



PHAROL:
Maximum focus on asset optimization
and Shareholders' Reward

Madrid, July 6th 2015

DISCLAIMER

This document has been prepared by PHAROL, SGPS S.A. (the "Company"), and is being supplied to you for information purposes only. This document does not constitute or form part of, and should not be construed as, an offer or invitation to subscribe for or purchase any securities.

The information in these materials are provided as of the date of this presentation. The Company are under no obligation to update or keep current the information contained in this document. No representation or warranty, express or implied, is made as to, and no reliance should be placed on, the truthfulness, completeness, fairness, adequacy, accuracy or correctness of the information or opinions contained herein and any reliance you place on them will be at your sole risk.

The information contained herein does not constitute investment, legal, accounting, regulatory, taxation or other advice and the information does not take into account your investment objectives or legal, accounting, regulatory, taxation or financial situation or particular needs. You are solely responsible for forming your own opinions and conclusions on such matters and the market and for making your own independent assessment of the information.

The Company, its directors, members, managers, consultants and employees, do not accept any liability whatsoever for any claim or loss howsoever arising, directly or indirectly, from the use of this document or its contents, or otherwise arising in connection with this document.

AT PHAROL WE ARE FOCUSING WORK ON 3 KEY STRATEGIC GUIDELINES

- Maximize performance and ROIC of PHAROL assets
- Optimize our cost structure following best international practices
- Increase Shareholders' value and remuneration

OUR ASSET PORTFOLIO

Participation in Oi

PHAROL is today
Oi's major
Shareholder (27.5%
stake + Call options)

Rio Forte

Rio Forte Debt
instruments
(nominal value €897mn)

Cash and other liquid assets

Current cash
position exceeding
€80mn

OUR STRATEGIC PRIORITIES FOR OI

Strategic Priorities

- Strengthen Balance Sheet
- Maximum financial rigor: back to positive FCF
- Focus on Profitability and cash generation
- Bring Best Practices to Corporate Governance
- Active participation in potential consolidation scenarios

Focus on profitability and cash generation

2015 plan delivery based on 4 key pillars:

- Reduce opex and optimize capex
- Improve working capital
- Improve profitability per customer
- Optimize workforce

Strengthening Balance Sheet

Realise asset value

- Sale of PT Portugal
- Sale of non-core assets (Unitel,...)
- Real estate monetisation

Reduce financial expenses

- Through sales cash inflows

TAC ⁽¹⁾ projects filed with ANATEL

- Build new relationship with the regulator aiming to reduce current and potential new liabilities through TAC

Maximum Financial Rigor

Oi's guidance for 2015 confirmed:

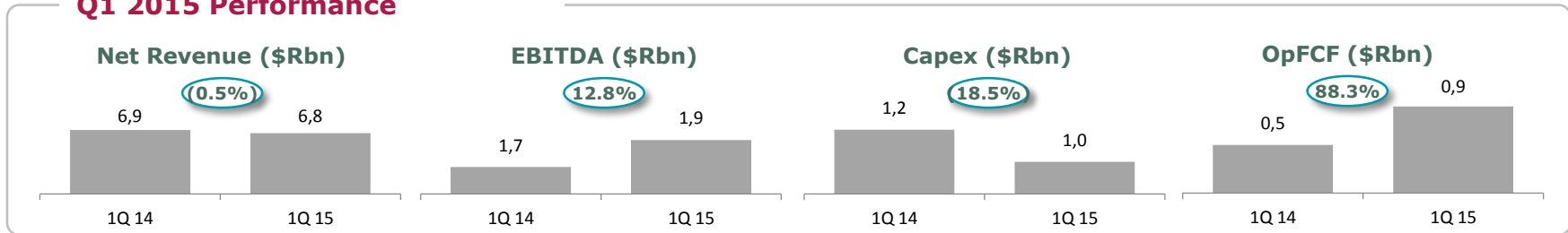
- Recurring EBITDA in Brazil exceeding R\$ 7.0bn
- OCF improvement in the R\$ 1.2-1.8bn range

Seeking to return to positive FCF trough:

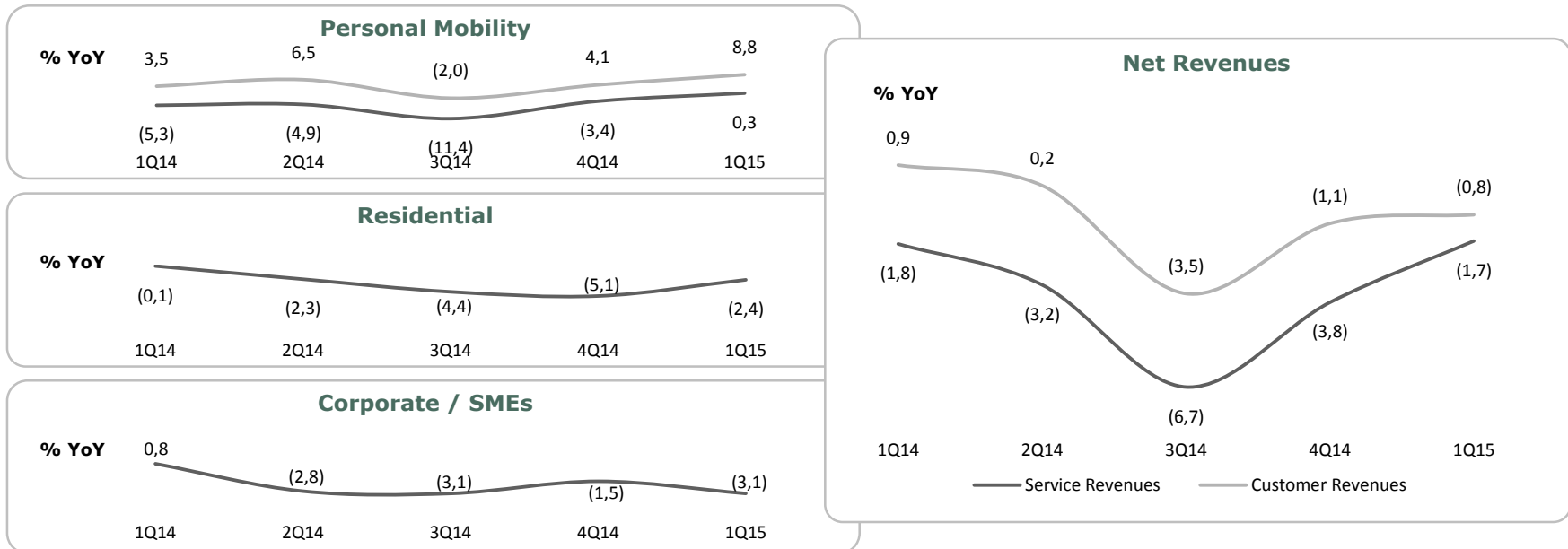
- CAPEX efficiency and network optimisation
- EBITDA growth
- Asset sales and subsequent refinancing

OI: FIRST QUARTER 2015 KPIS

Q1 2015 Performance



Service Revenues Improved YoY and QoQ on Prepaid Recharges and Better Mix at Residential Segment



PHAROL'S CALL OPTION ON OI SHARES: TECHNICALITIES

- Option over 47.4m ON shares and 94.9m PN treasury shares
- Strike prices: R\$ 20.104 for ON shares and R\$ 18.529 for PN shares (adjusted by CDI + 1.5% p.a.)
- If exercised in full, PHAROL's total stake in Oi would reach 39.7%
- Call option shares to be reduced by 10% at the end of 1st year and 18% per year thereafter (1st year began on 31st March 2015)
- Oi has rights of first refusal on the Call options should PHAROL sell (rather than exercise)

RIO FORTE DEBT INSTRUMENTS

- PHAROL owns €897 mm debt instruments issued by Rio Forte
- Following Rio Forte insolvency, legal claims have been submitted to recover this debt
- Rio Forte asset disposal process currently underway (Espírito Santo Saúde and some Tivoli hotels)
- At this stage is not possible to assess accurately its recovery rate and timing since several of the credits granted by Rio Forte are currently under discussion

Latest news:

- Claim of €897 mn expected to be admitted in Luxembourg Court (bankruptcy ruler) by September 2015
- PHAROL evaluating different exit solutions
- Liability claim against former members of the Board of Directors and External Auditor (Deloitte) has been presented to Shareholders for Approval

USES OF CASH INFLOWS

- PHAROL is today fully immersed in the evaluation of its strategic cash needs to optimize Oi and Rio Forte assets. The final aim of this program is the subsequent analysis of the best options to improve remuneration to Company Shareholders.
- Our commitment to Shareholders is to devote all efforts of the Board of Directors and Top Management to maximize the value of the Company assets and focus in every possibility to increase Shareholder's remuneration.

OPTIMISATION OF HOLDING COST STRUCTURE

- Top Management is also absolutely focus on improving Headquarter cost structure
- A full cost rationalization program and a good number of outsourcing solutions are under research and/or implementation. Amongst these, it is worth mentioning the optimization of workforce in the Holding Company, shift from own to external services, reducing the cost of governance bodies,...
- Major cost control programs in our key assets are under study

CORPORATE GOVERNANCE: IMPLEMENTING INTERNATIONAL BEST PRACTICES

- New Board of Directors (3 year mandate)
 - Over 1/3rd of independent members
 - New Chairman of the Board was elected by AGM last May
 - Board of Directors has appointed an executive committee, with 2 Board Members as Top Management
 - Main Corporate bodies include a 'Professional Control Council' (replacing Audit Committee) and a Remunerations Committee, both elected by the AGM
 - As in the past, the Company is accompanied by External Auditor/Statutory Auditor
-
- PHAROL is preparing a full revision of the remuneration programs of its Government bodies to be submitted for approval very soon
 - Under this revision, Board and Management members will have strong variable remuneration schemes totally aligned with Shareholders interests and based upon consecution of Company Strategic targets

FINAL REMARKS

- At PHAROL we are aware of the importance to achieve our two main targets simultaneously: maximize the performance of our assets and improving remuneration to Shareholders
- Our position as major shareholder of Oi allows us to support closely the Company to improve its profitability while participating proactively in the potential consolidation of the sector in Brazil
- With regards to Rio Forte debt instruments, we will analyze every possible exit solution to accelerate recovery and timing and will manage pro-actively the different possible scenarios
- Our Management model is based on
 - i. the in-depth understanding and monitoring of our assets to support the optimization of their results and returns, and
 - ii. the implementation of the best international practices to all critical company levels, including organization, cost structure and corporate governance
- As a final remark, Company aim is to manage proactively all our assets by
 - i. bringing our know how and professionalism to its execution,
 - ii. understanding their cash needs to be able to adequately remunerate our shareholders and
 - iii. bringing maximum financial rigor and international best practices to cost structure rationalization and corporate governance principles

THANK YOU

We are now ready for questions

Appendix

PHAROL, SGPS SA Q12015
Financial Statements

PORTUGAL TELECOM, SGPS, S.A.
CONSOLIDATED INCOME STATEMENT
THREE MONTH PERIODS ENDED 31 MARCH 2015 AND 2014

	1Q15	1Q14 Restated
CONTINUING OPERATIONS		
COSTS, LOSSES AND (INCOME)		
Wages and salaries	1,005,909	3,182,911
Supplies, external services and other expenses	2,496,890	890,16
Indirect taxes	469,056	639,991
Depreciation	23,654	46,038
Losses on disposal of fixed assets, net	-	31,691
Net other gains	-	(490,244)
	3,995,509	4,300,547
Loss before financial results and taxes	(3,995,509)	(4,300,547)
FINANCIAL LOSSES AND (GAINS)		
Net interest income	(200,268)	(6,800,617)
Net foreign currency exchange gains	(26,258)	(66,715)
Equity in losses of joint ventures	38,654,670	16,668,786
Net other financial losses (gains)	568,920	(172,675)
	38,997,064	9,628,779
Loss before taxes	(42,992,573)	(13,929,326)
Income taxes	46	65,084
Net loss from continuing operations	(42,992,619)	(13,994,410)
DISCONTINUED OPERATIONS		
Net income from discontinued operations	-	8,854,311
NET LOSS	(42,992,619)	(5,140,099)
Attributable to non-controlling interests	-	9,582,621
Attributable to equity holders of the parent	(42,992,619)	(14,722,720)
Earnings per share from continuing operations		
Basic	(0.05)	(0.02)
Diluted	(0.05)	(0.02)
Earnings per share		
Basic	(0.05)	(0.02)
Diluted	(0.05)	(0.02)

PORTUGAL TELECOM, SGPS, S.A.**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****THREE MONTH PERIODS ENDED 31 MARCH 2015 AND 2014**

	Euro	
	1Q15	1Q14
Net loss recognised in the income statement	(42,992,619)	(5,140,099)
Income (expenses) recognised directly in shareholders' equity		
Items that may be reclassified subsequently to the income statement		
Translation of foreign investments (i)	(24,659,319)	106,823,303
Share in other comprehensive income of joint ventures (ii)	213,263	9,466,233
Items that will not be reclassified to the income statement		
Post retirement benefits		
Net actuarial gains	-	28,330,757
Tax effect	-	(6,516,074)
Other expenses recognised directly in shareholders' equity, net (iii)	1,411,790	6,606,483
Total earnings (losses) recognised directly in shareholders' equity	(23,034,266)	144,710,702
Total comprehensive income (loss)	(66,026,885)	139,570,603
Attributable to non-controlling interests	-	9,709,128
Attributable to equity holders of the parent	(66,026,885)	129,861,475

(i) Losses recorded in the first quarter of 2015 and gains recorded in the first quarter 2014 relate mainly to the impact of, respectively, the depreciation and appreciation of the Real against the Euro on the investments in Brazil.

(ii) This caption relates to the effective share of PT SGPS in fair value changes of Oi's derivative hedge instruments.

(iii) In the first quarter 2015, this caption corresponds to PT SGPS's effective share in actuarial gains recorded by Oi regarding its post retirement benefits plans. In the first quarter of 2014, this caption includes the share of PT SGPS in losses recorded directly in equity by Oi, as well as other losses recorded directly in equity by companies that were classified as discontinued operations following the capital increase of Oi held on 5 May 2014.

PORTUGAL TELECOM, SGPS, S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 MARCH 2015 AND 31 DECEMBER 2014

	31 Mar 2015	31 Dec 2014
ASSETS		
Current Assets		
Cash and cash equivalents	104,299,925	109,511,599
Accounts receivable	228,524	67,430
Taxes receivable	5,694,331	6,135,935
Prepaid expenses	286,725	11,997
Non-current assets held for sale	-	388,380,655
Total current assets	110,509,505	504,107,616
Non-Current Assets		
Taxes receivable	12,710	3,440
Investments in joint ventures	794,205,376	714,177,448
Tangible assets	182,024	163,866
Other non-current assets	220,264,286	-
Total non-current assets	1,014,664,396	714,344,754
Total assets	1,125,173,901	1,218,452,370
LIABILITIES		
Current Liabilities		
Short-term debt	81,719	54,084
Accounts payable	15,851,090	8,961,143
Accrued expenses	21,541,248	23,449,284
Taxes payable	170,104	5,356,014
Provisions	75,858	27,186,177
Other current liabilities	856,550	856,549
Total current liabilities	38,576,569	65,863,251
Non-Current Liabilities		
Medium and long-term debt	84,620	49,523
Taxes payable	38,593	38,593
Total non-current liabilities	123,213	88,116
Total liabilities	38,699,782	65,951,367
SHAREHOLDERS' EQUITY		
Share capital	26,895,375	26,895,375
Treasury shares	(178,071,827)	(178,071,827)
Legal reserve	6,773,139	6,773,139
Reserve for treasury shares	185,042,147	185,042,147
Other reserves and accumulated earnings	1,045,835,285	1,111,862,169
Total equity	1,086,474,119	1,152,501,003
Total liabilities and shareholders' equity	1,125,173,901	1,218,452,370

PORTUGAL TELECOM, SGPS, S.A.
CONSOLIDATED STATEMENT OF CASH FLOWS
THREE MONTH PERIODS ENDED 31 MARCH 2015 AND 2014

Euro

	1Q15	1Q14 Restated
OPERATING ACTIVITIES		
Payments to suppliers	(3,993,406)	(632,572)
Payments to employees	(1,162,869)	(5,787,425)
Payments relating to income taxes	578,400	(5,723,387)
Other cash receipts, net	177,483	-
Cash flows from operating activities related to continuing operations	(4,400,392)	(12,143,384)
Cash flows from operating activities related to discontinued operations		229,187,483
Cash flows from operating activities (1)	(4,400,392)	217,044,099
INVESTING ACTIVITIES		
Cash receipts resulting from:		
Tangible and intangible assets	-	5,343
Interest and related income	180,375	9,315,241
	180,375	9,320,584
Payments resulting from:		
Short-term financial applications	-	(2,776,124)
Financial investments	-	(18,472)
Tangible and intangible assets	-	(52,386)
	-	(2,846,982)
Cash flows from investing activities related to continuing operations	180,375	6,473,602
Cash flows from investing activities related to discontinued operations		(294,557,995)
Cash flows from investing activities (2)	180,375	(288,084,393)
FINANCING ACTIVITIES		
Payments resulting from:		
Loans obtained	(32,200)	(52,445)
Interest and related expenses	(765,988)	(4,225)
Cash flows from financing activities related to continuing operations	(798,188)	(56,670)
Cash flows from financing activities related to discontinued operations		(315,529,658)
Cash flows from financing activities (3)	(798,188)	(315,586,328)
Cash and cash equivalents at the beginning of the period	109,511,599	1,658,950,514
Change in cash and cash equivalents (4)=(1)+(2)+(3)	(5,018,205)	(386,626,622)
Effect of exchange differences	(193,469)	4,514,720
Cash and cash equivalents at the end of the period	104,299,925	1,276,838,612



For further information:

ir@pharol.pt/www.pharol.pt