

ANNUAL REPORT

2019

PHAROL, SGPS S.A.

ANNUAL REPORT 2019

01 MANAGEMENT REPORT	3
2 STANDALONE FINANCIAL STATEMENTS	7
03 QUALIFIED HOLDINGS	32
04 INFORMATION TO BE PRESENTED UNDER THE TERMS OF THE ARTICLE 447 OF THE CODE FOR COMMERCIAL SOCIETIES	33

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

01 MANAGEMENT REPORT

INTRODUCTION

As at December 31, 2019, PHAROL main assets are composed of (1) 326,259,859 common shares and 1,800,000 preferred shares of Oi, S.A. (“Oi”), representing 5,5% of the total share capital of Oi, (2) debt securities of Rio Forte Investments S.A. (“Rio Forte”) with a nominal value of Euro 897 million. Also, PHAROL has a Call Option on 17,076,553.92 common shares and 34,153,107.84 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 and to be corrected for the capital increases meanwhile carried out in Oi. This call option is currently valued at zero Euros.

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

On March 30, 2015, the Exchange was completed, whereby PHAROL (1) transferred to Portugal Telecom International Finance, B.V. (“PT Finance”), a subsidiary of Oi, an aggregate amount of 47,434,872 common shares and 94,869,744 preferred shares of Oi, and (2) received from PT Finance debt securities of Rio Forte with a nominal value of Euro 897 million and a call option on the transferred shares (“Call Option”). After the completion of the Exchange, PHAROL held an effective stake of 27.48% 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, directly and indirectly through wholly owned subsidiaries, 183,662,204 common shares of Oi, representing 27.18% of total share capital of Oi (excluding treasury shares). PHAROL’s voting rights in Oi were limited to 15% of the total common shares of Oi.

With the implementation of the New Structure on July 30, 2015, the shareholders’ agreements, through which joint control of Oi was exercised, were terminated. Up to that date, PHAROL accounted for its stake in Oi as an Investment in Joint Ventures. PHAROL 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 continued to be accounted

for according to the equity method, based on PHAROL's economic stake in Oi's results (27.18% as at December 31, 2016).

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

On 15 September 2017, in order 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 started account its investment in Oi at market value, and started to be classified as "Financial Assets".

Oi S.A., in the disclosure of its consolidated results for 2017, announced that it had adjusted its 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 July 20, 2018, following the homologation of the Capital Increase through the conversion of debt into shares, Oi's share capital increased from 825,760,902 shares for a total of 2,340,060,505 shares, a dilution of PHAROL's participation in Oi to less than 8%.

On January 9, 2019, as part of the Capital Increase by the Entry of New Resources, Oi's share capital increased from 2,340,060,505 shares to a total of 5,954,205,001 shares representative of Oi's share capital, thereby diluting PHAROL's stake in Oi to less than 4%.

On April 2, 2019, with the approval of an agreement signed between PHAROL and Oi SA on January 8, 2019, in which Oi undertook to reimburse PHAROL through Oi shares and financial resources for the acquisition of Oi's shares, PHAROL now holds a 5.51% stake in Oi.

The net gain for 2019 was Euro 20.7 million, which compares with a loss of Euro 5.6 million in the same period of 2018.

The net result for 2019 reflects (1) the gain in associates because of the compensation for damages under the Agreement between Oi and Bratel Sarl of 35.7 million Euros, (2) a loss of Euro 11.6 million due to the reduction in the expected value of Rio Forte, and (3)) costs of external supplies and services and personnel costs respectively at Euro 1.4 and 1.6 million.

The net loss in 2018 mainly reflects (1) costs associated with losses in Euro 1.6 million, and (2) costs of external supplies and services and personnel costs respectively at Euro 1.8 and 1.6 million.

BUSINESS OVERVIEW

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

LEGAL INFORMATION

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

The Company did not enter into any material businesses or transactions with the members of its Board of Directors and the Fiscal Council, except for those mentioned in Note 21 to the Consolidated Financial Statements as at December 31, 2019.

2019 EVENTS AND RECENT DEVELOPMENTS

The main events of the year ended December 31, 2019 and recent developments are described in the Consolidated Annual Report of PHAROL.

PROPOSAL FOR APPLICATION OF PROFITS

Considering that in the year ended December 31, 2019 a result of Euros 20,746,227 was obtained, the Board of Directors of PHAROL proposes that they be transferred to the Company's Retained Earnings.

Lisbon, February 28, 2019

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

Avelino Cândido Rodrigues, Board Member

Jorge Telmo Maria Freire Cardoso, Board Member

Maria do Rosário Amado Pinto Correia, Board Member

Maria Leonor Martins Ribeiro Modesto, Board Member

Pedro Zañartu Gubert Morais Leitão, Board Member

2 STANDALONE FINANCIAL STATEMENTS

PHAROL, SGPS, S.A.

BALANCE SHEET
31 DECEMBER 2019 AND 2018

	Notes	2019	Euro 2018
ASSETS			
Non-Current Assets			
Tangible assets		125,898	141,188
Financial investments - equity method of accounting	6	62,727,929	82,801,037
Other financial assets	7	63,022,881	74,637,747
Total non-current assets		125,876,709	157,579,972
Current Assets			
State and other public entities	10	5,383	9,971
Other accounts receivable		139,749	1,829,480
Deferrals		2,958	2,029
Cash and bank deposits	4	17,797,292	2,022,619
Total current assets		17,945,381	3,864,098
Total assets		143,822,090	161,444,070
SHAREHOLDERS' EQUITY			
Share capital	11	26,895,375	26,895,375
Treasury shares	11	(181,842,907)	(179,675,995)
Legal reserve	11	6,773,139	6,773,139
Other reserves	11	264,283,232	264,283,232
Adjustments to financial assets	11	(143,295,504)	(110,016,409)
Retained earnings	11	137,989,168	143,637,610
Net income		20,746,227	(5,648,443)
Total equity		131,548,730	146,248,509
LIABILITIES			
Non-Current Liabilities			
Loans obtained		77,543	99,955
Total non-current liabilities		77,543	99,955
Current Liabilities			
Provisions	12	-	12,500,000
Suppliers	13	148,830	36,204
Investment suppliers		7,670	7,670
Accrued expenses	14	719,246	1,538,815
State and other public entities	10	219,876	156,366
Other accounts payable	12	11,100,195	856,549
Total current liabilities		12,195,817	15,095,605
Total liabilities		12,273,360	15,195,560
Total liabilities and shareholders' equity		143,822,090	161,444,070

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

**INCOME STATEMENT
FOR THE PERIODS ENDED 31 DECEMBER 2019 AND 2018**

	Notes	2019	2018
Equity in losses/(earnings) of subsidiary companies	15	35,696,903	(1,580,689)
Supplies and external services	16	(1,417,298)	(1,774,516)
Wages and salaries	17	(1,570,459)	(1,610,238)
Indirect taxes		(262,166)	(375,529)
Provisions ((increases)/reductions)	12	12,500,000	(12,500,000)
Increases/(reductions) in fair value	18	(11,617,900)	(1,026,853)
Other income and gains		166,316	1,030,020
Other expenses and losses	19	(33,166)	(256,436)
INCOME BEFORE DEPRECIATION AND AMORTISATION, FINANCING EXPENSES AND TAXES		33,462,230	(18,094,242)
Depreciation and amortisation ((expenses)/reversals)		(63,419)	(66,786)
OPERATING INCOME (BEFORE FINANCING EXPENSES AND TAXES)		33,398,811	(18,161,028)
FINANCIAL LOSSES AND (GAINS)			
Interest and related income		10,840	21,424
Interest and related expenses		(8,035)	(14,184)
INCOME BEFORE TAXES		33,401,616	(18,153,788)
Income taxes	9	(12,655,388)	12,505,345
Net income (loss) from continuing operations		20,746,227	(5,648,443)
Earnings per share			
Basic and Diluted	20	0.02	(0.01)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
PERIODS ENDED 31 DECEMBER 2019 AND 2018

									Euro
		Share capital	Treasury shares	Legal reserve	Other reserves	Adjustments to financial assets	Retained earnings	Net income	Total shareholders' equity
Balance as at 31 December 2017	A	26,895,375	(179,675,995)	6,773,139	264,283,232	(163,000)	926,404,947	(782,767,357)	261,750,341
Changes in the period:									
Foreign currency translation adjustments		-	-	-	-	(109,853,409)	20	-	(109,853,390)
Other changes recognized in shareholders' equity		-	-	-	-	-	-	-	-
	B	-	-	-	-	(109,853,409)	20	-	(109,853,390)
Net income	C	-	-	-	-	-	-	(5,648,443)	(5,648,443)
Comprehensive income	B+C	-	-	-	-	-	-	-	-
Operations with shareholders:									
Application of the previous year's earnings		-	-	-	-	-	(782,767,357)	782,767,357	-
	D	-	-	-	-	-	(782,767,357)	782,767,357	-
Balance as at 31 December 2018	E=A+B+C+D	26,895,375	(179,675,995)	6,773,139	264,283,232	(110,016,410)	143,637,610	(5,648,444)	146,248,509
Changes in the period:									
Foreign currency translation adjustments		-	-	-	-	-	-	-	-
Acquisition of treasury shares		-	(2,166,912)	-	-	(33,279,094)	-	-	(35,446,006)
	F	-	(2,166,912)	-	-	(33,279,094)	-	-	(35,446,006)
Net income	G	-	-	-	-	-	-	20,746,227	20,746,227
Comprehensive income	F+G	-	-	-	-	-	-	-	-
Operations with shareholders:									
Application of the previous year's earnings		-	-	-	-	-	(5,648,443)	5,648,443	-
	H	-	-	-	-	-	(5,648,443)	5,648,443	-
Balance as at 31 December 2019	I=E+F+G+H	26,895,375	(181,842,907)	6,773,139	264,283,232	(143,295,504)	137,989,167	20,746,227	131,548,730

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

**STATEMENT OF CASH FLOWS
FOR THE PERIODS ENDED 31 DECEMBER 2019 AND 31 DECEMBER 2018**

	Notes	2019	Euro 2018
OPERATING ACTIVITIES			
Payments to suppliers		(2,326,964)	(1,707,573)
Payments to employees		(1,665,797)	(1,664,138)
Payments relating to income taxes		(32,576)	(38,684)
Other cash receipts, net		(473,229)	6,915,727
Cash flows from operating activities related to continuing operations		(4,498,566)	3,505,331
INVESTING ACTIVITIES			
Cash receipts resulting from:			
Financial investments	4.a.	22,500,000	-
Tangible and intangible assets		8,000	30,001
Dividends		7,508	-
Interest and related income		-	25,858
		22,515,508	55,859
Payments resulting from:			
Financial investments	4.b.	-	(26,529,000)
Tangible and intangible assets		(48,130)	(92,683)
		(48,130)	(26,621,683)
Cash flows from investing activities related to continuing operations		22,467,378	(26,565,824)
FINANCING ACTIVITIES			
Cash receipts resulting from:			
Short-term financial applications		-	91,473
		-	91,473
Payments resulting from:			
Loans repaid		(22,412)	(46,419)
Interest and related expenses		(4,815)	(4,164)
Acquisition of Own Shares		(2,166,912)	-
		(2,194,139)	(50,583)
Cash flows from financing activities related to continuing operations		(2,194,139)	40,890
Cash and cash equivalents at the beginning of the period		2,022,619	25,042,221
Change in cash and cash equivalents (4)=(1)+(2)+(3)		15,774,673	(23,019,603)
Cash and cash equivalents at the end of the period	4.c.	17,797,292	2,022,619

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

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

December 31, 2019

(Amounts in Euro, otherwise it will be referred)

1. Introduction

a) Company Identification

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

b) Oi Cash Capital Increase in 2014

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

c) Initial acquisition of investment in Oi

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

the control of TmarPart, therefore the Oi investment was classified as a joint venture and thus accounted for in accordance with the equity method.

d) Investment in Rio Forte debt securities

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

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

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

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

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

- PHAROL would exchange with Oi the Rio Forte Instruments in exchange for 47,434,872 common shares plus 94,869,744 preferred shares of Oi, representing 16.9% of its share capital;
- An American non-transferable purchase option ("Call Option") would be attributed to PHAROL in order to reacquire the Oi Shares that are the Object of the Exchange (with the exercise price of 20.104 reais for common shares and 18.529 reais for preferred shares after the Oi reverse stock split), which would be adjusted by CDI plus 1.5% per year;
- The Call Option on the Oi Shares that are the Object of the Option would enter into effect on the date of the Exchange and would have a maturity of six years, with the possibility of exercising the

option by PHAROL terminating at 10% at the end of the first year and 18% at the end of each subsequent year;

- Any amount received as a result of monetization of the Call Option through the issue of derivative instruments would have to be used for the exercise of the Call Option;
- PHAROL could only acquire Oi or TmarPart shares through exercise of the Call Option;
- The Call Option would be canceled if (i) the bylaws of PHAROL were to be voluntarily altered to remove the 10% vote limitation; (ii) PHAROL were to act as a competitor of Oi or (iii) PHAROL were to violate certain obligations arising from definitive documentation; and
- The contracts were signed on September 8, 2014, subject to approval by the CVM Brasil and would be executed by March 31, 2015.

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

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

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

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

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

On March 31, 2015, the Board of Directors of PHAROL concluded negotiations with the other shareholders pertaining to Oi to the extent of signing a new agreement between the parties in relation to the company structure and the administration of Oi. In view of the impossibility of implementing migration from CorpCo to the segment called Novo Mercado of the BM&FBovespa by March 31, 2015, the deadline stipulated

in the agreements signed on September 8, 2014, it became essential to sign a new agreement, which allowed Oi to anticipate the principal benefits announced to shareholders at the time that Oi's capital increase was realized on May 5, 2014, without, however, failing to make every effort to migrate to the Novo Mercado. Thus, the parties agreed to a new company structure model and administration of Oi ("New Structure"), that in addition to the benefits and objectives disclosed before, are characterized by the following:

- All company and corporate administration transformation will be done at Oi with elimination of the necessity of creating CorpCo.
- Approval of new Corporate Bylaws for Oi, as well as signing of an amendment to the provisional voting commitment from its shareholders, in effect until implementation of the New Structure ("Vote Commitment") that will enable: (i) implementation of a voluntary conversion program for preferred shares to ordinary shares issued by Oi at a rate of 0.9211 ordinary share per each preferred share, subject to a minimum buy-in of 2/3 of the preferred shares in order to give all of the shareholders the possibility of exercising the voting right and to maximize the possibility of existence of a single class of shares; (ii) implementation of the principle of one share, one vote. However, to preserve the equilibrium between shareholders and the distribution of desired control at the time of the Capital Increase of Oi, inclusion of a 15% limit on the voting right in Oi's Corporate Bylaws, applicable to all of its shareholders was agreed upon; this limitation will cease to exist through verification of certain events, namely in the case of capital increase, operation of company reorganization or public offering of shares, in any case that results in the dilution of the current shareholder base (or acquisition of a stake, where applicable) greater than 50%; (iii) leveraging increase in liquidity, eliminating subjection to lock-up agreements of any shareholder; (iv) the election of a new Board of Directors at Oi with significant participation of independents, where the previously existing parity in CorpCo between the PHAROL representatives and those of the Brazilian shareholders will be maintained; (v) extinction of TmarPart by incorporation into Oi, which will determine the end of the TmarPart and other controlling companies' shareholders' agreements, thus ensuring the distribution of Oi's shareholder control; (vi) possibility of using financial synergies through incorporation of Oi's controlling companies, directly and indirectly.

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

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

On October 8, 2015, following the approval of voluntary conversion of preferred shares into common shares of Oi, the PHAROL held, directly and indirectly through 100% subsidiaries owned, 183,662,204 common shares of Oi, representing 27.18% of the total share capital of Oi (excluding treasury shares). PHAROL's right to vote in Oi is limited to 15% of the total common shares.

The shareholders' agreements through which joint control of Oi was exercised, ended on July 30, 2015 with the implementation of the New Structure. Until then PHAROL proceeded to recognize its participation in Oi as an investment in joint ventures. PHAROL considered that it currently has significant influence over Oi, which is considered an associate. Thus, from July 30, 2015 participation in Oi continued to be measured according to the equity method, less any impairment, reflecting the stake in Oi's financial statements (27.18% as at December 31, 2016).

On April 29 and May 19, 2016, PHAROL, due to a corporate reorganization, transferred direct ownership of 128,213,478 common shares issued by Oi S.A., to its 100% owned subsidiary BRATEL B.V..

On 15 September 2017, in order to concentrate all its operations in Luxembourg, PHAROL transferred the ownership of all the shares that BRATEL BV has in Oi SA to its subsidiary 100% owned, BRATEL S.à.r.l., a company with its registered office in Luxembourg, at 69, Boulevard de la Pétrusse, L-2320 Luxembourg, and BRATEL BV ceased to hold a shareholding interest directly in Oi SA.

Accordingly, on December 31, 2018, PHAROL holds all the shares representing the capital stock of BRATEL BV which, in turn, holds all the shares representing BRATEL S.à.r.l. Both PHAROL and BRATEL BV indirectly own 183,662,204 common shares of Oi SA, representing as of December 31, 2016, the direct interest of BRATEL BV (and indirectly of PHAROL, SGPS SA) is 183,662,204 common shares of Oi SA, which represent approximately 22.24 % of the total share capital of Oi SA (27.18% excluding treasury shares).

On July 20, 2018, following the homologation of the Capital Increase through the conversion of debt into shares, Oi's share capital increased from 825,760,902 shares for a total of 2,340,060,505 shares, a dilution of PHAROL's participation in Oi to less than 8%.

On January 9, 2019, as part of the Capital Increase by the Entry of New Resources, Oi's share capital increased from 2,340,060,505 shares to a total of 5,954,205,001 shares representative of Oi's share capital, thereby diluting PHAROL's stake in Oi to less than 4%.

On April 2, 2019, with the approval of an agreement signed between PHAROL and Oi SA on January 8, 2019, in which Oi undertook to reimburse PHAROL through Oi shares and financial resources for the acquisition of Oi's shares, PHAROL now holds a 5.51% stake in Oi.

As at December 31, 2019, PHAROL main assets are composed of (1) 326,259,859 common shares and 1,800,000 preferred shares of Oi, S.A. ("Oi"), representing 5,5% of the total share capital of Oi, (2) debt securities of Rio Forte Investments S.A. ("Rio Forte") with a nominal value of Euro 897 million. Also, PHAROL has a Call Option on 17,076,553.92 common shares and 34,153,107.84 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 and to be corrected for the capital increases meanwhile carried out in Oi. This call option is currently valued at zero Euros.

f) Bases of presentation

These financial statements are in respect of the Company individually and were prepared according to the generally accepted accounting principles in Portugal (Note 2). Financial investments are recorded according to the equity method, deducted of any eventual impairment losses, as referred to in Note 3.3. These individual financial statements consider the effect of the equity method, through the appropriation of the share held in the other changes in equity and in the results of the company's subsidiaries as at December 31, 2019 and 2018, in PHAROL's equity and net profit for the fiscal years ended on those dates, based on the respective financial statements, but not the effect of full consolidation of assets, liabilities, expenses and income.

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

The disclosures presented in these consolidated financial statements are complementary, with the necessary adaptations, to the disclosures presented in these financial statements.

The financial statements for the year ended December 31, 2018 were approved by the Board of Directors and authorized for issue on February 28, 2019 and are still subject of approval by the General Meeting of Shareholders under the commercial legislation in Portugal.

2. Accounting standards for preparing the financial statements

These financial statements were prepared based on Decree-law n.º 158/2009, dated July 13, and in accordance with the Conceptual Framework, Accounting and Financial Reporting Standards ("NCRF") and Interpretative Standards, as approved by Notices n.º 15652/2009, 15653/2009 and 15655/2009 of the General-Secretariat of the Ministry of Finance, dated August 27, which make up the New Portuguese accounting system, named "Sistema de Normalização Contabilística" ("SNC").

PHAROL chose not to apply the NCRF 27 to these financial statements and has chosen to recognize, measure and disclose its financial instruments in accordance with International Financial Reporting Standards (IFRS), as adopted in the European Union .

The Company adopted NCRF for the first time in 2010 and applied for this purpose the "*NCRF 3 Adoption For The First Time of NCRF*" ("NCRF 3"), with the transition date being January 1, 2009 for the purposes of the presentation of these financial statements. As permitted by Decree-Law n.º 158/2009, the Company also applies the International Financial Reporting Standards ("IAS/IFRS") and related interpretations ("SIC/IFRIC") issued by the International Accounting Standards Board ("IASB"), in order to fill in the gaps or omissions in SNC regarding specific situations of certain transactions.

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

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

The PHAROL Group consists of the following companies:

Empresa	Head office	Type of	Activity	Direct	dec/19 Effective	dec/18 Effective
Bratel BV	Amsterdam	Subsidiaries	Management of investments	Pharol SGPS (100 ^c)	100%	100%
PT Brasil	São Paulo	Subsidiaries	Management of investments	Bratel BV (100%)	100%	100%
Bratel S.a.r.l.	Luxembourg	Subsidiaries	Management of investments	Bratel BV (100%)	100%	100%

It should be noted that PHAROL as of December 31, 2019 and 2018 had a stake in Oi of 5.5% and 6.8%, respectively.

3. Main Accounting Policies, judgments and estimates

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

3.1. Tangible fixed assets

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

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

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

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

3.2. Leases

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

Assets acquired under finance leases and the corresponding liabilities are accounted for at the beginning of the contract as the lower amount between the fair value of the assets and the present value of minimum lease payments. Rents include the reimbursement of the liability and interest expense, with interest being recognized in the income statement based on a periodic interest rate over the remaining liability.

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

3.3. Financial investments

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

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

Financial investments in foreign entities are translated to Euros using the exchange rates prevailing at the balance sheet date, while the Company's share in the earnings of those entities is computed based on the average exchange rates for the reported period. The effect of translation differences is recognized in shareholders' equity under the caption "Adjustments to financial assets" and is transferred to net income upon the disposal of a foreign entity or the transmission of the investment in another way. The exchange rates used in the translation of the main foreign entities (held directly or indirectly by PHAROL) are as follows:

Final		
Currency	2019	2018
Real	4.5157	4.4440
USD	1.1234	1.1450

Average		
Currency	2019	2018
Real	4.4134	4.3085
USD	1.1195	1.1810

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

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

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

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

3.4. Accrual basis of accounting

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

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

3.5. Income tax

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

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

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

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

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

3.6. Accounts receivable

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

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

3.7. Provisions and contingent liabilities

The Company recognizes provisions when there is a present obligation arising from past events provided that there will be it is probable as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where any of the above-mentioned criteria is not accomplished, the Company discloses the event as a contingent liability, unless the cash outflow is remote.

Provisions are recognized for an amount corresponding to the present value of the best estimate, at the reporting date, of the resources needed to settle the obligation. That estimate is determined

considering the risks and uncertainties associated with the obligation. Provisions are reviewed at the end of each year and adjusted for in order to reflect the best estimate as of that date.

3.8. Loans obtained

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

3.9. Treasury shares

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

3.10. Balance sheet classification

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

3.11. Foreign currency transactions and balances

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

Assets and liabilities as at December 31, 2019 and 2018 were translated into Euros using the following exchange rates to the Euro reported by the Portuguese Central Bank:

Final		
Currency	2019	2018
Real	4.5157	4.4440
USD	1.1234	1.1450

3.12. Financial Assets and Liabilities

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

a) Financial assets and liabilities at cost or amortized cost

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

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

- Loans obtained
- Other Accounts receivable and payable
- Other financial assets and liabilities
- Cash and cash equivalents
- Accrued expenses
- Suppliers

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

b) Financial assets and liabilities at fair value

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

The changes in the fair value of these derivatives are recognized through shareholders’ equity or profit and loss, depending on whether those derivatives meet or not the criteria for hedge accounting, respectively. These changes in fair value are recorded under the caption “Increases/(reductions) in fair value” (Note 18).

c) Impairment of financial assets

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

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

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

d) Derecognition of financial assets and liabilities

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

3.13. Main accounting estimates and judgments

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

- (a) **Valuation of the investment in Oi** – On May 5, 2014, the Company valued its new stake in Oi based on Oi's reference share price in the capital increase on that date, having as of that date, appropriated its stake in Oi's income using the equity method. As at December 31, 2019, the measurement of the Company's investment in Oi was based on its market value, namely the stock price as at December 31, 2019.
- (b) **Valuation of the Rio Forte instruments** – On March 30, 2015, the Rio Forte instruments were obtained, following the execution of the Exchange Agreement, over Oi's shares. As of that date, subsequent to a market consultation, the Company valued the instruments at 15% of their notional value. This valuation was reviewed as at September 30, 2016, having reduced to 9.56% of the notional amount and on December 31, 2017, to 8.32%. On December 31, 2019, the debt recovery valuation was again revised downwards, registering in 7,02% recovery, equivalent to a reduction of Euro 11.6 million to the amount of Euro 63.01 million. (see Note 7).
- (c) **Recognition of provisions and adjustments** – PHAROL is party to various ongoing legal claims for which, based on the opinion of its legal advisors, a judgment was made to determine the recognition of a possible provision for these contingencies (Note 12). Adjustments for accounts receivable are calculated based primarily on the aging of the accounts receivable, the risk profile of the customers and their financial situation.

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

3.14. Events that occurred after the balance sheet date

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

4. Cash Flows

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

The Company is exposed to a liquidity risk if its sources of funding, including cash balances, operating cash inflows, divestments, credit lines and cash flows obtained from financing operations, do not match its financing needs, such as operating and financing outflows, investments, shareholder remuneration and debt repayments. The Company understands that it has the ability to fulfill its obligations.

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

a) Receives resulting from financial investments

In 2019, following the Agreement with Oi signed on January 9, 2019, it was not necessary to use a large part of the capital increase of the funds transferred at the end of 2018 to Bratel BV and, therefore, this amount was returned to PHAROL in January 2019.

b) Payments resulting from financial investments

In 2018, this caption relates to capital increases made at Bratel BV. In December 2018, in order to be able to exercise the Oi's Capital Increase due to the entry of New Funds with an exercise deadline on January 4, 2019, PHAROL, SGPS S.A. made a capital increase in its subsidiary Bratel BV in the amount of Euro 26,5 million.

c) Cash and cash equivalents

As at December 31, 2019 and 2018, this caption is made up as follows:

	2019	Euro 2018
Cash	1,181	1,630
Bank deposits immediately available	17,796,111	2,020,988
	17,797,292	2,022,619

5. Changes to accounting policies and estimates, and mistakes

The Company did not adopt any new or revised standard or interpretation during the year ended December 31, 2019 and did not voluntarily change other accounting policies or accounting estimates.

During the year ended December 31, 2019, the Company did not adjust its financial statements for any material errors from previous years.

6. Equity Investments

6.1. Equity method

During 2019 and 2018, the movements occurred in this caption were as follows:

						Euro
						2019
	Investments in subsidiary companies	Additional paid in capital contributions in subsidiary companies	Investments in associated companies	Goodwill	Investments in joint ventures	Total
Opening balance	54,552,037	28,249,000	-	-	-	82,801,037
Increases			-	-	-	-
Reductions		(22,500,000)	-	-	-	(22,500,000)
Equity method	2,426,891		-	-	-	2,426,891
Closing balance	56,978,928	5,749,000	-	-	-	62,727,929

						Euro
						2018
	Investments in subsidiary companies	Additional paid in capital contributions in subsidiary companies	Investments in associated companies	Goodwill	Investments in joint ventures	Total
Opening balance	165,985,254	1,720,000	-	-	-	167,705,254
Increases		26,529,000	-	-	-	26,529,000
Reductions	11,064,825	-	-	-	-	11,064,825
Equity method	(122,498,042)	-	-	-	-	(122,498,042)
Closing balance	54,552,037	28,249,000	-	-	-	82,801,037

a) Equity

In the fiscal years 2019 and 2018, the movements occurred in adjustments to financial assets are the result from the use of the equity method of subsidiaries.

7. Other financial assets

The composition of this caption comprises an estimated future recovery near of Euro 63 million related to the debt securities issued by Rio Forte on December 31, 2019.

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

"Expected recovery

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

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

The Board of Directors of PHAROL, after taking appropriate measures and supported by the analysis of its advisers, concluded, based on the principle of prudence, that the expected recoverability of the insolvent estate and, consequently, PHAROL's expected recoverability of its debt instruments of Rio Forte, have reduced. PHAROL's investment in the Rio Forte securities was initially valued at fair value upon initial

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

On December 2017, after updating the amount of credit claims considered in the last report of the Judicial Administrators, that was higher than previously considered, the debt recovery valuation was again revised downwards, registering a recovery of 8.32% recovery, equivalent to a reduction of Euro 11.1 million to the amount of Euro 74.6 million. On December 31, 2018, the debt recovery value remains at 8.32%.

In April 2019 and 5 years after the filing of the Rio Forte credit claim, a new report by the Judicial Administrators was published on 30 April 2019, which essentially points to: 1) postponement of the results of the conclusion of the analysis. debt declarations; and 2) downward revision of Rio Forte's asset value in Latin America; Accordingly, and based on these new factors, the recovery in debt recovery was once again revised downwards to 7.19% of nominal value recovery, equivalent to a reduction of 10.1 million euros. Euro to the amount of Euro 64.5 million. At the end of 2019 and after the analysis of the last report issued by the Judicial Administrators, with effect on December 31, 2019, it was once again revised downwards, with the face value recovery set at 7.02 %, which is equivalent to an additional reduction of 1.5 million Euros to a total recovery amount of 63 million Euros.

Additionally, as part of the Rio Forte, in December 2017, PHAROL was informed of a statement from the trustees of Espirito Santo International, SA ("ESI") stating that the insolvent company will evaluate the possibility sue PHAROL, requesting that the latter be ordered to reimburse EUR 750 million, without specifying the grounds of that request.

Following this announcement, as of January 2019, PHAROL was notified by the curator of ESI as a precautionary measure to interrupt any limitation period, with a view to canceling ESI Notes payments during the month of January 2014.

After analyzing the abovementioned summons, PHAROL considers a very low probability, based on the alleged facts, obtain any conviction of PHAROL in the terms provided. Accordingly, PHAROL has not recorded any provision in its financial statements.

8. Related parties

8.1. Financial investments in subsidiaries and joint ventures

In 2019 and 2018, the financial investments in subsidiaries and joint ventures refer exclusively to direct participation in Bratel BV.

8.2. Other information

For the fiscal years ended December 31, 2019 and 2018, fixed remuneration of Board members, which were established by the Remuneration Committee, amounted to Euro 627 thousand and Euro 605 thousand, respectively.

At December 31, 2019 and 2018 no share-based program or termination benefit program were in place.

For the year ended December 31, 2019, the fees paid to the Statutory Auditor of PHAROL amounted to Euro 80 thousand, corresponding to audit fees of PHAROL.

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

9. Income tax

In 2019, the companies located in mainland Portugal were subject to Corporate Income Tax at a base rate of 21%, with an additional (1) Municipal Surtax of up to 1.5% levied on taxable income, and (2) a State Surtax of 3.0% levied on taxable profit between Euro 1.5 million and Euro 7.5 million, of 5.0% levied on taxable profit between Euro 7.5 million and Euro 35 million and of 9% levied on taxable profit in excess of Euro 35 million, resulting in a maximum aggregate tax rate of approximately 31.5%, for taxable profit with surpass Euro 35 million. In the calculating of taxable income, to which is applied above mentioned tax rate, income and expenses not deductible for tax purposes are added to or deducted from the accounting results.

According to the applicable legislation, the tax statements are subject to revision and correction by the fiscal authorities during a period of four years (five for Social Security) except if there have been fiscal losses, or if fiscal benefits have been granted, or if audits, claims or impeachments are being performed, in which case, depending on the circumstances, those periods may be extended or suspended.

In 2018, this caption essentially reflects the reimbursements received from the Tax Authority relating to IRC from previous years, amounting to EUR 12,542,510.

In 2019, following the signing of the aforementioned agreement with Oi, this item essentially reflects the reversal of refunds of Tax Authority relating to IRC from previous years that had been recorded as income in the first half of 2018, in the amount of 12,542,510 euros.

10. State and other public entities

On December 31, 2019 and 2018, the debtor and creditor balances in respect of State and Other Public Entities are as follows:

	2019		Euro 2018	
	Receivable	Payable	Receivable	Payable
Current taxes				
Operations in Portugal				
Value-added tax	-	1,783	-	8,379
Income taxes	5,383	112,878	9,971	-
Personnel income tax withholdings	-	30,239	-	70,624
Social Security Contributions	-	74,873	-	77,166
Other	-	102	-	196
	5,383	219,876	9,971	156,366

11. Shareholders' equity

11.1. Share Capital

As at December 31, 2019, the Company's share capital was fully paid and amounted to Euro 26,895,375, and was represented by 896,512,500 common shares with a nominal value of 3 cents of Euro each.

11.2. Own shares

As of December 31, 2019, and 2018, the detail of this caption is as follows:

	Euro	
	2019	2018
Shares held by PHAROL	181,842,907	179,675,995
	181,842,907	179,675,995

PHAROL, held 50,071,714 treasury shares, corresponding to 5.6% of the share capital PHAROL.

11.3. Legal reserve

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

As at December 31, 2019, the legal reserve was already fully incorporated in accordance with Portuguese law and amounted to Euro 6,773,139.00.

11.4. Other reserves

The composition and the movements effected in this item during the years of 2019 and 2018 are as follows:

	Euro			
	Free reserve	Reserves for treasury shares cancelled	Own shares	Total
Balance as at 1 January 2018	77,636,917	6,970,320	179,675,995	264,283,232
Transfer to reserves for use in own shares	-	-	-	-
Transfer to retained earnings	-	-	-	-
Balance as at 31 December 2018	77,636,917	6,970,320	179,675,995	264,283,232
Transfer to reserves for use in own shares	(2,166,912)	-	2,166,912	-
Transfer to retained earnings	-	-	-	-
Balance as at 31 December 2019	75,470,005	6,970,320	181,842,907	264,283,232

11.5. Adjustments to financial assets

During the fiscal years of 2019 and 2018 the movements under this item were as follows:

	Euro		
	Currency translation adjustments	Other changes in shareholders' equity	Total
Balance as at 31 December 2017	(411,077)	248,077	(163,000)
Equity method (Note 6)	(109,853,409)	-	(109,853,409)
Balance as at 31 December 2018	(110,264,486)	248,077	(110,016,409)
Equity method (Note 6)	-	(33,279,094)	(33,279,094)
Balance as at 31 December 2019	(110,264,486)	(33,031,017)	(143,295,504)

The variation in "Other changes in shareholders' Equity" is essentially due to the devaluation of Oi's shares and Brazilian Real during 2019.

11.6. Application of earnings

Considering that in the year ended December 31, 2019 was obtained a result of Euros 20,746,227 the Board of Directors of PHAROL proposes that they be transferred to the Company's Retained Earnings.

The negative net result of Euros 5,648,443 obtained on 2018 was transferred to the Company's Retained Earnings.

12. Provisions

No movement in provisions occurred during the 2019 financial year were as follows:

	Euro
	2019
Opening balance	12,500,000
Increases	
Reductions	(12,500,000)
Closing balance	-

The provision made in 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.

In 2019, following the agreement signed with Oi that clarified the destination to be given to these tax refunds from previous years, the existing provision was reversed and the referred refunds from the Tax Authority were recognized on "Other accounts payable".

13. Suppliers

The detail of this caption as at December 31, 2019 and 2018 is as follows:

	Euro	
	2019	2018
Suppliers	148,830	36,204
	148,830	36,204

14. Accrued expenses

The detail of this caption as at December 31, 2019 and 2018 is as follows:

	Euro	
	2019	2018
Supplies and external services	498,701	1,151,045
Vacation pay and bonuses	220,544	345,261
Others	-	42,510
	719,246	1,538,815

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

The detail of this caption as at December 31, 2019 and 2018 is as follows:

	2019	Euro 2018
Gains and losses in affiliated companies - equity method	35,696,903	(1,580,689)
	35,696,903	(1,580,689)

The gains in subsidiaries in 2019 are essentially the result of the agreement signed with Oi in January 2019.

16. Supplies and external services

The detail of this caption as at December 31, 2019 and 2018 is as follows:

	2019	Euro 2018
Specialized work	827,323	1,086,619
Insurance	283,734	274,643
Travel	82,252	162,787
Other	223,989	250,466
	1,417,298	1,774,516

17. Wages and salaries

The detail of this caption as at December 31, 2019 and 2018 is as follows:

	2019	Euro 2018
Fixed and variable remuneration	1,286,325	1,290,535
Social security	257,201	273,759
Other	26,934	45,945
	1,570,459	1,610,238

18. Increases/(reductions) in fair value

This caption reflects the change in fair value of derivative financial instruments entered into by the Company and has the following composition in the years ended December 31, 2019 and 2018:

	2019	Euro 2018
Losses on non-current assets held for sale	(11,617,900)	-
Call option over Oi Shares (Note 7)		(1,026,853)
	(11,617,900)	(1,026,853)

19. Other expenses and losses

Other expenses and losses, in the amounts of Euro 256,436 in 2018 essentially include unfavorable exchange rates related to the Call Options devaluation and legal advisory services paid in foreign currency.

20. Net result per share

The net result per share for the years 2019 and 2018 was calculated as follows:

	2019	Euro 2018
Loss from continuing operations	20,746,227	(5,648,443)
Net loss considered in the computation of the diluted	20,746,227	(5,648,443)
Weighted average common shares outstanding in the period	846,440,786	865,647,500
Basic and Diluted	0.02	(0.01)

21. Guarantees

As of December 31, 2019, and 2018, the Company had presented the following guarantees and comfort letters to third parties:

	2019	Euro 2018
Bank and other guarantees presented tax authorities and o	84,617,476	84,617,476
	84,617,476	84,617,476

The bank and other guarantees presented to the fiscal authorities essentially include Euro 85 million, on December 31, 2019 and 2018, related to the tax assessments received by PHAROL. The Company presented legal challenges to these assessments and, in accordance with Portuguese law, provided collateral in order to avoid the initiation of enforcement proceedings, which, in the absence of guarantee or payment of the contested tax, would continue until the request of a pledge of sufficient assets to cover the request tax. Portuguese law, while always allowing for the appeal of taxes liquidated by the tax authorities, only suspends enforcement proceedings upon payment of the tax or the provision of a guarantee. Thereby, Providing a guarantee of security 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 2018 occurred due to cancellation due to the expiration of part of the guarantees.

These guarantees were presented by PHAROL as a controlling company of the consolidated tax in the years in question, even though as at December 31, 2019, the contingencies associated to these guarantees are not the Company's responsibility, having been transferred to Oi, while PHAROL remains jointly and responsible.

Notwithstanding the expiration and consequent cancellation of part of the Guarantees, the tax proceedings are still ongoing and Oi is responsible for them that might arising to Euro 378 million. Under the agreements entered into with Oi, Oi has to substitute the bank guarantees provided by PHAROL to the Tax Authority and to the European Commission for guarantees provided by Oi. Where this substitution is not possible due to demands of the counterparty, Oi has undertaken to provide equivalent guarantees in favor of PHAROL.

As such, as of December 31, 2019, a Pledge Agreement for shares of Telemar Norte Leste is in force with a maximum amount up to the limit of the potential liabilities currently in existence.

In January 2020, as agreed on the Private Instrument of Transaction and Other Covenants executed between PHAROL and Oi on January 8, 2019, as of today, Oi, through PT Participações SGPS, S.A., has deposited in

escrow Eur.34,340,803.32, as a guarantee to PHAROL in the event of tax contingencies that shall be incurred by Oi.

22. Shareholders with qualified holdings

The Company believes that the disclosure of the outstanding debts and transactions performed with its main shareholders, notably those with a qualified holding of more than 2% in PHAROL's share capital and with all the entities reported by these shareholders as being their related parties. The tables below present the balances as at December 31, 2019 and 2018, and the transactions that took place in the fiscal years ending December 31, 2019 and 2018, between the PHAROL Group and these entities identified as shareholders with qualified holdings and their related parties:

	2019	Euro 2018
		Cash and bank deposits
Shareholder		
Novo Banco	5,389,599	1,094,507
	5,389,599	1,094,507

	2019		Euro 2018	
	Costs and losses	Net interest income	Costs and losses	Net interest income
Shareholder				
Novo Banco	992	3,849	613	9,584
	992	3,849	613	9,584

23. Events occurring after the balance date

Oi's stock price evolution between December 31, 2019, and February 27, 2020, can be found below:

	31 dec 19	27 feb 20
Oi ON share price (Reais)	0.86	0.98
Oi PN share price (Reais)	1.23	1.33
Exchange rate Real/Euro	4.5157	4.8975
Oi ON share price (Euro)	0.19	0.20
Oi PN share price (Euros)	0.27	0.27

03 QUALIFIED HOLDINGS

As at December 31, 2019, qualified holdings represented over 25,9% of PHAROL share capital, as follows:

DATE OF INFORMATION	ENTITIES	NO. OF SHARES	% OF CAPITAL	% OF VOTING RIGHTS
31/05/2012	Telemar Norte Leste S.A.	89,651,205	10.00%	10.00%
	Telemar's sole shareholder is OI S.A..			
	Total attributable	89,651,205	10.00%	10.00%
02/04/2018	Novo Banco S.A.	85,665,125	9.56%	9.56%
	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%	9.56%
09/10/2019	Real Vida Seguros S.A.	38,875,874	4.34%	4.34%
	Patris Investimentos SGPS SA	38,875,874	4.34%	
	Gonçalo Pereira Coutinho	Holds 54,518% Patris Investimentos SGPS SA		
	Total attributable	38,875,874	4.34%	4.34%
26/02/2020	Abante Asesores, S.A.	18,200,000	2.03%	2.03%
	Abante Asesores, S.A. holds 99.99% of Abante Asesores Gestión SGIIC, S.A. (management company of Abante Pangea Fund) and 99.99% of Abante Pensiones EGFP, S.A. (management company of Tempus 30-75 Pensiones F.P.)			
	Total attributable	18,200,000	2.03%	2.03%

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

1. Number of shares and bonds issued by PHAROL and by companies that are in a controlling or group relationship held by the members of the management and supervisory bodies of PHAROL, as of December 31, 2019:

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.
- Aristotle 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.
- Avelino Cândido Rodrigues 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 February 8, 2019.
- 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. and served as an alternate member of Oi until February 17, 2016, when he resigned his position.
- Maria do Rosário Amado Pinto Correia owns 40 shares of PHAROL. She was co-opted for the Board of Directors of PHAROL on September 2, 2015.
- Maria Leonor Martins Ribeiro Modesto does not hold any securities of PHAROL or other companies that are in a controlling or group relationship. She was appointed for the Board of Directors of PHAROL on September 7, 2018.
- Nelson Sequeiros Rodriguez Tanure owns 10.000 shares of PHAROL and were attributed to him 17,241,517 shares, corresponding to 1,92% of PHAROL's capital and voting rights acquired by Blackhill Holding Limited LLC, of which it is an effective beneficiary. He was appointed for the Board of Directors of PHAROL on June 30, 2017 and resign to the office on December 5, 2019 with effects on January 8, 2020.
- 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.

On January 8, 2020, the Extraordinary General Meeting of Shareholders decided to terminate functions by dismissal, with immediate effect, Aristóteles Luiz Menezes Vasconcellos Drummond, Jorge Augusto Santiago das Neves and Nelson Sequeiros Rodriguez Tanure.

Fiscal Council

The fiscal council does not own any shares of PHAROL.

- José Maria Rego Ribeiro da Cunha
- Isabel Maria Beja Gonçalves Novo
- João Manuel Pisco de Castro
- Paulo Ribeiro da Silva

Managing-Director

The managing-director Luís Maria Viana Palha da Silva is also member of the Board of Directors.

Statutory Auditor (“ROC”)

The Statutory Auditor does not own any shares of PHAROL.

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

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

03/Jan/2019 | Blackhill Holding Limited, LLC. held a qualifying holding of 43,311,406 shares, representing 4.83% of PHAROL's share capital and voting rights.

03/Jan/2019 | High Seas Investments, LLC decreased its share of 7.24% to 2.41% of PHAROL's share capital and voting rights.

04/Jan/2019 | Grupo Visabeira SGPS, S.A. reported that it sold a total of 1,000,000 shares, representing 0.1115% of the share capital and voting rights of PHAROL. As a result of the sales, Grupo Visabeira SGPS, S.A. became the holder of 15,067,041 shares, representing 1.6806% of the share capital and voting rights of PHAROL. Furthermore, pursuant to the provisions of article 20 of the Portuguese Securities Code, in view of the existing holdings, Fernando Campos Nunes (NIF: 175,776,083) is deemed to be responsible for the

total of 15,067,041 shares representing the share capital of PHAROL SGPS, SA, corresponding to 1.6806% of the share capital and voting rights.

10/Jan/2019 | Blackhill Holding Limited, LLC reported that are attributable to Nelson Tanure 43,311,406 shares representing 4.83% of the capital and voting rights of PHAROL acquired by Blackhill Holding Limited LLC, of which he is a beneficial owner, and further informed that Nelson Tanure holds a personal title of 10,000 shares representing 0.00111%. In total, 43,321,406 shares are attributable to Nelson Tanure, corresponding to 4.83% of PHAROL's share capital and voting rights.

12/Mar/2019 | Adar Capital Partners Ltd. decreased its stake from 10.285% to 4.8% of PHAROL's share capital and voting rights.

12/Mar/2019 | High Bridge Unipessoal, Lda. Increased its stake from 6.17% to 9.99% of PHAROL's share capital and voting rights.

12/Mar/2019 | Blackhill Holding Limited, LLC. increased its share from 4.83% to 6.31% of PHAROL's share capital and voting rights.

25/Mar/2019 | Blackhill Holding Limited, LLC. increased its stake from 6.31% to 7.06% of PHAROL's share capital and voting rights.

17/Apr/2019 | Blackhill Holding Limited, LLC. decreases its stake from 7.06% to 4.85% of PHAROL's share capital and voting rights.

14/May/2019 | High Seas Investments, LLC decreased its stake from 2.41% to 1.39% of PHAROL's share capital and voting rights.

20/May/2019 | Blackhill Holding Limited, LLC. decreases its share from 4.85% to 1.92% of PHAROL's share capital and voting rights.

12/Aug/2019 | Banco Comercial Português, S.A. reported that the participation of High Bridge Unipessoal, Lda. Of 9.99% of PHAROL's share capital and voting rights is imputable to it as a creditor benefiting from financial pledges.

19/Sep/2019 | Banco Comercial Português, S.A. reported that the participation of High Bridge Unipessoal, Lda. Decreased to 4.88% of PHAROL's share capital and voting rights.

09/Oct/2019 | Real Vida Seguros, S.A. reported that it now holds a qualified holding through 38,875,874 shares, representing 4.34% of PHAROL's share capital and voting rights.

14/Oct/2019 | Adar Capital Partners Ltd. reduced its 4.8% stake to less than 2% of PHAROL's share capital and voting rights.

29/Nov/2019 | Banco Comercial Português, S.A. reported that the participation of High Bridge Unipessoal, Lda. decreased to 1.95% of PHAROL's share capital and voting rights.

10/Dec/2019 | High Bridge Unipessoal, Lda informed that since December 5, 2019, it no longer holds any interest in the share capital of PHAROL SGPS S.A., not holding any share representing it.

26/Fev/2020 | Abante Asesores, S.A. reported that holds a qualified holding through 18,200,000 shares, representing 2.03% of PHAROL's share capital and voting rights since August, 28 2019.

PHAROL, SGPS S.A.

REPORT AND OPINION OF THE FISCAL COUNCIL

**REPORT AND OPINION
OF THE FISCAL COUNCIL**

**For Financial Year of 2019
(Standalone accounts)**

To the Shareholders of
PHAROL, SGPS S.A.

1. In compliance with the provisions of paragraph g) of number 1 of article 420 of the Commercial Companies Code, it is incumbent upon us, as members of the Fiscal Council of "PHAROL SGPS, S.A." (hereinafter PHAROL), issue the annual report on our inspection action, as well as give an opinion on the management report, the financial statements and the proposal for the application of results presented by the Board of Directors for the year ended on 31 December 2019.

2. We must mention, as a supervisory body, that:

2.1. On January 8, 2019, Bratel S.à.rl/PHAROL and Oi signed an Agreement for the closure and termination of any and all judicial and extrajudicial disputes in Brazil, Portugal and in all different countries where there are discussions involving companies from two groups. On April 2, 2019, with the approval of the aforementioned Agreement, PHAROL became the holder of a 5.51% interest in Oi's share capital;

2.2. For the effective performance of our functions, we obtained the collaboration of the Managing Director and the Board of Directors, those responsible for the relevant areas, as well as the Statutory Auditor and External Auditor.

3. Also, through the clarifications and information collected from the aforementioned managers, we became aware of the development of PHAROL's management and activity.

We also proceeded to verify the financial information produced during the year of 2019, carrying out the analyzes deemed convenient and necessary.

4. Our work has always consisted in complying with the legally established matters, in permanently monitoring PHAROL's activity, and in verifying that the valuation criteria adopted in the preparation of the accounts are in accordance with the accounting framework in force.

5. The Fiscal Council met eleven times, in the performance of its duties, having developed several actions of which the following stand out:

- 5.1. Appraisal of the effectiveness of internal control systems, risk management and adjustments to accounts, obtained from the Statutory Auditor and External Auditor;
 - 5.2. Analysis of the financial information disclosed;
 - 5.3. Appreciation of the accounting policies followed by PHAROL as to their adequacy and consistency;
 - 5.4. Verification of the compliance of the financial statements with the applicable legal requirements.
6. In terms of the internal regulation, which defines the rules and procedures to be adopted in the System of Qualified Participation of Undue Practices (Whistleblowing), we became aware of the semiannual reports of the activity developed by the Center for Analysis of Qualified Participations, dated July 16, 2019 and January 2, 2020, with no Participations occurring during the 2019 financial year.
 7. The Supervisory Board, still within the scope of its functions, exercised its powers in terms of supervising the qualifications, independence and exercise of functions of the Statutory Auditor and External Auditor. We met with the latter, who always provided all the clarifications, technical and accounting, considered necessary, having delivered the additional report to the supervisory body, prepared in a detailed and clarifying manner.
 8. We became aware of the conclusions of the audit and external audit work on the financial statements for the year 2019, which include the balance sheet, the income statement, the statement of changes in equity, the statement of cash flows and respective attachments.
 9. We also became aware of the content of the legal certification of the accounts and the audit report, with a reservation and an emphasis, issued by the Statutory Auditor and External Auditor, a document that deserved our agreement.

It is the understanding of the Statutory Auditor and External Auditor that consist of relevant audit matters:

- i) Measurement of investment in Oi, S.A.
- ii) Measurement of investment in debt securities issued by Rio Forte Investments, S.A.

In these areas, audit procedures and tests deemed relevant in the circumstances were developed.

10. In the course of our duties, we have verified that the Board of Directors' report mentions the most significant administrative facts, complements the accounts and contains references to PHAROL's activity, adequately clarifying the management of the financial year.

11. We also verified that the PHAROL Corporate Governance Report disclosed includes the elements required under article 245 - A of the Securities Code, being prepared in accordance with the annex to CMVM Regulation No. 4/2013 of 1 January 2014 and the circular issued by the same Commission on January 11, 2019.

12. The Fiscal Council declares that, as far as it is aware, the information provided for in paragraph a) of paragraph 1 of article 245 of the Securities Code, for individual accounts:
 - i) It was prepared in accordance with the applicable accounting standards, giving a true and appropriate image of PHAROL's assets and liabilities, financial situation and results;
 - ii) Faithfully exposes PHAROL's business evolution, performance and position; and
 - iii) It contains a description of the main risks and uncertainties that PHAROL faces in its activity.

13. Based on the above report, we are of the opinion:
 - 1st. That the management report and the financial statements for the financial year 2019 be approved;
 - 2nd. That the proposal for the application of net income for the period be approved.

14. Finally, the members of the Supervisory Board express their recognition and thanks to the Board of Directors, to the principal officers and other employees of PHAROL for their collaboration.

Lisbon, February 28, 2020

José Maria Ribeiro da Cunha — Chairman

Isabel Maria Beja Gonçalves Novo — Member

João Manuel Pisco de Castro - Member

PHAROL, SGPS S.A.

STATUTORY AUDITORS' CERTIFICATION AND AUDIT REPORT

STATUTORY AUDITOR'S CERTIFICATION AND AUDIT REPORT

(Free translation from a report originally issued in Portuguese language. In case of doubt the Portuguese version will always prevail)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Qualified Opinion

We have audited the accompanying financial statements of Pharol, SGPS, SA (Pharol), which comprise the balance sheet as at December 31, 2019 (showing a total of 143 822 090 euro and a total net equity of 131 548 730 euro, including a net profit of 20 746 227 euro) and the income statement, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the “Basis for qualified opinion” section of our report, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of Pharol, SGPS, SA as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with Accounting and Financial Reporting Standards adopted in Portugal under the Portuguese Accounting System.

Basis for qualified opinion

The Independent auditor's report on the individual and consolidated financial statements for the year ended December 31, 2018 of Oi, SA, dated March 26, 2019, included a “Material uncertainty as to going concern” of Oi, SA. Bearing in mind the Independent auditor's review report on the interim individual and consolidated financial statements for the period ended September 30, 2019 of Oi, SA, dated December 2, 2019, we highlight the following paragraph of the Emphasis titled “Going concern”, taking also into account the note 13 to the consolidated financial statements: *“We draw attention to Note 1 to the individual and consolidated interim financial information, on the section about going concern, which informs that the individual and consolidated interim financial information has been prepared assuming the continuity of the Company as a going concern, considering the success of the implementation of the Judicial*

Reorganization Plan (“PRJ”) and compliance with the requirements set forth in Law No. 11.101/2005. These events or conditions indicate that there are significant uncertainties that may cast significant doubt on the Company’s going concern. (...)”. Up to the present date, neither the individual and consolidated financial statements for the year ended December 31, 2019 of Oi, SA, nor the corresponding Independent auditor’s report, are yet available, situation that limits the scope and depth of the audit. As referred in the note 13 to the consolidated financial statements, the indirect investment in Oi, SA, as at December 31, 2019 is measured by the market value at that date, determined using the closing stock exchange listed market price. As presented in note 23 to the present financial statements, the listed market price of the ordinary shares of Oi, SA evolved from R\$ 0,86 (€ 0,19) as at December 31, 2019 to R\$ 0,98 (€ 0,20) as at February 27, 2020 and the listed market price of the preferred shares of Oi, SA evolved from R\$ 1,23 (€ 0,27) as at December 31, 2019 to R\$ 1,33 (€0,27) as at February 27, 2020.

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Financial Statements” section below. We are independent of Pharol in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas code of ethics.

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

Emphasis of matter

The chapter 3 of the Consolidated Annual Report 2019 and the notes 3 and 7 to the present financial statements and note 23 to the consolidated financial statements, disclose, on one hand, that the measurement of the debt securities issued by Rio Forte Investments, SA reflects the management's best estimate concerning the recoverable amount of those securities and, on the other hand, that the Group was summoned by the curators of Espírito Santo International SA (ESI), in view of a possible cancellation of Notes' payments, made by ESI, during the month of January 2014. Pharol considers a very low probability, based on alleged facts, of obtaining any conviction of Pharol under the terms provided. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	Synthesis of audit response
<i>Measurement of Oi, SA investment</i>	
<p>The indirect equity investment in Oi, SA (voting rights of 5,63%) is presented as financial assets measured by the market value.</p> <p>Oi, SA is a large entity with high public and media profile, being highly relevant to the Pharol financial statements. Oi, SA is under a judicial reorganization process since June 2016. The respective financial statements are audited by other auditors.</p> <p>Related disclosures: Notes 2, 3 and 13 to the consolidated financial statements.</p>	<p>The audit response involved, in synthesis, the performance of the following procedures:</p> <p>Confirmation of the shares held by the Group as at December 31, 2019, through the verification of the documentation from the custodian banks where these shares are deposited.</p> <p>Verification of the adequate form of classification and measurement of this investment, bearing in mind the provisions of the applicable IFRS.</p> <p>Obtaining and analysing the independent auditor's review report on the most recent available individual and consolidated financial statements (as at September 30, 2019) of Oi, SA;</p> <p>Analysis and validation of the calculations inherent to the measurement by market value;</p> <p>Evaluation of the reasonableness of the financial statements' disclosures.</p>

Key audit matters	Synthesis of audit response
<i>Measurement of the investment in debt securities issued by Rio Forte Investments, SA</i>	
<p>At March 30, 2015 the debt securities issued by Rio Forte Investments, SA (Rio Forte) were returned to Pharol, following the performance of the exchange contract signed on September 8, 2014 between Oi Group and Pharol.</p> <p>Rio Forte is under an insolvency process taking place in Luxembourg, with high public and media profile. This investment is relevant within the scope of Pharol financial statements and the respective measurement involves significant judgements.</p> <p>Related disclosures: Notes 3 and 7 to the present financial statements and Note 23 to the consolidated financial statements.</p>	<p>The audit response involved, in synthesis, the performance of the following procedures:</p> <p>Analysis of the information present in the reports and announcements issued by the Rio Forte insolvency curators;</p> <p>Analysis of the judgements made by the management in determining the recoverable amount of the debt securities at December 31, 2019;</p> <p>Circularization of the banks where the debt securities are deposited;</p> <p>Monitoring of possible developments arising from an announcement issued by the insolvency curators of Espirito Santo International, SA issued in November 14, 2017 and the corresponding subpoena in the meanwhile received in 2019;</p> <p>Analysis and appraisal of the legal opinion about the expected outcome for Pharol of the subpoena received from ESI referred before, prepared by Pharol's legal consultants that are following this process.</p> <p>Circularization of the lawyers that handle the insolvency process;</p> <p>Evaluation of the reasonableness of the financial statements' disclosures.</p>

Responsibilities of management and of the supervisory body for the financial statements

Management is responsible for:

- (i) the preparation of financial statements that give a true and fair view of the Pharol's financial position, financial performance and cash flows in accordance with Accounting and Financial Reporting Standards adopted in Portugal under the Portuguese Accounting System;
- (ii) preparation of the management report and the corporate governance report in accordance with the applicable laws and regulations;
- (iii) designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- (iv) the adoption of accounting policies and principles appropriate in the circumstances; and
- (v) assessing Pharol's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about Pharol's ability to continue as a going concern.

The supervisory body is responsible for overseeing Pharol's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

- (i) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is

- higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- (ii) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pharol's internal control;
 - (iii) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
 - (iv) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Pharol's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Pharol to cease to continue as a going concern.
 - (v) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 - (vi) communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
 - (vii) determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes their public disclosure;
 - (viii) provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the management report is consistent with the financial statements, and the verification of the requirements as provided in numbers 4 and 5 of article 451.º of the Portuguese Companies' Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the management report

Pursuant to article 451.º, n.º 3, al. (e) of the Portuguese Companies' Code, it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited financial statements and, having regard to our knowledge and assessment over Pharol, we have not identified any material misstatements.

On the corporate governance report

Complying with article 451.º, n.º 4, of the Portuguese Companies' Code, in our opinion, the corporate governance report includes the information required to Pharol to provide under article 245.º-A of the Securities Code, and we have not identified material misstatements on the information provided therein in compliance with paragraphs c), d), f), h), i) and m) of that article.

On the additional matters provided in article 10.º of Regulation (EU) n.º 537/2014

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

- We were appointed as auditors of Pharol in the shareholders general assembly held on May 29, 2015 for a first mandate from 2015 to 2017. We were appointed for a second mandate, from 2018 to 2020, as auditors of Pharol in the shareholders general assembly held on May 25, 2018.
- Management has confirmed to us that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional scepticism, and we

design audit procedures to respond to the possibility of material misstatement in the financial statements due to fraud. As a result of our work we have not identified any material misstatement on the financial statements due to fraud.

- We confirm that our audit opinion issued is consistent with the additional report that we prepared and delivered to the supervisory body of Pharol on February 28, 2020.
- We declare that we have not provide any prohibited services as described in article 77.º, number 8, of the Ordem dos Revisores Oficiais de Contas statutes, and we have remained independent of Pharol in conducting the audit.
- We inform that, in addition to the audit, we have not provided to Pharol and to the entities under its control any other services.

Lisbon, February 28, 2020

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

Contacts

Investor Relations

Luís Sousa de Macedo
Investor Relations Director
PHAROL, SGPS S.A.
Rua Joshua Benoliel, 1, 2c
Edifício Amoreiras Square
1250-133 Lisboa, Portugal
Tel: +351 21 269 7698
Fax: +351 21 269 7949
E-mail: ir@pharol.pt

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

Depository bank

Deutsche Bank Trust Company Americas
ADR Division
Floor 27
60 Wall Street
New York 10005-2836
Fax: +1(732)544-6346

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

Website

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

Registered Office

Rua Joshua Benoliel, 1, 2c
Edifício Amoreiras Square
1250-133 Lisboa, Portugal
Tel: +351 21 269 7690

Registered With The Commercial Registry Office Of Lisbon Under No. 503 215 058