during the different phases of the investment.

PHAROL also holds a credit on Rio Forte and continues to carefully follow the winding-up of the company in Luxembourg, with the aim of maximizing reimbursements. The slowness of the proceedings, the complexity of the decisions involving the Luxembourg and Swiss jurisdictions, as well as the specific legal situation of each of the claims and creditors have made the market for the sale of this type of assets very low, but PHAROL does not exclude an early monetization of its participation in the insolvency estate.

The PHAROL balance sheet is characterized today by the inexistence of financial debt, but some legal risks and lawsuits, potentially creating liabilities and identified throughout this report - mainly due in due time to

Oi, in which PHAROL remains a party jointly and severally responsible - have occupied a significant part of the efforts of the company's management team.

PHAROL's operating costs, which amounted to EUR 2.4 million in the first half of 2018, fell 10% year-on-year, and maximum efficiency in resource management will continue to be one of the top priorities of the company's management.

PHAROL's share, which at 31 December 2017 was quoted at EUR 0.31, reached EUR 0.24 at 30 June, a depreciation of 22%. The liquidity translated in the same period by an average daily sale of 6.4 million shares, with an overall percentage of 93.9% traded.

## 06. 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, and other accountability documents required by law or regulations concerning the first semester, 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 first semester management report outlines the progress of the business activities, the performance and position of PHAROL, SGPS, SA and companies included in the respective consolidation perimeter, and it contains a correct description of the main risks and uncertainties that these entities face.
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Lisbon, September 10, 2018

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

Aristóteles Luiz Menezes Vasconcellos Drummond, Board Member

Bryan Schapira, Board Member

João Manuel Pisco de Castro, Board Member

Jorge Augusto Santiago das Neves, Board Member

Jorge Telmo Maria Freire Cardoso, Board Member



Maria do Rosário Amado Pinto Correia, Board Member

Nelson Sequeiros Rodriguez Tanure, Board Member

Pedro Zañartu Gubert Morais Leitão, Board Member

# PHAROL, SGPS, S.A.



## CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED FINANCIAL STATEMENTS

### CONSOLIDATED FINANCIAL STATEMENTS

PHAROL, SGPS S.A.			
CONSOLIDATED INCOME STATEMENT			
PERIODS ENDED JUNE 30 2018 AND 2017			
		Euro	
	Notes	1H18	Restated 1H17
<b>CONTINUING OPERATIONS</b>			
<b>COSTS, LOSSES AND (INCOME)</b>			
Wages and salaries	5	787,833	961,537
Supplies, external services and other expenses	6	1,433,463	1,477,503
Indirect taxes	7	134,645	175,173
Depreciation		34,251	41,680
Net other losses (gains)	17	12,534,295	(2,464,650)
		<b>14,924,487</b>	<b>191,242</b>
<b>Income (loss) before financial results and taxes</b>		<b>(14,924,487)</b>	<b>(191,242)</b>
<b>FINANCIAL LOSSES AND (GAINS)</b>			
Net interest income	8	(12,545)	(25,822)
Net foreign currency exchange losses	12	240,574	115,740
Net losses on financial assets and other investments	12	127,619	(746,830)
Net other financial expenses		11,372	286,886
		<b>367,021</b>	<b>(370,026)</b>
<b>Income (loss) before taxes</b>		<b>(15,291,508)</b>	<b>178,784</b>
Income taxes	9	(12,528,602)	17,105
<b>NET INCOME</b>		<b>(2,762,906)</b>	<b>161,678</b>
<b>Attributable to equity holders of the parent</b>		<b>(2,762,906)</b>	<b>161,678</b>
<b>Earnings per share</b>			
Basic and Diluted	10	(0.00)	0.00

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
PERIODS ENDED JUNE 30 2018 AND 2017

	Notes	1H18	Euro Restated 1H17
<b>Net Income recognised in the income statement</b>		<b>(2,762,906)</b>	<b>161,678</b>
<b>Income (expenses) recognised directly in shareholders' equity</b>			
<b>Items that may be reclassified subsequently to the income statement</b>			
Foreign currency translation adjustments		104,333	(8,726)
<b>Items that will not be reclassified to the income statement</b>			
Gains (losses) on financial assets at fair value		(24,555,585)	
<b>Total earnings recognised directly in shareholders' equity</b>		<b>(24,451,252)</b>	<b>(8,726)</b>
<b>Total comprehensive income</b>		<b>(27,214,158)</b>	<b>152,952</b>
<b>Attributable to shareholders of PHAROL SGPS</b>		<b>(27,214,158)</b>	<b>152,952</b>

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
JUNE 30 2018 AND DECEMBER 31 2017**

	Notes	30 jun 18	Euro 31 dec 17
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	15	30,144,809	25,152,142
Accounts receivable		1,637,529	144,507
Taxes receivable		54,173	61,192
Prepaid expenses		120,924	14,520
<b>Total current assets</b>		<b>31,957,435</b>	<b>25,372,360</b>
<b>Non-Current Assets</b>			
Tangible assets		94,488	133,607
Financials assets	11	143,103,566	167,810,365
Other non-current assets	12	75,403,056	75,790,173
<b>Total non-current assets</b>		<b>218,601,111</b>	<b>243,734,144</b>
<b>Total assets</b>		<b>250,558,546</b>	<b>269,106,504</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Short-term debt		1,380	3,065
Accounts payable	13	1,404,408	4,741,442
Accrued expenses	14	1,021,230	1,544,125
Taxes payable		192,910	158,654
Provisions	17	12,500,000	-
Other current liabilities		856,984	857,040
<b>Total current liabilities</b>		<b>15,976,912</b>	<b>7,304,327</b>
<b>Non-Current Liabilities</b>			
Medium and long-term debt		45,449	51,836
<b>Total non-current liabilities</b>		<b>45,449</b>	<b>51,836</b>
<b>Total liabilities</b>		<b>16,022,362</b>	<b>7,356,163</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital		26,895,375	26,895,375
Treasury shares		(179,675,995)	(179,675,995)
Legal reserve		6,773,139	6,773,139
Reserve for treasury shares		186,646,315	186,646,315
Other reserves and accumulated earnings		193,897,350	221,111,507
<b>Total equity</b>		<b>234,536,184</b>	<b>261,750,341</b>
<b>Total liabilities and shareholders' equity</b>		<b>250,558,546</b>	<b>269,106,504</b>

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

PHAROL, SGPS S.A.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
PERIODS ENDED JUNE 30 2018 AND 2017

Euro

	Share capital	Treasury shares	Legal reserve	Reserve for treasury shares	Other reserves and accumulated earnings	Equity excluding non-controlling interests	Total equity
<b>Balance as at December 31, 2016</b>	26,895,375	(179,675,995)	6,773,139	186,646,315	67,124,807	107,763,641	107,763,641
Income (expenses) recognized directly in equity					(8,726)	(8,726)	(8,726)
Income recognized in the income statement					161,678	161,678	161,678
<b>Balance as at June 30, 2017</b>	26,895,375	(179,675,995)	6,773,139	186,646,315	67,277,759	107,916,593	107,916,593

Euro

	Share capital	Treasury shares	Legal reserve	Reserve for treasury shares	Other reserves and accumulated earnings	Equity excluding non-controlling interests	Total equity
<b>Balance as at December 31, 2017</b>	26,895,375	(179,675,995)	6,773,139	186,646,315	221,111,507	261,750,341	261,750,341
Income (expenses) recognized directly in equity	-	-	-	-	(24,451,252)	(24,451,252)	(24,451,252)
Income recognized in the income statement	-	-	-	-	(2,762,906)	(2,762,906)	(2,762,906)
<b>Balance as at June 30, 2018</b>	26,895,375	(179,675,995)	6,773,139	186,646,315	193,897,350	234,536,184	234,536,184

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**PERIODS ENDED JUNE 30 2018 AND 2017**

		Euro	
	Notes	1H18	1H17
<b>OPERATING ACTIVITIES</b>			
Payments to suppliers	15.a	(1,425,362)	(3,883,789)
Payments to employees		(853,044)	(838,330)
Payments relating to income taxes		(36,168)	(34,990)
Other cash receipts, net		7,207,434	(1,259,582)
<b>Cash flows from operating activities (1)</b>		<b>4,892,860</b>	<b>(6,016,691)</b>
<b>INVESTING ACTIVITIES</b>			
Cash receipts resulting from:			
Financial investments		157,031	-
Interest and related income		4,318	24,154
		<b>161,349</b>	<b>24,154</b>
Payments resulting from:			
Financial investments		(34,971)	(44,627)
		<b>(34,971)</b>	<b>(44,627)</b>
<b>Cash flows from investing activities (2)</b>		<b>126,378</b>	<b>(20,473)</b>
<b>FINANCING ACTIVITIES</b>			
Payments resulting from:			
Loans repaid		(8,072)	(12,930)
Interest and related expenses		(4,848)	(10,268)
<b>Cash flows from financing activities (3)</b>		<b>(12,920)</b>	<b>(23,198)</b>
Cash and cash equivalents at the beginning of the period		25,152,142	28,936,973
Change in cash and cash equivalents (4)=(1)+(2)+(3)		5,006,318	(6,060,363)
Effect of exchange differences		(13,651)	132,965
<b>Cash and cash equivalents at the end of the period</b>	15.b	<b>30,144,809</b>	<b>23,009,575</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2018

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(Amounts stated in Euros, except where otherwise mentioned)

### 1. Introduction

As at June 30, 2018 PHAROL holds, directly and indirectly through wholly owned subsidiaries, 183,483,304 common shares of Oi, representing 27.2% of total share capital of Oi (excluding treasury shares).

On July 20, 2018, after sold more 1,315,200 Oi's shares and after the homologation of Capital Increase through debt convert of Oi, PHAROL hold less than 8%.

Based on the agreements concluded on March 30, 2015 between PHAROL and Oi, PHAROL currently holds Rio Forte debt securities with a nominal value of Euro 897 million and a Call Option for shares of Oi. On March 30, 2018, as a part of the options has reached maturity, PHAROL holds a call option on 25,614,831 common shares of Oi and 51,229,662 preferred shares of Oi.

### 2. Basis of presentation

The interim consolidated financial statements were prepared according to the International Accounting Standard (IAS) 34 Interim Financial Reporting. Therefore, the financial statements do not include all information required by the International Financial Reporting Standards ("IFRS") as adopted by the European Union and so should be read in conjunction with the consolidated financial statements of December 31, 2017. Additionally, the interim management report discloses further explanations regarding major variations in income and expenses, and as such these interim consolidated financial statements should be read with the management report. The disclosed interim financial statements were not subject to external audit or review.

### 3. Changes in Accounting Policies

The presented financial statements follow the same accounting policies applied in the most recent annual financial statements. As mentioned in these most recent annual financial statements, as a result of the loss of significant influence it had on its associate Oi, on December 31, 2017, Pharol started to record this investment at market value and classified it as "Financial Assets". As of January 1, 2018, following the introduction of IFRS 9 - Financial Instruments, PHAROL chose to measure this investment at fair value through other comprehensive income for investments in equity instruments, as explained in Note 11.



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

At June 30, 2018 and December 31, 2017, assets and liabilities denominated in foreign currencies were translated to Euros using the following exchange rates to the Euro:

Currency	30 jun 18	31 dec 17
Real	4.4876	3.9729
USD	1.1658	1.1993

At June 30, 2018 and 2017, the statements of financial position, income statements and cash flows of subsidiaries and associated denominated in foreign currencies were translated to euros using the following exchange rates to the Euro:

Currency	1H18	1H17
Real	4.1415	3.4431
USD	1.2104	1.0830

#### 5. Wages and salaries

The composition of this caption in the first semester of 2018 and 2017 is as follows:

	1H18	Euro 1H17
Fixed and variable remuneration	604,748	749,641
Social security	158,882	165,611
Other	24,203	46,285
	<b>787,833</b>	<b>961,537</b>

#### 6. Supplies, external services and other expenses

The composition of this caption in the first semester of 2018 and 2017 is as follows:

	1H18	Euro 1H17
Specialized work (i)	916,807	996,610
Insurance	137,844	183,818
Travel	109,662	35,648
Other	269,150	261,427
	<b>1,433,463</b>	<b>1,477,503</b>

## 7. Indirect taxes

The composition of this caption in the first semester of 2018 and 2017 is as follows:

		Euro
	1H18	1H17
VAT	131,322	174,339
Other	3,323	834
	<b>134,645</b>	<b>175,173</b>

## 8. Net interest income

The composition of this caption in the first semester of 2018 and 2017 is as follows:

		Euro
	1H18	1H17
<b>Net interest earned</b>		
Related to cash and cash equivalents (i)	(12,545)	(25,822)
	<b>(12,545)</b>	<b>(25,822)</b>

(i) Interest income obtained in these semesters relates to cash amounts applied in term deposits by PHAROL SGPS and PHAROL Brasil.

## 9. Taxes and rates

In 2018, companies located in mainland Portugal are subject to Corporate Income Tax at a base rate of 21.0%, plus (1) up to a maximum of 1.5% of taxable income through a municipal tax, and (2) a state surcharge levied at the rates of 3.0% on taxable income between Euro 1.5 million and Euro 7.5 million, 5.0% on taxable income between Euro 7.5 million and Euro 35 million and 9.0% on taxable income in excess of Euro 35.0 million, resulting in a maximum aggregate tax rate of approximately 31.5% for taxable income higher than Euro 35 million. When calculating taxable income to which the above tax rate is applied, non-tax-deductible amounts are added to or subtracted from accounting records.

The composition of the corporate income tax for the first semester of 2018 and 2017 is as follows:

	1H18	Euro 1H17
<b>Income tax</b>		
Income tax - current	(12,528,602)	17,105
	<b>(12,528,602)</b>	<b>17,105</b>

In the first half of 2018, this caption mainly reflects the reimbursements received from the Tax Authority from previous years, amounting to 12,542,510 euros.

## 10. Earnings per share

Earnings per share in the first semester of 2018 and 2017 were as follows:

		1H18	Euro 1H17
<b>Net loss attributable to equity holders of Pharol</b>	(1)	<b>(2,762,906)</b>	<b>161,678</b>
<b>Weighted average common shares outstanding in the period</b>	(2)	<b>865,647,500</b>	<b>865,647,500</b>
<b>Earnings per share from continuing operations</b>			
Basic and diluted	(1)/(2)	(0.00)	0.00

## 11. Finance Assets

This line item corresponds to investments in Oi held by PHAROL.

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 until the Exchange date. The remaining interest of 22.8%, including the interests of 15.9% and 3.0% held directly by PHAROL and Bratel Brasil, respectively, and the interest of 3.9% owned indirectly through the controlling holding companies of Oi, remained classified as an investment in joint ventures measured according to the equity method of accounting. Following the execution of the Exchange on March 30, 2015, this interest became 27.5%.

As referred to above, leading up to the New Ownership Structure of Oi, the Shareholder Agreements through which Oi was jointly controlled were terminated on July 30, 2015. The simplification of the structure occurred

on September 1, 2015, and led to the incorporation by Oi of several assets at fair value that were not previously booked by the holding companies.

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

On October 8, 2015, Oi's Board of Directors homologated the voluntary conversion of Oi's preferred shares 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, 2017, an effective voting right of 18.83%. By analogy, IFRS 10 – Consolidated financial statements consider that control may occur when there is a concentration of significant voting rights, with the remainder of voting rights largely dispersed ("de facto control"). In Oi's shareholder structure, over 32% of ordinary shares are dispersed in free float, and two other shareholders besides PHAROL have voting rights of 5%.

In December 2017, and after the decision by the Court of the 7th Business Court of the District of the Capital of the State of Rio de Janeiro, that handles the Judicial Recovery ("Judgment"), which decided to withdraw the rights of the members of Oi's Board of Directors in approving the Judicial Recovery Plan in which the company is located, and subsequent events, it was understood that PHAROL lost the significant influence it had until then on its associate Oi. In December 2017, PHAROL started to record its investment in Oi at market value, and it was classified as "Financial Assets".

With the introduction of IFRS 9 Financial Instruments as of January 1, 2018, PHAROL chose to designate at the date of initial application of this new IFRS its investment in Oi as measured at fair value in other comprehensive income in accordance with paragraph 5.7.5. As a result, the fair value changes occurred between December 31, 2017 and June 30, 2018 were recognized directly in Other Comprehensive Income.

The evolution of the investment in Oi between January 1, 2018 and June 30, 2018 can be detailed as follows:

	Euro	
	<b>31 dec 17</b>	<b>167,810,365</b>
Fair value changes recognized in Other Comprehensive Income		(5,765,057)
Exchange differences recognized in Other Comprehensive Income		(18,790,528)
Disposing of shares		(151,214)
	<b>30 jun 18</b>	<b>143,103,566</b>

## 12. Other non-current assets

The composition of this caption mainly comprises (1) Euro 74.6 million related to the debt securities issued by Rio Forte on June 30, 2018 and December 31, 2017, and (2) Euro 0.77 and 0.15 million related to the value of the Call Option on June 30, 2018 and December 31, 2017, respectively.

In addition, and in connection with the Rio Forte debt instruments, PHAROL was informed of a statement from the curators of Espírito Santo International, SA ("Insolvency"), stating that this bankrupt company is going to sue PHAROL for the refund of EUR 750 million, without specifying the grounds for such a request. In view of the lack of additional information on this matter and because it understands that it is not a debtor in any way from Espírito Santo International, SA, PHAROL has not set up any provision in its financial statements and awaits its announcement in the announced legal action to contest and exercise all their rights.

## 13. Accounts Payable

On June 30, 2018 and December 31, 2017, the composition of this caption is as follows:

	Euro	
	<b>30 jun 18</b>	<b>31 dec 17</b>
<b>Current accounts payable</b>		
Current suppliers	1,365,543	861,133
Others	38,865	3,880,310
	<b>1,404,408</b>	<b>4,741,443</b>

## 14. Accrued Expenses

On June 30, 2018 and December 31, 2017, the composition of this caption is as follows:

	Euro	
	<b>30 jun 18</b>	<b>31 dec 17</b>
Supplies and external services	643,591	1,075,808
Vacation pay and bonuses	303,353	430,943
Others	74,286	37,374
	<b>1,021,230</b>	<b>1,544,125</b>

## 15. Consolidated Statement of Cash Flows

### (a) Payments to suppliers

During the first semester of 2018, payments to suppliers mainly reflect payments, related to third party suppliers and consultants.

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

On June 30, 2018 and 2017, the composition of this caption is as follows:

	30 jun 18	Euro 30 jun 17
Cash	4,400	2,530
Demand deposits	15,019,409	3,507,045
Time deposits	15,121,000	19,500,000
	<b>30,144,809</b>	<b>23,009,575</b>

## 16. Guarantees and financial commitments

As at June 30, 2018 and December 31, 2017, this caption has the following composition:

	30 jun 18	Euro 31 dec 17
Bank and other guarantees presented to the tax authorities	123,748,272	376,715,726
	<b>123,748,272</b>	<b>376,715,726</b>

(i) The bank and other guarantees presented to the tax authorities essentially included Euro 123 and 377 million on June 30, 2018 and December 31, 2017 respectively 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. The change in the value of the guarantees provided in the first half of 2018 occurred due to cancellation related to the expiration of part of the guarantees.

These guarantees were presented by PHAROL as the controlling company of the consolidated tax in the years in question, even though, as at June 30, 2018, the contingencies associated to these guarantees are not the Company's responsibility, having been contractually transferred to Oi, while PHAROL remains and severally liable for these contingencies. Notwithstanding the expiration and consequent cancellation of part of the Guarantees, the tax proceedings are still ongoing and Oi is responsible for the same. According to the agreements, Oi is obliged to substitute the bank guarantees provided by PHAROL to the tax authority for guarantees provided by Oi. In cases where this substitution is not possible, Oi has undertaken to provide guarantees with the same value in favor of PHAROL. As such, on June 30, 2018, is in force a Pledge Agreement on the shares of Telemar Norte Leste with a maximum amount up to the limit of the potential liabilities currently.

## 17. Provisions

On June 30, 2018 and December 31, 2017, the composition of this caption is as follows:

	<b>30 jun 18</b>	<b>Euro 31 dec 17</b>
<b>Provisions</b>		
Taxes	12,500,000	-
	<b>12,500,000</b>	<b>-</b>

The provision made in the first half of 2018 takes into account an eventual liability resulting from the position assumed by the company with respect to tax refunds and tax benefits from previous years.

This provision was recorded as counterpart entry to the income statement "Other costs (gains), net".

## 18. Related parties

### a) Associated Companies

During the first semester 2018 there were no costs or revenues related to associated companies.

### b) Other

During the periods years ended June 30, 2018 and 2017, the fixed remuneration of the Board members, which was established by the Remuneration Committee, amounted to Euro 0.26 million and 0.34 million, respectively.

## 19. 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 June 30, 2018 and December 31, 2017, and the transactions occurred in June 30, 2018 and 2017 between PHAROL and the entities that are identified as shareholders with qualified holding and respective economic groups:

	Euro	
	30 jun 18	31 dec 17
		Cash and bank deposits
<b>Shareholder</b>		
Novo Banco	5,500,389	11,058,551
	<b>5,500,389</b>	<b>11,058,551</b>

	Euro			
	1H18		1H17	
	Costs and losses	Net interest income	Costs and losses	Net interest income
<b>Shareholder</b>				
Banco Comercial Português (i)	NA	NA	1,876	11,814
Novo Banco	360	6,188	376	19,595
	<b>360</b>	<b>6,188</b>	<b>2,251</b>	<b>31,409</b>

i) Banco Comercial Português, S.A. was a qualified shareholder until May 23, 2017.



## 20. Subsequent events

Oi's stock price evolution between June 30 and September 7, 2018 can be found below:

	<b>30 jun 18</b>	<b>07 sep 18</b>
Oi ON share price (Reais)	3.5	2.56
Oi PN share price (Reais)	2.89	2.39
Exchange rate Real/Euro	4.4876	4.715
Oi ON share price (Euro)	0.78	0.54
Oi PN share price (Euros)	0.64	0.51

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



## **STATEMENT OF THE AUDIT COMMITTEE**

## STATEMENT OF THE SUPERVISORY BOARD

(Free translation from the original version in Portuguese)

(Sub-paragraph c), paragraph 1 of Article 246 of the Portuguese Securities Code)

Under the terms and for the purposes of the sub-paragraph c), paragraph 1 of article 246 of the Portuguese Securities Code, the members of the Supervisory Board of PHAROL, SGPS S.A. ("PHAROL") states that:

To the best of their knowledge the information provided for in paragraph a) of paragraph 1 of article 246 of the Portuguese Securities Code was drawn up in accordance with the applicable accounting standards, giving a true and fair view of the assets and liabilities, financial position and the results of PHAROL and the undertakings included in the consolidation perimeter, and that the interim management report includes a fair review of important events that occurred in the period to which it relates and the impact on the respective financial statements, and a description of the main risks and uncertainties for the next six months.

Lisbon, September 10, 2018

President: José Maria Rego Ribeiro da Cunha

Members: Isabel Maria Beja Gonçalves Novo

Thomas Cornelius Azevedo Reichenheim

## Contacts

### Investor Relations

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Shareholders, investors, analysts and other interested parties should send their requests for information and clarifications (annual, half year, and quarter reports, press releases, etc.).

### Depository bank

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ADR Division  
Floor 27  
60 Wall Street  
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Fax: +1(732)544-6346

Holders of ADRs may also request additional information directly from PHAROL's depository bank for ADRs in New York.

### Website

All publications and communications, as well as information regarding the businesses performed by the Company, are available on PHAROL's Internet page, at the following address: [www.pharol.pt](http://www.pharol.pt)

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