



Announcement | Lisbon | 13 September 2016

U.S. Securities and Exchange Commission Issues Settled Cease-and-Desist Order against PHAROL, SGPS S.A.

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

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

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

More specifically, the SEC alleged that, in the 2013 financial statements, Portugal Telecom (a) mischaracterized the short-term investment in ESI commercial paper and failed to identify the issuer of the debt securities and (b) failed to disclose the nature and extent of the credit risk to which it was exposed and to accurately disclose its objectives, policies, and processes for managing its exposure to credit risks arising from financial instruments, as required by IFRS No. 7.

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

supporting documents lacking relevant information, among other internal controls violations.

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

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

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

PHAROL, SGPS S.A.

Public company
Share capital Euro 26,895,375
Registered in the Commercial
Registry Office of Lisbon
and Corporation no. 503 215058

PHAROL is listed on the
Euronext (PHR). Information
may be accessed on Bloomberg
under the symbol PHRPL.

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