

PHAROL, SGPS S.A.

1st QUARTER 2016 RESULTS

- PHAROL presented a Net loss for quarter of Eur. 65.9M, mainly explained by: (a) the effective participation in Oi's net losses of some Eur. 64.1M, (b) the cancellation of 10% of the value of the Call option on Oi amounting to Eur. 0.7M, and (c) operating expenses amounting to some Eur. 1.5M.
- PHAROL reduced its Operational Costs by 63% comparing with 1Q2015, (Eur. 1.5M against Euro 4.0M).
- On May 24th, the General Meeting approved the distribution of a dividend of 3 cents per share.

Highlights of Oi's 1Q2016 progress

- Recurring EBITDA amounted to 1.776 million Reals, a decrease of 1,1% comparing with the 4Q2015
- Oi has been concentrating its efforts on the business transformation, as part of a long term plan based on four pillars: convergence, digitalization, austerity in costs and customer experience.

MESSAGE FROM THE CEO

Luís Palha da Silva

"In PHAROL, 2016 will maintain the trend of the last six months of 2015: difficult political/economic environment in Brazil.

We will focus our attention on improving the balance sheet and operational efficiency of Oi, and on efforts to reduce the costs of PHAROL. "

Highlights

PHAROL

(Euro million)	1Q16	1Q15	4Q15
EBITDA	(1.5)	(4.0)	0.9
Losses/(gains) in joint ventures and associates	64.1	38.7	535.5
Result from recurring operations	(65.9)	(43.0)	(556.9)
Capital	240.8	1,086.5	299.3

OI

(Reals million)	1Q16	1Q15	4Q15
Net revenue	6,755	7,040	6,703
Routine EBITDA	1,776	2,011	1,795
Routine EBITDA Margin %	26.29%	28.57%	26.78%
Net earnings	(1,644.2)	(446.5)	(4,550.7)
Net Debt	40,844	32,557	38,155
Capex	1,252	1,025	1,086

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CONSOLIDATED R E P O R T

Three months 2016

PHAROL, SGPS S.A.

CONSOLIDATED REPORT

FIRST QUARTER 2016

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

01 FINANCIAL REVIEW

FINANCIAL REVIEW

As at March 31, 2016, PHAROL had as its main assets (1) 183,662,204 common shares of Oi, S.A. ("Oi"), representing 27.2% of total share capital of Oi (excluding treasury shares), (2) debt securities of Rio Forte Investments S.A. ("Rio Forte") with a nominal value of Euro 897 million, and (3) the Call Option on 42,691,385 common shares and 85,382,770 preferred shares of Oi with an exercise price of R\$20.104 per common share and R\$18.529 per preferred share, adjusted by the Brazilian rate CDI plus 1.5% per annum, and with a 6-year maturity. The Call Option has partial expiration dates throughout the period so the option volume is reduced by 10% at the end of the first year and by 18% per year thereafter. On March 30, 2016, as part of the option has reach its maturity, PHAROL's call option is from that date onwards 42,691,385 common shares and 85,382,770 preferred shares of Oi.

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

On March 30, 2015, the Exchange was completed, whereby PHAROL (1) transferred to Portugal Telecom International Finance, B.V. ("PT Finance"), a subsidiary of Oi, an aggregate amount of 47,434,872 common shares and 94,869,744 preferred shares of Oi, and (2) received from PT Finance debt securities of Rio Forte with a nominal value of Euro 897 million and a call option on the transferred shares ("Call Option"). After the completion of the Exchange, PHAROL held an effective stake of 27.5% in Oi corresponding to the 22.8% stake referred above plus 4.7% due to the decrease in the number of outstanding shares of Oi.

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

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

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

With the implementation of the New Structure on July 30, 2015, the shareholder's agreements, through which joint control of Oi was exercised, were terminated. Up to that date, PHAROL accounted for its stake in Oi as an Investment in Joint Ventures. Currently, PHAROL considers it has significant influence over Oi and classifies it as an associate company. As a result, from July 30, 2015, the investment in Oi continues to be accounted for according to the equity method, based on PHAROL's economic stake in Oi's results (27.2% as at March 31, 2016).

In the first quarter of 2016, the consolidated net loss amounting to Euro 65.9 million, mainly reflects (1) the Euro 64.1 million losses in investments in joint ventures and associates, (2) the Euro 1.5 million consolidated operational costs, which included non-recurring financial and legal services amounting to some Euro 3.8 million euros, and (3) a Euro 318 thousand gains in respect of the Real valuation.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT		
	Euro million	
	1Q16	1Q15
Wages and salaries	0.6	1.0
Supplies, external services and other expenses	0.8	2.5
Indirect taxes	0.1	0.5
Loss before financial results and taxes	(1.5)	(4.0)
Depreciations	0.0	0.0
Earnings before interest and taxes	(1.5)	(4.0)
Net other gains	(0.0)	-
Loss before financial results and taxes	(1.5)	(4.0)
Net interest income	(0.1)	(0.2)
Losses (gains) in losses of joint ventures and associates	64.1	38.7
Net losses on financial assets and other investments	0.7	-
Net other financial losses (gains)	(0.3)	0.5
Loss before taxes	(65.9)	(43.0)
Income taxes	-	-
Net loss	(65.9)	(43.0)
Attributable to non-controlling interests	-	-
Attributable to equity holders of PHAROL, SGPS S.A.	(65.9)	(43.0)

Consolidated operating costs amounted to Euro 1.5 million in the first quarter of 2016 compared to Euro 4 million in the first quarter of 2015. This decrease is explained by (1) lower wages and salaries expenses, (2) lower third parties expenses mainly related to financial and legal services and (3) lower indirect taxes.

Losses in joint ventures and associates amounted to Euro 64.1 million in the first quarter of 2016, which compares to Euro 38.7 million in the first quarter of 2015, corresponding to the losses in the effective share of PHAROL in the results of Oi in the amount of Euro 105.4 million in part compensated by the reversion of a proportion of the impairment amounting to Euros 41.2 million, to reflect the market value as at that date. This amount corresponds to the PHAROL's effective share in the results of Oi until March 31, 2016. The losses recorded in 2015, amounting to Euro 38.7 million, reflect PHAROL's effective share in Oi's net income and the net losses of the controlling holding companies of Oi.

Losses on financial assets and other financial costs in 2016 totaled Euro 0.7 million, reflecting the devaluation of the Call Option following the cancellation of 10% of this asset.

Net losses attributable to equity holders of PHAROL amounted to Euro 65.9 million in the first quarter of 2016 compared to a Euro 43 million loss in the first quarter of 2015. The net loss in 2016 reflects the effective stake of PHAROL in the negative Oi net income, devaluation of the Call Option and operational costs.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Consolidated Statement of Financial Position		
	Euro million	
	1Q16	2015
ASSETS		
Cash and cash equivalents	64.6	64.9
Accounts receivable	0.3	0.5
Investments in joint ventures and associates	46.8	102.2
Tangible assets	0.4	0.4
Other assets	140.9	141.0
Total assets	253.0	309.1
LIABILITIES		
Short-term debt	0.1	0.1
Accounts payable	2.5	1.7
Accrued expenses	8.5	6.5
Taxes payable	0.1	0.4
Provisions	0.1	0.1
Other liabilities	0.9	0.9
Total liabilities	12.2	9.8
Total equity	240.8	299.3
Total liabilities and shareholders' equity	253.0	309.1

The cash position net of gross debt, accounts payable, accrued expenses, and taxes payable was Euro 53.3 million at March 31, 2016 and Euro 56 million at December 31, 2015.

Investments in joint ventures and associates correspond to PHAROL's effective stake in Oi of 27.2% on March 31, 2016 and at December 31, 2015. On March 31, 2016 and December 31, 2015, PHAROL's investment in joint ventures and associates in Oi corresponded to a total investment of Euro 47 million and Euro 102 million, respectively, a Euro 55 million reduction mainly explained by (1) the effective participation of PHAROL in the negative net income of Oi in the first quarter of 2016, representing a reduction Euro 105 million, (2) the reversal of a proportion of the impairment amounting Euro 41.2 million, (3) the Brazilian Real in the first quarter of 2016, with a positive impact of Euro 8.7 million in investments.

Other assets at March 31, 2016, amounting to Euro 140,9 million, mainly include the fair value of assets received on March 30, 2015 in connection with the Exchange: (1) Euro 134.6 million related to the

estimated fair value of debt instruments issued by Rio Forte, the nominal value of which amounts to Euro 897 million, and (2) Euro 6.14 million related to the fair value of the Call Option.

Shareholders' equity amounted to Euro 240 million on March 31, 2016 compared to Euro 299 million on December 31, 2015, a decrease of Euro 58.5 million, mainly reflecting (1) the loss of Euro 65.9 million recorded in the first quarter of 2016, (2) the positive Euro 8.8 million impact in the Oi investment of the Brazilian Real valuation against the Euro and (3) the acquisition of own shares amounting to Euro 1.4 million.

OI RESULTS KEY HIGHLIGHTS

The information within this section is an excerpt from the First Quarter 2016 Report of Oi.

Oi has been concentrating its efforts on the business transformation, as part of a long-term plan based on four pillars: convergence, digitalization, austerity in costs and customer experience.

As part of this process, in March the Company launched the evolution of its brand, now with a broader purpose, reinforcing its positioning to promote a collaborative culture, with the goal of enhancing connections that drive people.

In this scenario of transformation, the Company continues to progress operationally, capturing the changes in market dynamics and laying the foundations for sustainable and long-term growth.

Routine Opex of the Brazilian operations totaled R\$ 4,853 million in 1Q16, 1.2% y.o.y. decrease during a period in which inflation reached 9.4%, indicating a real cost reduction of approximately 10%. This performance reinforces Oi's discipline and commitment to operational efficiency and improved productivity, in addition to its focus on delivering quality services with direct impact on the reduction of operational costs.

Residential ARPU reached R\$ 80.8 in 1Q16, +4.2% y.o.y., a result of the focus on profitability by offering convergent and higher value plans to new and existing customers. As a highlight, this segment presented (i) an increase in the penetration of the unlimited fixed line plans, reaching 22.2% of the total fixed line customer base, (ii) growth of average speed of broadband customer base, that reached 5.8 Mega (+25.2% y.o.y.), and (iii) improvement of mix of high-end customers in pay TV, which almost doubled, reaching 24.1% of the total pay TV customer base. It is important to note the improving trend of RGUs in all three services: broadband and pay TV registered net adds after four quarters of net disconnections; and fixed line disconnected 145 thousand lines in the quarter, the lowest level of the last three years.

At the end of March 2016, Oi launched Oi Total nationwide. This new convergent offer brings a completely new concept: the multiproduct that provides a complete and convenient experience by means of a single sale, a joint installation, a single bill, and a unique CRM and customer care, in addition to provide the sharing of allowance between services. The preliminary results of Oi Total show its potential to leverage both profitability and growth of the residential customer base. In March, 19% of Oi Total Residential sales were to new customers who did not have yet any of Oi services.

In the Personal Mobility segment, data revenues totaled R\$ 853 million in the quarter, representing 48% of customer revenues of the segment, a solid annual growth of 24.4%, especially considering the challenging macro environment. The increasing penetration of 3G/4G, currently 63% of the total base, the improving sales mix and the launch of Oi Livre and Oi Mais offers drove the increased demand for data traffic. It is worth noting in this quarter the increased penetration of the new offers in the total customer base and the ARPU growth of customers who acquired Oi Livre and Oi Mais. By the end of the first quarter 2016, Oi Livre customers already represented 33% of the total prepaid base and customers who migrated from older offers to Oi Livre por Semana presented a 19% increase in the volume of recharges. Oi Mais customers represented 13% of the total postpaid base in the quarter, presenting an ARPU 32% higher than those of other offers. These effects reduced macroeconomic impacts in the results of the Personal Mobility segment.

In the B2B segment, Corporate continued to increase its share in data and IT services, through investments in digitalization and improvements in customer experience. In the SMEs segment, as result of all structural measures taken last year, Oi presented important developments in the quarter: 65.8% increase in gross additions and 16% reduction in billing complaints. The highlight is the new offer Oi Mais Empresas, based on a flat-fee model, and the Oi Mais Empresas app, which features an exclusive digital customer service for small and medium businesses, all through smartphones. Approximately 80,000 small and medium enterprises have already joined the new portfolio and can now benefit from this new customer services channel that already presents more than 90% satisfaction rate.

Net revenues from the Brazilian operations totaled R\$ 6,539 million in 1Q16, -4.4% y.o.y., impacted by the cuts on interconnection tariffs (MTR), the significant decrease in handset revenues and the economic recession in Brazil. It is important to note that these first two effects did not impact negatively EBITDA. On the contrary, the outsourcing of the handset operations reduces costs and working capital; and the MTR cuts, in addition to reducing costs, also leverage Oi's positioning, which is based on the all-net calls, in order to capture value from the SIM cards consolidation movement and the decline of the "community effect".

In 1Q16, routine EBITDA of the Brazilian operations totaled R\$ 1,686 million, -12.6% y.o.y., basically due to the drop in revenues, impacted by the deterioration of the macro environment in Brazil. Costs remained under control despite inflation.

Capex increased 22.3% y.o.y., totaling R\$ 1,204 million in the quarter. The higher investments were concentrated on network modernization and improvement, as part of the transformation plan that aims to support the recently launched offers and the ongoing improvement of quality of experience for Oi customers. During this same period, operational cash flow (routine EBITDA minus Capex) of the Brazilian operations amounted to R\$ 482 million.

Net debt ended the quarter at R\$ 40,844 million, mostly impacted by the financial results, the annual regulatory fee (Fistel) and higher investments.

This quarter the Company recorded consolidated net losses of R\$ 1,644 million, mainly affected by the financial results.

	in R\$ million*	
	1Q16	1Q15
Oi S.A. Pro-forma		
Total Net Revenues	6,755	7,040
EBITDA (1)	1,766	2,011
EBITDA Margin (%)	26.1%	28.6%
Routine EBITDA	1,776	2,011
Routine EBITDA Margin (%)	26.3%	28.6%
Consolidated Net Earnings (Loss) (2)	(1,644)	(447)
Net Debt	40,844	32,557
Available Cash	8,527	2,079
CAPEX	1,252	1,025

*Or otherwise stated

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

(2) Consolidated net earnings include the discontinuation of the operations of PT Portugal SGPS, S.A. ("PT Portugal"). Net Earnings from discontinued operations include the positive effect related to the exchange variation on PT Portugal's book value, which was recorded under shareholders' equity in 4Q14. With the completion of PT Portugal's sale in 2Q15, this amount was reclassified to net results from discontinued operations, together with expenses associated with the sale.

	in R\$ million*	
	1Q16	1Q15
BRAZIL		
Revenue Generating Unit ('000)	69,496	73,577
Residential	16,170	17,148
Personal Mobility	45,559	47,940
Corporate / PMEs	7,115	7,836
Public Telephones	651	653
Total Net Revenues	6,539	6,841
Net Services Revenues (3)	6,480	6,639
Residential	2,394	2,491
Personal Mobility	1,974	2,060
Clients (4)	1,784	1,799
Corporate / SMEs	2,065	2,019
Net Clients Revenues (4)	6,159	6,203
Routine EBITDA	1,686	1,928
Routine EBITDA Margin (%)	25.8%	28.2%
CAPEX	1,204	984
Routine EBITDA - CAPEX	482	944

*Or otherwise stated

(3) Excludes handset revenues.

(4) Excludes handset and network usage revenues.

02 BUSINESS PERFORMANCE

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

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

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

On January 25, 2016, the Company filed a judicial liability claim before the Lisbon's District Court against its former directors Zeinal Bava, Henrique Granadeiro and Luís Pacheco de Melo, for breach of their respective legal and contractual duties, namely the duty to submit to the Board of Directors for approval any investments in debt instruments issued by entities of Espírito Santo Group, as well as the duty to implement an internal control system suitable for these forms of investment. Breach of the abovementioned duties caused several damages to PHAROL, such as Euro 54,900,000, as over time the amounts invested could not be used in the activities of PHAROL and other losses in amounts yet to be determined in execution of sentence.

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

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

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

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

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

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

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

RETAINING BY OI OF FINANCIAL ADVISOR

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

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

CHANGE IN OI DISCLOSURE POLICY

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

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

DISCONTINUANCE OF DISCLOSURE OF OI PROJECTIONS

On March 24, 2016, Oi informed its shareholders and the market in general, that it had decided to not disclose projections regarding future performance ("guidance") for 2016, to allow flexibility for Oi in light of the current macroeconomic instability, following the volatility in the past months, especially regarding benchmarks/assumptions that sustained the disclosed projections, such as, for example, the inflation rate and the national product growth rate.

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

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

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

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

FITCH'S REVIEW OF OI'S CREDIT RATING

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

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

MOODY'S REVIEW OF OI'S CREDIT RATING

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

ACQUISITION OF OWN SHARES

Pursuant to the terms and for the purposes of article 11, paragraph 2, item b) and of article 13 of the Regulation 5/2008 of the Portuguese Securities Code, and in accordance with the resolution of the General Shareholder's Meeting held on November 4, 2015, PHAROL has acquired 10,225,000 treasury shares for a total amount of Euro 1,603,908 (Euro 1,416,308 until March 31, 2015 and 187,600 thereafter). These transactions occurred between February 1 and April 11, 2016, in the Euronext Lisbon. Following these transactions, PHAROL SGPS S.A. holds 30,865,000 own shares, corresponding to 3.4428% of the Company's share capital.

DEREGISTRATION

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

with the SEC, including its obligations to file annual reports on Form 20-F and reports on Form 6-K, will immediately be suspended.

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

On April 26, 2016, Oi informed its shareholders and the market in general that Standard & Poor's had announced its review of the credit rating attributed to the Company, downgrading the long-term global scale credit rating from CCC to CCC- and the long-term domestic scale credit rating from brCCC to brCCC-. The outlook is negative.

CORPORATE REORGANIZATION OF PHAROL

On April 29, 2016, PHAROL, SGPS S.A. and Bratel B.V., informed, due to the corporate reorganization, the 57,145,521 common shares issued by Oi S.A., representing 6.92% of Oi S.A.'s capital stock, and held by PHAROL SGPS S.A. have been passed on to BRATEL B.V. with PHAROL reducing its direct shareholding in Oi S.A. to 71,067,957 common shares, representing 8.61% of Oi S.A.'s entire share capital (including treasury shares).

Bratel, due to the Corporate Reorganization, now holds 112,594,247 common shares of Oi S.A., which represent 13.63% of Oi S.A.'s entire share capital (including treasury shares).

On May 19, 2016, PHAROL, SGPS S.A. and Bratel B.V., informed, due to the corporate reorganization, that 71,067,957 common shares issued by Oi S.A., representing 8.61% of Oi S.A.'s capital stock, and held by PHAROL SGPS S.A. have been passed on to BRATEL B.V. with PHAROL no longer holding a direct shareholding position in Oi.

Bratel, due to the Corporate Reorganization, now holds 183,662,204 common shares of Oi S.A., which represent 22.24% of Oi S.A.'s entire share capital. Therefore, as PHAROL holds 100% of Bratel, PHAROL now indirectly holds 183,662,204 common shares of Oi S.A., representing 22.24% of the Oi S.A.'s entire share capital. Finally, Bratel holds Oi S.A. shares for investment purposes, without any intent to change Oi S.A.'s control.

DISCLOSURE OF THE 2016 FIRST QUARTER RESULTS

On May 12, 2016, Oi disclosed the 2016 first quarter results.

On May 16, Oi announced that its Board of Directors approved the start of negotiations by Oi's management in relation to the financial indebtedness of Oi and of its affiliated companies. Oi and its advisors have scheduled meetings that week in New York to begin formal discussions with Moelis & Company, who acts as advisor for a diverse Ad Hoc Committee of holders of bonds issued by Oi and its subsidiaries, Portugal Telecom International Finance B.V. and Oi Brasil Holdings Coöportief U.A. Oi requests holders of these bonds that are not currently members of the Ad Hoc Committee to contact Moelis & Company and to join the Ad Hoc Committee.

SUPPLEMENTARY INFORMATION ON ITEM 5 OF THE AGENDA OF THE GENERAL MEETING OF SHAREHOLDERS HELD ON MAY 24, 2016

On May 20, 2016, PHAROL informed its shareholders and the market in general that that it had received a communication from Oi pursuant to which Oi declares that, at the present moment, it does not intend to waive its rights granted by the Purchase Option Agreement and Other Arrangements (Contrato de Opção de Compra de Ações e Outras Avenças), executed on September 8, 2014, between Portugal Telecom, SGPS, S.A., currently PHAROL, Telemar Participações S.A. and Oi, among others ("Option Agreement"), which terms and conditions were previously disclosed.

Pursuant to clause 1.10.(i) of the Option Agreement, Oi has the right to terminate the Purchase Option, at its sole and exclusive discretion (...) in case the by-laws of PHAROL are amended in order to suppress or amend the provision that foresees that the voting rights of a shareholder, acting himself or through an agent, in its own name or representing other shareholder, that exceed 10% of the total number of votes corresponding to the entire share capital of PHAROL shall not be counted, except if in compliance with a legal provision or an order issued by a competent governmental authority.

At the general meeting, the shareholders considered the amendment to the bylaws to cancel the limitation of voting rights to be improper and, as such it was not approved.

APPROVAL OF TERM OF ADJUSTMENT OF CONDUCT BY ANATEL

On May 20, 2016, Oi informed its shareholders and the market in general that the Board of ANATEL has

approved the agreement of the first Term of Adjustment of Conduct (TAC) with the Company with respect to quality and universalization of services issues, in the amount of approximately R\$1.2 billion, which will be allocated to infrastructure investments over four years. The initiative will provide benefits to society by investing in adequate telecommunications services to current demands of users, thus establishing a virtuous cycle to promote quality improvements in services and the economic and social development of Brazil. This initiative is expected to benefit society through investments telecommunications services that are designed to meet users' current demand, thus establishing a virtuous cycle that will promote service quality and spur economic and social development in the country.

PHAROL'S ANNUAL GENERAL MEETING OF SHAREHOLDERS

On May 24, 2016, following its Annual General Meeting of Shareholders, PHAROL informed its shareholders and the market in general that the following resolutions were adopted by the Shareholders

> Approval of the management reports, balance sheets and accounts, individual and consolidated, for the 2015 financial year.

> Approval of the proposal for application of results and an extraordinary dividends distribution as follows:

- Transfer of the 2015 net losses amounting to Eur. 693,892,303 to the retained earnings account.
- Payment to the Shareholders of the overall amount of Euro 25,969,425, corresponding to Euro 0.03 per share in respect of the total number of issued shares.
- The above mentioned amount of Euro 0.03 per share shall be paid to the Shareholders on June 9, 2016 (ex-dividend date: June 7, 2016).

> General appraisal of the Company's management and supervisory bodies, as well as a special praise to the Board of Directors, Fiscal Council and Statutory Auditor, and of each of their members, for the outstanding way in which the Company was led throughout the 2015 financial year.

> Non approval of the amendment of the statutory provisions that provide for the limitation of the number of votes that may be held or exercised by each shareholder;

> Approval of the statement of the Compensation Committee on the remuneration policy of the members of the Company's management and supervisory bodies.

At the General Meeting, Shareholders holding 42.51% of the share capital were present or represented.

DIVIDEND PAYMENT

On 24 May, 2016, PHAROL, SGPS S.A. announced that the following amounts per share will be paid on June 9, 2016, as set out below:

- Gross Amount - Euro 0.03
- Withholding Tax IRS/IRC (28%/25%) - Euro 0.0084 / Euro 0.0075
- Net Amount - Euro 0.0216 / Euro 0.0225

PHAROL, SGPS, S.A.

CONSOLIDATED FINANCIAL STATEMENTS

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PHAROL, SGPS S.A.

CONSOLIDATED INCOME STATEMENT
PERIODS ENDED MARCH 31 2016 AND 2015

	Notes	1Q16	Euro 1Q15
COSTS, LOSSES AND (INCOME)			
Wages and salaries	5	590,894	1,005,909
Supplies, external services and other expenses	6	753,398	2,496,890
Indirect taxes	7	119,852	469,056
Depreciation		29,531	23,654
Net other losses (gains)		(10,980)	-
		1,482,694	3,995,509
Income (loss) before financial results and taxes		(1,482,694)	(3,995,509)
FINANCIAL LOSSES AND (GAINS)			
Net interest income	8	(62,108)	(200,268)
Net foreign currency exchange losses		(318,750)	(26,258)
Net losses on financial assets and other investments		650,543	-
Equity in losses of joint ventures and associates	10	64,145,195	38,654,670
Net other financial expenses		(16,801)	568,920
		64,398,078	38,997,064
Income (loss) before taxes		(65,880,773)	(42,992,573)
Income taxes		-	46
Net income (loss) for the period		(65,880,773)	(42,992,619)
Attributable to non-controlling interests		-	-
Attributable to equity holders of the parent		(65,880,773)	(42,992,619)
Earnings per share			
Basic	9	(0.08)	(0.05)
Diluted	9	(0.08)	(0.05)

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

PHAROL, SGPS S.A.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
PERIODS ENDED MARCH 31 2016 AND 2015

	1Q16	Euro 1Q15
Net Income recognised in the income statement	(65,880,773)	(42,992,619)
Income (expenses) recognised directly in shareholders' equity		
Items that may be reclassified subsequently to the income statement		
Foreign currency translation adjustments (i)	(7,508,652)	(24,659,319)
Gains (expenses) recorded in shareholders' equity related to joint ventures (ii)	16,302,590	213,263
Items that will not be reclassified to the income statement		
Other expenses recognised directly in shareholders' equity, net	-	1,411,790
Total earnings recognised directly in shareholders' equity	8,793,939	(23,034,266)
Total comprehensive income	(57,086,834)	(66,026,885)
Attributable to non-controlling interests	-	-
Attributable to shareholders of PHAROL SGPS	(57,086,834)	(66,026,885)

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

(i) Losses recorded in the first quarter of 2016 and 2015 mainly relate to the impact of the depreciation of the Real against the Euro on the investments in Brazil as well as on Oi's investments outside Brazil.

(ii) This caption relates to the effective share of PHAROL in the fair value variations of Oi's financial instruments.

PHAROL, SGPS S.A.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
MARCH 31 2016 AND DECEMBER 31 2015**

			Euro
	Notes	Mar 31 2016	Dec 31 2015
ASSETS			
Current Assets			
Cash and cash equivalents	15.d	64,551,254	64,879,371
Accounts receivable		300,969	542,036
Taxes receivable		42,750	24,437
Prepaid expenses		242,956	-
Total current assets		65,137,930	65,445,845
Non-Current Assets			
Taxes receivable		-	-
Investments in joint ventures and associates	10	46,836,672	102,230,974
Tangible assets		391,605	421,578
Other non-current assets	11	140,672,241	141,045,340
Total non-current assets		187,900,518	243,697,892
Total assets		253,038,448	309,143,737
LIABILITIES			
Current Liabilities			
Short-term debt		15,082	15,851
Accounts payable	12	2,531,650	1,729,138
Accrued expenses	13	8,479,444	6,539,596
Taxes payable		104,256	424,215
Provisions	14	75,858	75,858
Other current liabilities		884,832	905,214
Total current liabilities		12,091,122	9,689,871
Non-Current Liabilities			
Medium and long-term debt		117,884	121,281
Total non-current liabilities		117,884	121,281
Total liabilities		12,209,006	9,811,152
SHAREHOLDERS' EQUITY			
Share capital		26,895,375	26,895,375
Treasury shares		(179,488,134)	(178,071,827)
Legal reserve		6,773,139	6,773,139
Reserve for treasury shares		186,458,454	185,042,147
Other reserves and accumulated earnings		200,190,609	258,693,752
Total equity		240,829,443	299,332,586
Total liabilities and shareholders' equity		253,038,448	309,143,737

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

PHAROL, SGPS S.A.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
PERIODS ENDED MARCH 31 2016 AND 2015

								Euro
	Share capital	Treasury shares	Legal reserve	Reserve for treasury shares	Other reserves and accumulated earnings	Equity excluding non-controlling interests	Non-controlling interests	Total equity
Balance as at December 31, 2014	26,895,375	(178,071,827)	6,773,139	185,042,147	1,111,862,169	1,152,501,003	-	1,152,501,003
Income (expenses) recognized directly in equity	-	-	-	-	(23,034,266)	(23,034,266)	-	(23,034,266)
Income recognized in the income statement	-	-	-	-	(42,992,619)	(42,992,619)	-	(42,992,619)
Balance as at March 31, 2015	26,895,375	(178,071,827)	6,773,139	185,042,147	1,045,835,285	1,086,474,119	-	1,086,474,119

								Euro
	Share capital	Treasury shares	Legal reserve	Reserve for treasury shares	Other reserves and accumulated earnings	Equity excluding non-controlling interests	Non-controlling interests	Total equity
Balance as at December 31, 2015	26,895,375	(178,071,827)	6,773,139	185,042,147	258,693,751	299,332,586	-	299,332,586
Acquisition of own shares	-	(1,416,308)	-	1,416,308	(1,416,308)	(1,416,308)	-	(1,416,308)
Income (expenses) recognized directly in equity	-	-	-	-	8,793,939	8,793,939	-	8,793,939
Income recognized in the income statement	-	-	-	-	(65,880,773)	(65,880,773)	-	(65,880,773)
Balance as at March 31, 2016	26,895,375	(179,488,134)	6,773,139	186,458,454	200,190,609	240,829,443	-	240,829,443

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

PHAROL, SGPS S.A.

CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED MARCH 31 2016 AND 2015

		euros	
	Notas	1T16	1T15
OPERATING ACTIVITIES			
Payments to suppliers	15.a	(611,070)	(3,993,406)
Payments to employees		(589,532)	(1,162,869)
Payments relating to income taxes		(6,071)	578,400
Other cash receipts, net	15.b	2,132,124	177,483
Cash flows from operating activities (1)		925,450	(4,400,392)
INVESTING ACTIVITIES			
Cash receipts resulting from:			
Tangible and intangible assets		5,300	-
Interest and related income		62,014	180,375
		67,314	180,375
Payments resulting from:			
Tangible and intangible assets		225	-
		225	-
Cash flows from investing activities (2)		67,539	180,375
FINANCING ACTIVITIES			
Payments resulting from:			
Loans repaid		(4,165)	(32,200)
Interest and related expenses		(8,874)	(765,988)
Purchase of own shares	15.c	(1,361,708)	-
Cash flows from financing activities (3)		(1,374,747)	(798,188)
Cash and cash equivalents at the beginning of the period		64,879,371	109,511,599
Change in cash and cash equivalents (4)=(1)+(2)+(3)		(381,757)	(5,018,205)
Effect of exchange differences		53,642	(193,469)
Cash and cash equivalents at the end of the period	15.d	64,551,254	104,299,925

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at March 31, 2015

(Amounts stated in Euros, except where otherwise mentioned)

1. Introduction

As March 31, 2016 holds, directly and indirectly through wholly owned subsidiaries, 183,662,204 common shares of Oi, representing 27.2% of total share capital of Oi (excluding treasury shares). PHAROL's voting rights in Oi are limited to 15% of the total common shares of Oi.

Currently, PHAROL considers it has significant influence over Oi and classifies Oi as an associate company. As a result, from July 30, 2015 (by the end of shareholder agreements) the investment in Oi continues to be accounted for according to the equity method, based on PHAROL's economic stake in Oi's results.

Based on the agreements concluded on March, 30 2015 between PHAROL and Oi, PHAROL currently holds Rio Forte debt securities with a nominal value of Euro 897 million and a Call Option for shares of Oi. On March,31 2016, as a part of the options has reached maturity, PHAROL holds a call option on 42,691,385 common shares of Oi and 85,382,770 preferred shares of Oi.

2. Basis of presentation

The interim consolidated financial statements were prepared according to the International Accounting Standard (IAS) 34 Interim Financial Reporting.

Therefore, the financial statements do not include all information required by the International Financial Reporting Standards ("IFRS") as adopted by the European Union and so should be read in conjunction with the consolidated financial statements of December 31, 2015. Additionally, the interim management report discloses further explanations regarding major variations in income and expenses, and as such these interim consolidated financial statements should be read with the management report.

3. Changes in Accounting Policies

There has been no change in accounting policies with an impact on the presented financial statement.

4. Exchange rates used to translate foreign currency financial statements

At March 31, 2016 and December 31, 2015, assets and liabilities denominated in foreign currencies were translated to Euros using the following exchange rates to the Euro:

Currency	Euro	
	31 mar 2016	31 dec 2015
Real	4.1174	4.3117
USD	1.1385	1.0890

At March 31, 2016 and March 31, 2015, the statements of financial position, income statements and cash flows of subsidiaries and joint ventures denominated in foreign currencies were translated to euros using the following exchange rates to the Euro:

Currency	Euro	
	1Q16	1Q15
Real	4.3041	3.2236
USD	1.1020	1.1261

5. Wages and salaries

The composition of this caption in the first quarter of 2016 and 2015 is as follows:

	Euro	
	1Q16	1Q15
Fixed and variable remuneration	470,361	868,009
Social security	112,063	130,434
Other	8,470	7,466
	590,894	1,005,909

6. Supplies, external services and other expenses

The composition of this caption in the first quarter of 2016 and 2015 is as follows:

	1Q16	Euro 1Q15
Specialized work (i)	477,364	1,979,997
Insurance	93,973	151,853
Travel	56,674	102,410
Other	125,386	262,630
	753,398	2,496,890

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

7. Indirect taxes

The composition of this caption in the first quarter of 2016 and 2015 is as follows:

	1Q16	Euro 1Q15
VAT	135,561	451,022
Other	(15,710)	18,034
	119,852	469,056

8. Net interest income

The composition of this caption in the first quarter of 2016 and 2015 is as follows:

	1Q16	Euro 1Q15
Interest income		
Related to cash and cash equivalents (i)	(62,108)	(167,243)
Other	-	(33,026)
	(62,108)	(200,268)

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

9. Earnings per share

Earnings per share in the first quarter of 2016 and 2015 were as follows:

		1Q16	Euro 1Q15
Net loss attributable to equity holders of Pharol	(1)	(65,880,773)	(42,992,619)
Weighted average common shares outstanding in the period (i)	(2)	871,460,000	875,872,500
Earnings per share from continuing operations			
Basic	(1)/(2)	(0.08)	(0.05)

(i) On March 31, 2016, weighted average shares outstanding were calculated considering the 896,512,500 issued shares and taking into account the amount of 20,640,000 owned shares on January 1, 2016 and adjusted for acquisitions in the period a total of 29,465,000 owned shares. On March 31, 2015, weighted average shares outstanding were calculated considering the 896,512,500 issued shares adjusted for 20,640,000 owned shares.

10. Investments in Joint Ventures and Associates

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

On September 8, 2014, as explained above, PHAROL entered into an Exchange Agreement with Oi, for the Exchange of a portion of Oi shares held directly by PHAROL for the Rio Forte Investment and the Call Option over the shares. The Exchange was completed on March 30, 2015, after obtaining all necessary approvals. As a result of the Exchange, the portion of the investment in Oi delivered in connection with the Exchange was classified as a non-current asset held for sale and measured at fair value based on the price of Oi shares. The remaining interest of 22.8%, including the interests of 15.9% and 3.0% held directly by PHAROL and Bratel Brasil, respectively, and the interest of 3.9% owned indirectly through the controlling holding companies of Oi, remained classified as an investment in joint ventures, as at December 31, 2014 and measured according to the equity method of accounting.

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

As a result of the transaction, PHAROL's effective share in Oi reduced from 27.5% to 27.4%. As at September 30, 2015, the Oi common shares owned by PHAROL (that carry voting rights) represented

36.5% of shares in circulation (excluding Oi treasury shares). Furthermore, during 2015, changes to Oi's bylaws were approved, which included a 15% limitation on the voting rights of any individual shareholder.

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

In accordance with IAS 28 – Investments in Associates and Joint Ventures, there is a presumption that significant influence exists when voting rights are higher than 20%. For voting rights less than 20%, there should be clear indications through which significant influence may be exercised. The limitation to 15% of PHAROL's voting rights, in light of the remaining available voting rights, represented as at March 31, 2016, an effective voting right of 18.83%. By analogy, IFRS 10 – Consolidated financial statements considers that control may occur when there is a concentration of significant voting rights, with the remainder of voting rights largely dispersed ("de facto control"). In Oi's shareholder structure, over 30% of ordinary shares are dispersed in free float, and three other shareholders besides PHAROL have voting rights of between 5% and 7% each.

As such, by analogy to the consideration of control in IFRS consolidated financial statements, PHAROL considers that it has significant influence over Oi, and as such, Oi is considered to be an associate. This investment is measured in accordance with the equity method, based on the economic share of Oi's earnings (27.2% as at March 31, 2016), reduced by any adjustments for impairment losses.

Accordingly, PHAROL resorted to an independent value, in order to determine Oi's value in use, in accordance with the market's best practices. It was determined that the market value corresponded to Oi's share price as at December 31, 2015. Thus, PHAROL's financial investment in Oi, on that date, was measured on the basis of its stock exchange valuation, amounting to Euro 102.2 million. An impairment loss of Euro 225.6 million was recognized, with reference to December 31, 2015.

As at March 31, 2016, given the maintenance of the main assumptions of the valuation, after application of the equity method and appropriation of the results of Oi, the investment in Oi was measured at its stock market value, amounting to Euro 46.8 million.

10.1. Detail of investments in joint ventures and associates

As described above, and in accordance with IAS 28, PHAROL's investment in Oi as at March 31, 2016 is measured in accordance with the equity method, reduced by any accumulated impairment losses.

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

	Euro million	
	Mar 31 2016	Dec 31 2015
Investment in each associate entity		
Oi - Equity method (i)	232	328
Oi - Impairment (i)	(185)	(226)
	47	102

(i) Following the simplification of the Oi shareholder structure, and the end of the Shareholder Agreements, this caption reflects the investment in Oi owned by PHAROL - 19% owned directly by PHAROL and 8.2% owned by Bratel, a wholly owned subsidiary of PHAROL. As previously commented, an impairment analysis was carried out at December 31, 2015 by an independent valuer, analysis which resulted in the measurement of the financial investment at its market value, corresponding to 183.7 million shares, R\$2.40 per share (Euro 0.56 per share), amounting to Euro 102.2 million. This valuation corresponds to the first fair value level of IFRS 13 – Fair value measurement. On March 31, 2016 and after the application of the equity method investment, Oi was also measured at market value corresponding to 183,700,000 shares measured at R \$ 1.05 per share (0.25 euros per share), representing approximately Euros 46.8 million.

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

	Euro millions	
	Mar 31 2016	Dec 31 2015
Current Assets	7,092	8,829
Cash and cash equivalents	2,013	3,455
Accounts receivable	2,077	1,943
Financial investments	26	418
Derivative financial instruments	83	141
Current assets held for sale	1,754	1,783
Judicial deposits	285	292
Other current assets	854	797
Non-Current Assets	12,230	11,814
Judicial Deposits	3,275	3,043
Derivative financial instruments	1,336	1,573
Deferred taxes	2,258	2,060
Other non-current assets	5,362	5,138
Total assets	19,323	20,642
Current Liabilities	5,304	5,931
Short-term debt	1,961	2,739
Accounts payable	1,263	1,161
Derivative financial instruments	644	461
Licenses and concessions payable	237	212
Provisions	236	237
Liabilities related to assets held for sale	145	173
Other liabilities	818	949
Non-current Liabilities	12,876	13,228
Debt	10,581	11,144
Derivative financial instruments	224	121
Licenses and concessions payable	2	2
Provisions	861	792
Other liabilities	1,208	1,170
Total liabilities	18,180	19,159
Net Assets	1,143	1,483
Share to non-controlling interests of Oi	289	276
Net assets attributable to controlling interest of Oi	854	1,207
Effective share of PHAROL in Oi	27.2%	27.2%
Total Investment from Pharol in Oi	232	328

10.2. Detail of PHAROL's share in the earnings of joint ventures and associates

Gains/(losses) in joint ventures and associates were accounted for through the equity method of accounting - their composition for the years ended March 31, 2016 and 2015 is as follows:

	Euro million	
	1Q16	1Q15
Joint ventures		
Direct share in the earnings of each entity (i)		
Oi	-	(24)
Telemar Participações	-	1
EDSP75 Participações	-	6
PASA Participações	-	6
Sayed RJ Participações	-	3
Venus RJ Participações	-	3
Other	-	-
Gain resulting from the increase in the interest held in Oi (iv)	-	109
Reversal of provision (v)	-	(141)
	-	(39)
Joint ventures		
Effective share in the earnings of each entity		
Oi (ii)	-	(28)
Oi Holding companies (iii)	-	22
Other	-	-
Gain resulting from the increase in the interest held in Oi (iv)	-	109
Reversal of provision (v)	-	(141)
	-	(39)
Associates		
Effective share in the earnings of each entity		
Oi (ix)	(105)	-
Impairment Reversel/(Loss) (vi)	41	-
	(64)	-
Earnings of joint ventures and associates	(64)	(39)

(i) These captions, as explained above, reflect PHAROL's direct share in the earnings of each joint venture, including, in the case of Oi's controlling holding companies, their share of Oi's net income and also the net income generated by these same entities, excluding the equity method of accounting of Oi.

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

(iii) This caption reflects PHAROL's effective share in the earnings and losses of Oi's controlling holding companies excluding these entities' share in the earnings of Oi, calculated through the equity method of accounting.

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

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

(vi) An impairment analysis was carried out by an independent valuer, analysis which resulted in the measurement of the financial investment at its market value, as at March 31, 2016.

(vii) This caption reflects PHAROL's effective share in the earnings and losses of Oi, during the first quarter of 2016. The detail of the earnings and losses of Oi that were used for purposes of equity method of accounting are presented below.

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

	Euro millions	
	1Q16	1Q15
Services rendered and sales (i) (ii)	1,569	2,184
Operating expenses excluding amortization (i)	1,159	1,560
Interconnection (iii)	83	157
Personnel (iv)	159	191
Third-party services (v)	360	482
Grid maintenance service (vi)	114	143
Rentals and insurance (vii)	255	275
Other operating income (expenses), net (viii)	188	312
Operating income excluding amortization	410	624
Depreciation and amortisation	319	378
Income from operations	91	246
Financial expenses	442	394
Income before taxes	(351)	(148)
Income taxes	31	(19)
Net income from continuing operations	(382)	(128)
Net income from discontinued operations (ix)	0	(10)
Net income	(382)	(139)
Share to non-controlling interests	6	(14)
Net income attributable to controlling interests	(388)	(124)

The earnings experienced a significant decrease in revenues and operating results which is partially justified due to the devaluation of the Real in the first quarter of 2016 compared to the first quarter of 2015. The trend in costs and revenues is explained in more detail in the management report above.

PHAROL recorded its share in the earnings of Oi under the equity method of accounting based on its effective stake during the first quarter of 2016 corresponding of 27.2% and in the first quarter of 2015, corresponding to 22.8%.

11. Other non-current assets

The composition of this caption mainly comprises (1) Euro 134.6 million related to the debt securities issued by Rio Forte on March 31, 2016 and December 31, 2015, and (2) Euro 6.1 and 6.4 million related to the value of the Call Option on March 31, 2016 and December 31, 2015, respectively.

12. Accounts Payable

On March 31, 2016 and December 31, 2015 the composition of this caption is as follows:

	Euro	
	31 mar 2016	31 dec 2015
Current accounts payable		
Current suppliers	162,228	1,367,580
Others	2,369,421	361,558
	2,531,650	1,729,138

13. Accrued Expenses

On March 31, 2016 and December 31, 2015 the composition of this caption is as follows:

	Euro	
	31 mar 2016	31 dec 2015
Supplies and external services (i)	8,011,221	6,118,641
Vacation pay and bonuses	450,773	394,271
Others	17,450	26,684
	8,479,444	6,539,596

14. Provisions

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

	Euro	
	31 mar 2016	31 dec 2015
Provisions for risks and costs		
Litigation	73,500	73,500
Taxes	2,358	2,358
	75,858	75,858

15. Consolidated Statement of Cash Flows

(a) Payments to suppliers

During the first quarter of 2016 and 2015, payments to suppliers mainly reflect payments, related to third party suppliers and consultants.

(b) Cash receipts resulting from interest and related income

In the first quarter of 2016 this item includes a tax refund received from the Portuguese Government regarding the municipal tax, tax benefits and international taxation under the tax prior consolidation regime in which the PHAROL was the dominant society.

(c) Acquisition of own shares

In the first quarter of 2016, this item includes the amounts spent on the acquisition of own shares by PHAROL.

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

As at March 31, 2016 and 2015, the composition of this caption is as follows:

	Euro	
	31 mar 2016	31 mar 2015
Cash	5,100	5,003
Demand deposits	8,361,005	3,560,903
Time deposits	56,185,150	98,000,000
Other bank deposits	-	2,734,019
	64,551,254	104,299,925

16. Related parties

a) Associated Companies and Joint Ventures

During the first quarter 2016 there were no costs or revenues related to associated companies and joint ventures. In the first quarter of 2015, the costs related to associated companies and joint ventures amounted to Euro 458,622.

b) Other

During the periods years ended March 31, 2016 and 2015, the fixed remuneration of the Board members, which was established by the Remuneration Committee, amounted to Euro 0.18 million and 0.45 million, respectively.

17. Shareholders with Qualified Holdings

The Company believes that it is relevant to disclose outstanding balances and transactions with its main shareholders, namely those with a qualified holding of more than 2% in PHAROL's share capital, and with all the entities reported by these shareholders as being part of the respective economic groups. The tables below present the balances as at March 31, 2016 and December 31, 2015, and the transactions occurred in March 31, 2016 and March 31, 2015 between PHAROL and the entities that are identified as shareholders with qualified holding and respective economic groups:

	euros			
	31 mar 2016		31 dec 2015	
Shareholder	Cash and cash equivalents	Accounts payable	Cash and cash equivalents	Accounts payable
Banco Comercial Português, S.A.	19,232,694	-	20,755,397	-
Novo Banco, S.A. (i)	22,383,792	-	-	-
	41,616,485	-	20,755,397	-

	euros			
	1T16		1T15	
Shareholder	Costs and losses	Net interest income	Costs and losses	Net interest income
Banco Comercial Português, S.A. (i)	5,727	7,078	-	-
Novo Banco, S.A.	285,455	9,383	279,606	-
	291,181	16,461	279,606	-

18. Subsequent events

On May 24, 2016, PHAROL, SGPS S.A. announced that the following amounts per share will be paid on 9 June 2016, in accordance with the dividends approved on that date:

- Gross Amount - Euro 0.03
- Withholding Tax IRS/IRC (28%/25%) - Euro 0.0084 / Euro 0.0075
- Net Amount - Euro 0.0216 / Euro 0.0225

Contacts

Investor Relations

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Shareholders, investors, analysts and other interested parties should send their requests for information and clarifications (annual, half year, and quarter reports, Form 20-F, press releases, etc.).

Depository bank

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

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

Website

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

Registered Office

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