

ANNUAL REPORT

2015

PHAROL, SGPS S.A.

ANNUAL REPORT 2015

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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 MANAGEMENT REPORT

INTRODUCTION

As at December 31, 2015, 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 47,434,872 common shares and 94,869,744 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 reached its maturity, PHAROL's call option is from that date onwards on 42,691,385 common shares and 85,382,770 preferred shares of Oi.

As of December 31, 2014, following 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 (Note 15), following the Exchange agreement ("Exchange") entered into on September 8, 2014 and completed on March 30, 2015, and the remaining stake of 22.8% classified as investment in joint ventures and associates (Note 16) 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, further described in the next chapter, 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, 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 December 31, 2015).

In 2015, the net loss amounting to Euro 694 million, mainly reflects (1) the Euro 602 million losses in investments in joint ventures and associates, mainly reflecting the impairment on the investment in Oi as at December 31, 2015, to reflect Oi's market value at that date, and the interest of PHAROL in Oi's results, (2) the Euro 17 million operational costs, which included non-recurring financial and legal services amounting to some Euro 3.8 million euros, and (3) a Euro 79 million loss relative to the reduction in the fair value of the Call Option, associated with the Real devaluation and the Oi share price reduction (registered in net losses on financial assets and other investments and other net financial losses).

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 24 to the Consolidated Financial Statements as at December 31, 2015.

2015 EVENTS AND RECENT DEVELOPMENTS

The main events of the year ended December 31, 2015 and recent developments are described in the Consolidated Annual Report of PHAROL.

PROPOSAL FOR APPLICATION OF PROFITS

Despite the net loss for the year ended December 31, 2015 amounted to Euro 693,892,303 euros; the Board of Directors proposes that taking into account: (i) the existence of distributable reserves as defined in the Portuguese Companies Code; and (ii) the existence of a treasury surplus that are estimated to be sufficient for the Company's in the following years, an extraordinary distribution of reserves amounting to Euro 25,969,425 be paid, corresponding to Euro 0.03 per share, in respect to the total issued shares in circulation.

It not being possible to precisely determine the number of treasury shares that will be held by the Company on the date of the dividend payment referred to above, the Board of Directors propose that extraordinary distribution of reserves, calculated based on unitary dividend per issued share (in this case Euro 0.03 per share), consider the following:

- (i) For each issued share in circulation, the unitary dividend of Euro 0.03 will be paid;
- (ii) The dividend applicable to treasury shares that are owned by the Company on the dated of the dividend payment, not being paid, be transferred to Retained earnings (calculated based on a unitary dividend of 0.03 issued shares in circulation);
- (iii) The net loss of the year, amounting to Euro 693,892,303, be transferred to retained earnings.

Lisbon, April 28, 2016

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

Francisco Ravara Cary, Board Member

João dos Passos Vicente Ribeiro, Board Member

João Manuel Pisco de Castro, Board Member

Jorge Freire Cardoso, Board Member

José Mauro Mettrau Carneiro da Cunha, Board Member

Maria do Rosário Pinto-Correia, Board Member

Pedro Zañartu Gubert Morais Leitão, Board Member

Rafael Luís Mora Funes, Board Member

Ricardo Malavazi Martins, Board Member

02 STANDALONE FINANCIAL STATEMENTS

BALANCE SHEET

PHAROL, SGPS, S.A.			
BALANCE SHEET			
31 DECEMBER 2015 AND 31 DECEMBER 2014			
	Notes	2015	Euro 2014
ASSETS			
Non-Current Assets			
Tangible assets		351,546	119,610
Intangible assets		21,911	-
Financial investments - equity method of accounting	6	103,855,812	723,674,824
Other financial assets	7	141,045,340	3,440
Total non-current assets		245,274,610	723,797,874
Current Assets			
Advances to suppliers		-	15,612
State and other public entities	10	3,729	2,358
Balances with Group companies		-	114,903
Other accounts receivable		671,326	106,533
Deferrals		-	4,416
Non-current assets held for sale	6.2	-	388,380,655
Cash and bank deposits	4. g	63,175,283	105,815,419
Total current assets		63,850,338	494,439,896
Total assets		309,124,948	1,218,237,770
SHAREHOLDERS' EQUITY			
Capital realizedo	11	26,895,375	26,895,375
Treasury shares	11	(178,071,826)	(178,071,826)
Legal reserve	11	6,773,139	6,773,139
Other reserves	11	290,251,390	290,251,390
Adjustments to financial assets	11	(1,558,435,034)	(1,399,158,917)
Retained earnings	11	2,405,811,843	2,580,894,821
Net income		(693,892,303)	(175,082,979)
Total equity		299,332,586	1,152,501,003
LIABILITIES			
Non-Current Liabilities			
Loans obtained		121,281	49,523
Total non-current liabilities		121,281	49,523
Current Liabilities			
Provisions	12	75,858	27,186,177
Loans obtained		15,851	54,084
Balances with Group companies		-	938,715
Suppliers	13	1,852,839	984,563
Investment suppliers		7,669	17,651
Accrued expenses	14	6,474,334	23,435,460
State and other public entities	10	387,980	5,024,266
Other accounts payable	8	856,549	8,046,328
Total current liabilities		9,671,081	65,687,244
Total liabilities		9,792,362	65,736,767
Total liabilities and shareholders' equity		309,124,948	1,218,237,770

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

INCOME STATEMENT

PHAROL, SGPS, S.A.

INCOME STATEMENT
FOR THE PERIODS ENDED 31 DECEMBER 2015 AND 31 DECEMBER 2014

	Notes	2015	Euro 2014
Equity in earnings/(losses) of affiliated companies	15	(601,548,946)	430,649,496
Supplies and external services	16	(8,202,115)	(24,177,974)
Wages and salaries	17	(3,117,990)	10,934,665
Indirect taxes		(3,223,615)	(6,371,152)
Impairment of accounts receivable ((losses)/reversals)		-	320,271
Provisions ((increases)/reductions)		-	25,327,065
Impairment of non-depreciable investments ((losses)/reversals)		-	(6,235)
Increases/(reductions) in fair value	18	(62,952,391)	(361,986,307)
Other income and gains		707,483	2,076,103
Other expenses and losses	19	(16,720,100)	(8,533,374)
INCOME BEFORE DEPRECIATION AND AMORTISATION, FINANCING EXPENSES AND TAXES		(695,057,674)	68,232,558
Depreciation and amortisation ((expenses)/reversals)		(103,507)	(92,348)
OPERATING INCOME (BEFORE FINANCING EXPENSES AND TAXES)		(695,161,180)	68,140,210
FINANCIAL LOSSES AND (GAINS)			
Interest and related income	20	1,496,090	62,810,064
Interest and related expenses	20	(165,435)	(112,587,558)
INCOME BEFORE TAXES		(693,830,526)	18,362,716
Income taxes	9	(61,777)	(193,445,695)
RESULTADO LÍQUIDO		(693,892,303)	(175,082,979)
Earnings per share			
Basic	21	(0.79)	(0.20)
Diluted	21	(0.79)	(0.20)

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

PHAROL, SGPS, S.A.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTH PERIODS ENDED 30 SEPTEMBER 2015 AND 2014

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 2013	A	26,895,375	(337,520,916)	6,773,139	156,181,554	(1,078,595,740)	2,437,333,996	341,808,031	1,552,875,439
Changes in the period:									
Foreign currency translation adjustments		-	-	-	-	180,718,523	-	-	180,718,523
Unpaid dividends		-	-	-	-	(5,474,880)	5,474,880	-	-
Transfer to retained earnings		-	-	-	(44,001,990)	(15,858,051)	59,860,041	-	-
Foreign currency translation adjustments transfers to income statement		-	-	-	-	(699,696)	-	-	(699,696)
Transfer to reserves for use in own shares		-	-	-	178,071,826	-	(178,071,826)	-	-
Other changes recognized in shareholders' equity		-	159,449,090	-	-	(479,249,073)	-	-	(319,799,983)
	B	-	159,449,090	-	134,069,836	(320,563,177)	(112,736,905)	-	(139,781,156)
Net income	C							(175,082,979)	(175,082,979)
Comprehensive income	B+C								(314,864,135)
Operations with shareholders:									
Application of the previous year's earnings (Note 11.6)							256,297,730	(341,808,031)	(85,510,301)
	D						256,297,730	(341,808,031)	(85,510,301)
Balance as at 30 September 2014	E=A+B+C+D	26,895,375	(178,071,826)	6,773,139	290,251,390	(1,399,158,917)	2,580,894,821	(175,082,979)	1,152,501,003
Changes in the period:									
Foreign currency translation adjustments		-	-	-	-	(53,852,297)	-	-	(53,852,297)
Other changes recognized in shareholders' equity		-	-	-	-	(105,423,819)	-	-	(105,423,819)
	F	-	-	-	-	(159,276,116)	-	-	(159,276,116)
Net income	G							(693,892,303)	(693,892,303)
Comprehensive income	F+G								(853,168,418)
Operations with shareholders:									
Application of the previous year's earnings							(175,082,979)	175,082,979	-
	H						(175,082,979)	175,082,979	-
Balance as at 31 December 2015	I=E+F+G+H	26,895,375	(178,071,826)	6,773,139	290,251,390	(1,558,435,034)	2,405,811,843	(693,892,303)	299,332,586

STATEMENT OF CASH FLOWS

PHAROL, SGPS, S.A.

STATEMENT OF CASH FLOWS
FOR THE PERIODS ENDED 31 DECEMBER 2015 AND 31 DECEMBER 2014

	Notes	2015	Euro 2014
OPERATING ACTIVITIES			
Payments to suppliers		(37,853,288)	(10,504,454)
Payments to employees		(3,377,006)	(12,194,814)
Payments relating to income taxes	4.a	748,373	42,370,148
Other cash receipts, net		(143,429)	1,405,330
Cash flows from operating activities related to continuing operations (1)		(40,625,350)	21,076,209
INVESTING ACTIVITIES			
Cash receipts resulting from:			
Short-term financial applications	4.b.	-	200,000,000
Financial investments	4.c.	-	4,929,456,713
Loans granted	4.d.	-	2,945,783,124
Tangible and intangible assets		89,975	985,069
Dividends		-	22,364,196
Interest and related income		278,482	113,440,175
		368,457	8,212,029,277
Payments resulting from:			
Short-term financial applications		-	-
Financial investments	4.e.	-	(4,195,000,000)
Loans granted	4.d.	-	(636,095,638)
Tangible and intangible assets		(349,683)	-
		(349,683)	(4,831,095,638)
Cash flows from investing activities related to continuing operations (2)		18,774	3,380,933,639
FINANCING ACTIVITIES			
Cash receipts resulting from:			
Short-term financial applications	4.f.	-	10,177,250,000
		-	10,177,250,000
Payments resulting from:			
Loans repaid	4.f.	(202,541)	(13,848,735,137)
Interest and related expenses		(1,831,008)	(78,770,850)
Dividends		-	(87,587,250)
		(2,033,549)	(14,015,093,238)
Cash flows from financing activities related to continuing operations (3)		(2,033,549)	(3,837,843,238)
Cash and cash equivalents at the beginning of the period		105,815,419	541,962,115
Change in cash and cash equivalents (4)=(1)+(2)+(3)		(42,640,125)	(435,833,390)
Effect of exchange differences		(11)	(313,307)
Changes in consolidation perimeter		-	-
Cash and cash equivalents of discontinued operations as of 5 May 2014		-	-
Cash and cash equivalents at the end of the period	4.g.	63,175,283	105,815,419

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

NOTES TO THE STANDALONE FINANCIAL STATEMENTS

December 31 2015

(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

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;
- On December 31, 2014, and as of this date, PHAROL holds only the above-mentioned investment in Oi, stakes in the controlling shareholders of Oi (which essentially hold only shares of Oi) and directly or indirectly, 100% of the holding companies Bratel BV, Bratel Brasil, PTB2 and PHAROL Brasil.

Until May 5, 2014, PHAROL and its subsidiaries and joint ventures operated primarily in the telecommunications and multimedia sectors in Portugal, Brazil and other countries in Africa and Asia.

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. Therefore, in accordance with the provisions of NCRF 13 Interests in Joint Ventures and Investments in Associates ("NCRF 13"), the Company concluded that it contractually share 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) Corporate transactions made within the Oi capital increase

On October 1, 2013, PHAROL, Oi, AG, LF, Bratel Brasil, Pasa Participações S.A. ("Pasa"), EDSP 75 Participações ("EDSP75"), (which jointly with TmarPart are referred to as "Oi Holdings"), Banco Espírito Santo, ("BES") and Nivalis Holding B.V. ("RS Holding") signed a memorandum of understanding outlining the key principles for a proposed merger between PHAROL, Oi and the Oi Holdings (the "Business Combination"), in order to constitute a single, integrated Brazilian listed company.

On February 19, 2014, PHAROL and Oi signed final contractual instruments related to the Business Combination between the parties. These documents defined and regulated the stages necessary to complete this Business Combination, that include the main transactions described below, some of which have since been concluded:

On May 5, 2014, Oi made effective a capital increase with a total issue of 2.142.279.524 common shares at 2.17 reais per share and 4.284.559.049 preferred shares at 2.00 reais per share, and, on that same date, BTG Pactual, acting as the Stabilizing Agent of the Public Offering and in accordance with the provisions of Article 24 of the CVM Instruction 400, partially exercised the option to place an additional 120,265,046 common shares and 240,530,092 preferred shares issued by Oi; the total amount of the capital increase, including the option exercised by BTG Pactual, amounted to 13,960 million reais, consisting of (1) 5,710 million reais (Euro 1,750 million at the exchange rate on February 21, 2014) of assets contributed in kind by PHAROL, based on the evaluation of the PT Assets made by Banco Santander (Brasil), S.A., who subscribed to 1,045,803,934 common shares and 1,720,252,731 preferred shares issued by Oi, and (2) 8,250 million reais in cash obtained from

other investors who subscribed the remaining 1,216,740,636 common shares and 2,804,836,410 preferred shares issued by Oi; the PHAROL stake in the capital increase of Oi, carried out through the contribution in kind of all operating assets directly or indirectly held by the PHAROL Group and of the corresponding liabilities, except for the shares of Oi, the transaction and of Bratel BV (PT Assets), valued at the amount of 5,710 million reais (Euro 1,750 million), was approved by a majority of 99.87% of the votes present in the General Shareholders' Meeting of PHAROL held on March 27, 2014.

- On May 5, 2014, PHAROL, through its subsidiaries Bratel Brasil and PTB2, subscribed to 4,788 million reais (Euro 1,555 million at the exchange rate on 5 May, 2014) of bonds convertible into shares of certain companies that control directly or indirectly AG and LF. This amount was used by AG and LF to repay their debts and to subscribe to convertible bonds issued by TmarPart, which, in turn, also used these funds to repay its own debt; also on May 5, 2014, PHAROL exchanged its shares in CTX and Contax for an additional stake in the companies that control directly or indirectly AG and LF, which at that time held only shares of Oi and TmarPart; as a result of these transactions, PHAROL increased its economic stake in AG and LF from 35% to 85.1% and in TmarPart from 25.6% to 68.4%, thus it indirectly obtained an additional stake in Oi of 2.4%.
- Pending the approval of the holders of common shares of Oi and TmarPart, the Oi shares not held by TmarPart would be exchanged for common shares of TmarPart and Oi would become a wholly owned subsidiary of TmarPart.

One of the necessary steps required to implement the business combination consisted of the capital increase of Oi, S.A. on May 5, 2014, as explained above. As part of this capital increase, PHAROL began, in late 2013, a process of restructuring its investments with the goal of concentrating them directly or indirectly in PT Portugal. To this end, PHAROL and PT Portugal realized the following corporate transactions before the capital increase of Oi:

- On March 31, 2014, PHAROL sold to PT Portugal, for a total amount of Euro 4.7 million, Euro 2.7 million and Euro 1.5 million (Notes 4 and 6), 100% interests in Portugal Telecom Investimentos, PT Brasil and PT Centro Corporativo, respectively.
- On April 30, 2014, PT Móveis, SGPS, S.A. ("PT Móveis") an indirect wholly-owned subsidiary of PT Portugal, subscribed a share capital increase of Bratel BV, in an amount of approximately Euro 1,303 million.
- On May 2, 2014, PHAROL acquired from PT Móveis, for a total amount of Euro 4,195 million (Notes 4 and 6), its 100% interest in Bratel BV, the company that holds indirectly through Bratel Brasil the investment in Oi, as this investment was not included in the net assets to be transferred to Oi in the share capital increase.

- On May 2, 2014, PHAROL sold to PT Móveis, for a total amount of Euro 2,240 million (Note 7), the 100% interest in PT Participações, SGPS, S.A. ("PT Participações"), a company that indirectly held a 75% stake in the Africatel Holdings BV Group, which in turn held (directly or indirectly) the Group's business in Africa. Additionally, on December 2013, PT Participações, indirectly through Africatel GmbH, acquired from PHAROL its 75% stake in Africatel Holdings BV for an amount of Euro 1,791 million. In 2014 the parties agreed to correct the selling price to Euro 1,141 million, an Euro 650 million reduction which was deducted from the sale price of PT Participações, therefore PHAROL received a net amount of Euro 1,590 million (Notes 4 and 7) within the scope of the disposal of PT Participações.
- On May 5, 2014, PHAROL sold to PT Portugal, for a total amount of Euro 255 million (Notes 4 and 7), its 100% stake in PT Finance.
- On May 5, 2014, in addition to the investments, PHAROL transferred to PT Portugal, at the corresponding nominal values, most of its assets and liabilities that were part of the evaluation of PT Portugal for the Oi capital increase, which essentially includes investments in Rio Forte debt securities amounting to Euro 200 million (Note 1.e), and financings obtained that were due at that date.

The impacts of these operations in terms of cash flows, capital gains and changes in financial investments are discriminated in Notes 4, 6 e 15.

e) 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 Luxembourg 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 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 has been 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").

The Assignment Agreement also stipulated that the delivery of the Oi shares in the Exchange could be implemented by means of the transfer, by PHAROL, of Oi's shares object of the Exchange, or ADSs (American Depositary Shares), representative of Oi's shares object of the Exchange, at PHAROL's criteria. Oi's ADR Program is regulated by (1) the Deposit Contract (Ordinary Shares), signed on February 17, 2012, as amended, between Oi, the Bank of New York Mellon, in the quality of depositary, and all periodical holders of ADSs, issued in the terms of the abovementioned Agreement; and (2) by the Deposit Contract (Preferential Shares) signed on February 27, 2012, as amended, between Oi, the Depositary, and all periodical holders of ADSs, issued in the terms of the abovementioned Agreement.

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.

Additionally, 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, that 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 welcomes the approval of the Amendment.

f) 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 8th 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 now holds, directly and through 100% subsidiaries held, (1) 84,167,978 company shares and 108,016,749 preferred shares of Oi, (2) the debt instruments of Rio Forte with a nominal value of 897 million euros, and (3) Option of 47,434,872 common shares and 94,869,744 preferred shares of Oi, with an exercise price of 20.104 reais for common shares and 18.529 reais for preferred shares, to be adjusted by the Brazilian CDI rate plus 1.5% per annum and a maturity of six years, expiring the possibility to exercise the option by Pharol 10% at the end of the first year and 18% at the end of each following year.

On October 8, 2015, following the approval of voluntary conversion of preferred shares into common shares of Oi, the PHAROL now holds, directly and indirectly through 100% subsidiaries owned, 183,662,204 common shares of Oi, representing 27.2% 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 considers that it currently has significant influence over Oi, which is considered an associate. Thus, from July 30, 2015 participation in Oi continues to be measured according to the equity method, less any impairment, reflecting the state in Oi financial performance (27.2% at December 31, 2015, divided between a direct interest of 18.98% and 8.22% held indirectly through the subsidiary Bratel B. V.).

g) Bases of presentation

These financial statements are in respect of relative to 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 any eventual impairment losses, as referred to in Note 3.4. These individual financial statements considered the effect of the consolidation of the equity and results, of the company's subsidiaries as at December 31, 2015 and 2014, 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 in which PHAROL holds management control.

The financial statements for the year ended December 31, 2015 were approved by the Board of Directors and authorized for issue on April 28, 2016 and are still subject to 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 13 July, 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- Secretarat of the Ministry of Finance, dated August 27, which make up the New Portuguese accounting system, named "Sistema de Normalização Contabilística" ("SNC").

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.

On December 31, 2015, there is no difference between equity and net income reported in these individual financial statements and the equity attributable to the Company shareholders and net income reported in the consolidated financial statements.

3. Main Accounting Policies, judgments and estimates

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

Some of the accounting policies described below ceased to be directly applicable to the Company as of May 5, 2014, the date on which PHAROL contributed the majority of its business and remaining assets and liabilities that were part of PT Assets to Oi's capital increase (Note 1). However, these policies were applicable until that date.

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 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, deduced 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 recognised 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	2015	2014
Real	4.3117	3.2207
USD	1.089	1.214

Average		
Currency	2015	2014
Real	3.7004	3.1211
USD	1.1095	1.3285

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 (eg 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. Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered primarily through a sale transaction rather than through continuing use. This condition is regarded as met only when the subject transaction is highly probable and the asset or group of assets is available for immediate sale in its present condition. The sale should be completed within one year as from the date the asset was classified as held for sale.

Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount or the fair value less costs to sell.

3.8. Provisions and contingent liabilities

The Company recognizes provisions when there is a present obligation 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.

3.9. 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.

3.10. Treasury shares

Equity swap contracts on own shares that include an option exercisable by PHAROL for physical settlement are recognised as a financial liability and a corresponding reduction of shareholders' equity, and are accounted for as an acquisition of treasury shares on the inception date of the contract.

3.11. 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.

3.12. Foreign currency transactions and balances

Transactions denominated in foreign currencies (different from the Company's domestic currency) 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. Favourable or unfavourable 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, 2015 and 2014 were translated into Euros using the following exchange rates to the Euro reported by the Portuguese Central Bank:

Final Currency	2015	2014
Real	4.3117	3.2207
USD	1.089	1.214

3.13. 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:

- Debt
- Balances with Group companies
- Taxes
- Accounts receivable and payable
- Other financial assets and liabilities
- Cash and cash equivalents

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 22).

c) Impairment of financial assets

Financial assets accounted for at “cost or amortized cost” are subject to impairment tests 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.

3.14. 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. Additionally, from September 8, 2014, onwards, the portion of the investment to be delivered within the scope of the Exchange Agreement was classified as a non-current asset held for sale, and measured at fair value up till the execution of the Exchange Agreement on March 30, 2015. As at December 31, 2015, the measurement of the Company’s investment in Oi was based on its market value, namely the stock price as at December 31, 2015.
- (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 December 31, 2015, with no changes to the amounts initially recognized.
- (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 20). 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. Regarding the provisions for other risks and costs concerning the impact of the Exchange agreement, the Company made the best estimate regarding the financial impact of the Exchange Contract entered into with Oi. Due to the short time frame, the company did not adjust the provision for time value of money.

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.

3.15. 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) Cash receipts (payments) relating to income taxes

In the years ended December 31, 2015 and 2014, this caption has the following composition:

	2015	Euro 2014
Collections from subsidiaries within RETGS, net (i)	-	36,968,398
Other (ii)	748,373	5,401,750
	748,373	42,370,148

(i) In 2014, this item includes (1) receipts from affiliated companies related to payments on account of tax payable the following year, in the sum of Euro 53,506,615, net of (2) payments to affiliated companies in the sum of Euro 16,538,217.

(ii) In 2014, this item includes essentially (1) a value of Euro 12,732,641, received from the State for amounts unduly charged in the past related to municipal levies, tax benefits and international taxation, and (2) an additional tax payment for 2010, in the sum of Euro 4,830,139.

b) Cash receipts and payments resulting from short-term financial applications

In 2014, this item is the sum received from PT Portugal for the transfer to that entity of investments in Rio Forte debt securities with a nominal value of Euro 200 million (Note 1.e), which had initially been subscribed by PHAROL on April 15, 2014.

c) Cash receipts resulting from financial investments

The composition of this caption in the 2015 and 2014 financial years is as follows:

	Euro
	2014
Reimbursement of additional paid in capital contributions (Note 6):	
PT Portugal	2,895,109,518
	2,895,109,518
Disposal of financial investments:	
PT Participações (Notes 1 and 6)	1,590,000,000
PT Finance (Notes 1 and 6)	255,000,000
Bratel Brasil (Note 6)	172,000,000
Taguspark	5,380,767
PT Investimentos (Notes 1 and 6)	4,702,322
PT Brasil (Notes 1 e 6)	2,662,714
INESC (Note 6)	1,995,192
PT Centro Corporativo (Notes 1 and 6)	1,482,662
Vortal	99,656
Vantec	80,000
Apor	55,000
	2,033,458,313
Repayment / disposal of loans granted in connection with the disposal of financial investments:	
INESC	888,882
	888,882
	4,929,456,713

d) Receipts (payments) related to loans granted

Receipts from the repayment of loans granted (2014: 2,945,783,124 euros), net of payments for loans granted (2014: 636,095,638 euros), amounted to Euro 2,309,687,487 in 2014, as per the following detail.

	Euro
	2014
Intercompany loans within centralized cash management:	
PT Comunicações	342,322,397
PT Portugal	90,783,928
PT Centro Corporativo	43,765,831
PT Inovação e Sistemas	17,586,805
PT Participações	6,373,532
PT Cloud e Data Centers (former PT SI)	3,590,131
PT Contact	3,552,194
PT Sales	2,495,805
PT Pro, Serviços Administrativos e de Gestão Partilhados, S.A. ("PT Pro")	825,683
Other companies	581,324
	511,877,630
Intercompany loans within centralized cash management:	
MEO S.A.	(8,384,405)
PT Prestações	-
Other companies	(5,738)
	(8,390,143)
Reimbursement of loans granted:	
PT Portugal (i)	1,806,200,000
	1,806,200,000
	2,309,687,487

(i) This caption relates to the repayment of loans granted to PT Portugal.

e) Payments regarding financial investments

In the financial year 2014, the payments regarding financial investments referring to the acquisition of the financial participation of Bratel B.V.

	Euro
	2014
Acquisition of financial investments:	
Bratel B.V.	4,195,000,000
	4,195,000,000

f) Receivables (payments) resulting from loans obtained

In 2015 there were no receipts but only payments regarding leases. In financial year 2014, receipts (2014: 10,177,250,000 euros) net of payments (2014: 13,848,735,137), had the following composition:

	2015	Euro
		2014
Transfers of financings to subsidiaries (a)		(3,200,292,857)
Commercial paper		(397,850,000)
Equity swap on own shares		(73,210,079)
Leases and other loans obtained	(202,541)	(132,201)
	(202,541)	(3,671,485,137)

(a) As mentioned in Note 1, within the scope of the capital increase of Oi performed on May 5, 2014, PHAROL transferred to its affiliates all of the financings on that date, for their respective nominal value, totaling approximately Euro 3,200 million, including essentially (1) the convertible bonds (Euro 750 million), (2) the retail notes (Euro 400 million), and (3) debts within the scope of commercial paper programs (Euro 1,353 million) and bank financing (Euro 697 million).

g) Cash and cash equivalents

As at December 31, 2015 and 2014, this caption is made up as follows:

	2015	Euro
		2014
Cash	719	6,000
Bank deposits immediately available	63,174,564	105,809,419
	63,175,283	105,815,419

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, 2015, and did not voluntarily change other accounting policies or accounting estimates.

During the year ended December 31, 2015, the Company did not adjust its financial statements for any material errors from previous years.

6. Financial investments

6.1. Equity method

During 2015 and 2014, the movements occurred in this caption were as follows:

						Euro
						2015
	Investments in subsidiary companies	Additional paid in capital contributions in subsidiary companies	Investments in associated companies	Goodwill	Investments in joint ventures	Total
Gross amount						
Opening balance	240,392,818	-	-	-	483,282,006	723,674,824
Transfer of shares to associates	-	-	474,178,819	-	(474,178,819)	-
Equity method	(140,233,874)	-	(244,875,059)	-	(9,103,187)	(394,212,120)
Closing balance	100,158,944	-	229,303,760	-	-	329,462,704
Impairment losses						
Increases	(67,671,197)	-	(157,935,694)	-	-	(225,606,892)
Reductions	-	-	-	-	-	-
Closing balance	(67,671,197)	-	(157,935,694)	-	-	(225,606,892)
Carrying amount	32,487,747	-	71,368,066	-	-	103,855,812

						Euro
						2014
	Investments in subsidiary companies	Additional paid in capital contributions in subsidiary companies	Investments in associated companies	Goodwill	Investments in joint ventures	Total
Gross amount						
Opening balance	4,499,597,933	3,206,050,000	888,506	61,419,919	-	7,767,956,358
Increases	4,326,264,957	-	-	-	1,853,863,636	6,180,128,593
Reductions	(2,792,881,760)	(2,895,109,518)	(888,506)	-	-	(5,688,879,784)
Equity method	(3,754,486,128)	-	-	-	(620,214,667)	(4,374,700,795)
Contribution to the Oi's share capital increase (Note 2)	(2,228,363,853)	(310,940,482)	-	(61,419,919)	-	(2,600,724,254)
Dividends	(22,364,196)	-	-	-	-	(22,364,196)
sale (Note 6.2)	-	-	-	-	(750,366,963)	(750,366,963)
Other	212,625,865	-	-	-	-	212,625,865
Closing balance	240,392,818	-	-	-	483,282,006	723,674,824
Impairment losses						
Opening balance	-	-	1,276,826	16,129,000	-	17,405,826
Reductions	-	-	(1,276,826)	-	-	(1,276,826)
Contribution to the capital increase in Oi (Note 15)	-	-	-	(16,129,000)	-	(16,129,000)
Closing balance	-	-	-	-	-	-
Carrying amount	240,392,818	-	-	-	483,282,006	723,674,824

a) Increases

In the fiscal year of 2015, the increased financial holdings in associated companies relates to the transfer of the participation of the Oi in Joint Ventures at associated companies. In the fiscal year of 2014, the increased financial holdings as accounted for by the equity method, including, were the following (Note 4):

Acquisition of financial investments	
Oi, S.A. (a)	1,853,863,636
Bratel B.V. (b)	4,144,999,703
Bratel Brasil (c)	181,265,254
	6,180,128,593

- (a) As a result of the contribution for the capital increase in Oi performed on May 5, 2014, PHAROL acquired a direct interest in Oi of 32.8%. The initial investment in Oi was measured at fair value of the shares implicit in the capital increase (BRL 2.17 per common share and BRL 2.00 per preferred share), in the amount of BRL 5,710 million, equivalent to Euro 1,854 million at the exchange rate on that date (Note 15).
- (b) On May 2, 2014, PHAROL acquired from PT Móveis, for a total amount of Euro 4,195 million (Notes 1 and 4), the 100% interest in Bratel BV, the company that indirectly held through Bratel Brasil the investment in Grupo Oi before the aforementioned capital increase, since this investment was not part of the net assets that were to be transferred to Oi in the capital increase. As a result of this transaction, a loss of Euro 50 million was ascertained that was included in the heading "Losses in subsidiaries" (Note 15), since the subsidiary PT Móveis recognized on that date a capital gain of the same amount.
- (c) In February 2014, the Company subscribed a capital increase of Bratel Brasil by payment in kind of carved-out assets of PT Brasil, as explained below. As a result of this transaction, the Company obtained an interest of 6.55% in Bratel Brasil.

b) Reductions

In 2015, the reduction in joint ventures relates to the transfer of the participation in Oi to associate companies related to joint ventures. In 2014, reductions in investments recorded by the equity method were as follows:

	Euro
	2014
Reimbursement of additional paid in capital contributions (Note 4):	
PT Portugal	2,895,109,518
	2,895,109,518
Disposal of financial investments:	
PT Participações (a)	2,171,314,321
PT Internacional B.V. (b)	250,189,233
Bratel Brasil (c)	181,265,254
PT Investimentos (d)	4,702,322
PT Brasil (d)	2,662,714
PT Centro Corporativo (d)	1,482,662
Páginas Amarelas (e)	888,506
	2,612,505,012
Other movements:	
Spin-off of assets of PT Brasil	181,265,254
	181,265,254
	5,688,879,784

- (a) On May 2, 2014, PHAROL disposed of PT Móveis for the amount Euro 2,240 million (Note 1), its interest of 100% in PT Participações, having determined a deferred capital gain of Euro 69 million (Note 13) in this intra-group transaction. The Company only received Euro 1,590 million (Notes 1 and 4), since an amount of Euro 650 million (Note 1) was deducted in connection with the adjustment to the sale price of Africatel Holdings BV, as explained in Note 1.

- (b) On May 5, 2014, PHAROL sold to PT Portugal, for the amount Euro 255 million (Notes 1 and 4), its interest of 100% in PT Finance, having determined a deferred capital gain of Euro 5 million in this intra-group transaction.
- (c) In February 2014, a carve-out of the investments held by PT Brasil and CTX Participações and Contax was made, which the Company delivered to Bratel Brasil as a contribution in kind for a capital increase of the latter entity. As a result of this transaction, the Company obtained an interest of 6.55% in Bratel Brasil, which was valued at a book value of the carved out assets of PT Brasil, amounting to Euro 181 million. In March 2014, PHAROL sold to Bratel BV, for the amount Euro 172 million (Note 4), the interest of 6.55% in Bratel Brasil, with a loss of Euro 9 million (Note 15), corresponding to the difference between the selling price and the book value of the investment.
- (d) In March 2014, PHAROL sold to PT Portugal, for their book value, the 100% interests it held in these entities (Notes 1 and 4).
- (e) In January 2014, PHAROL disposed of the interest it held in Páginas Amarelas.
- (f) In December 2013, within the scope of the corporate reorganization of the Group

c) Equity

In the fiscal years 2015 and 2014, the movements in equity holdings in subsidiaries, associated companies and joint ventures resulting from the use of the equity method was recorded as follows:

	2015	Euro 2014
Losses in affiliated companies (Note 15)	(365,965,241)	(4,102,869,510)
Gains in affiliated companies (Note 15)	131,029,236	26,699,265
Adjustments to financial assets (Note 11)	(159,276,116)	(298,530,550)
	(394,212,120)	(4,374,700,795)

d) Dividend distribution

The dividends awarded to subsidiaries during fiscal years 2014 are composed as follows (Note 4):

	Euro 2014
PT Finance	21,442,132
PT Centro Corporativo	922,064
	22,364,196

e) Other movements

	Euro 2014
Deferred capital gains related to Meo, S.A	209,764,181
Dividends paid by PHAROL in relation to the shares held by Oi (Note 11.6) (a)	2,076,949
Other	784,735

(a) Whereas the shares of PHAROL held by Oi are classified as treasury shares in the individual Balance Sheet of the Company, the accounting movements regarding the dividend payment of these shares, net of their tax effects, were presented as an increase in the book value of the investment held indirectly in Oi.

6.2. Non-current assets held for sale

On September 8, 2014 (Note 1), PHAROL celebrated Exchange Agreement with Oi by which PHAROL would deliver 47,434,872 common shares of Oi and 94,869,744 preferred shares of Oi, receiving in return the titles of debt Rio Forte and Call Option on such shares of Oi (Note 1). As such, from that date, the Oi shares Object of Exchange were classified as a non-current asset held for sale and measured at fair value based on the price of Oi's shares.

The fair value of Oi shares Object of the Exchange amounted to 388 million euros at December 31, 2014 and EUR 239 million on the date of the Exchange on March 30, 2015. This operation had no impact on results one time:

- A loss of Euro 149 million to regards the decrease in the fair value of the shares of the Exchange was determined between January 1, and March 30, 2015, which reflects the devaluation of the shares of Oi and the devaluation of the real against the euro.
- A loss of Euro 19 million corresponding to the difference between the fair value of the delivered shares (Euro 239 million) and the fair value of assets received (Euro 220 million - Note 17) resulted from of the Exchange.
- The above losses were fully offset by the reversal of a provision of EUR 168 million (Note 20) recognized as of December 31, 2014 to address the implementation of the Exchange.

7. Other financial assets

On the implementation of the Exchange on March 30, 2015 (Note 1), as consideration for Oi's shares delivered to PT Finance, PHAROL received debt securities issued by Rio Forte with a nominal value of Euro 897 million and a Call Option on the delivered shares. The fair value of assets received was valued at Euro 141 million at December 31, 2015, including (1) an estimate of future recovery of Euro 134.6 million relating to debt instruments issued by Rio Forte and (2) 6.4 million related to the valuation of the Option. On December 31, 2015 the Other expenses and losses and increases / (decreases) in the fair value include, respectively, loss of Euro 16.3 million and Euro 62.9 million.

8. Related parties

8.1. Financial investments in subsidiaries and joint ventures

On December 31, 2015 and 2014, the detail of the financial investments in subsidiaries and joint ventures is as follows (Notes 6 and 15):

							Euro	
							2015	2014
Company name:	% held	Financial Investments	Share on net income	% held	Financial Investments	Share on net income		
SUBSIDIARIES:								
Bratel BV (a)	100.00%	32,487,747	(72,248,439)	100.00%	240,392,818	(3,863,121,583)		
PT Participações (b)	-	-	-	-	-	23,841,915		
PT Portugal (a)	-	-	-	-	-	(7,719,417)		
PT Finance (b)	-	-	-	-	-	(1,922,139)		
PT Brasil (b)	-	-	-	-	-	(869,277)		
PT Investimentos (b)	-	-	-	-	-	1,463,719		
PT Centro Corporativo (b)	-	-	-	-	-	1,393,631		
		32,487,747	(72,248,439)		240,392,818	(3,846,933,151)		
ASSOCIATED COMPANIES:								
Oi (a)	18.98%	71,368,066	(252,576,366)	-	-	-		
		71,368,066	(252,576,366)					
JOINTLY CONTROLLED ENTITIES								
Oi (a)	-	-	89,888,801	32.82%	483,282,007	(2,292,370,945)		
			89,888,801		483,282,007	(2,292,370,945)		
		103,855,812	(234,936,005)		723,674,825	(4,076,170,246)		

- a) As mentioned in Notes 1 and 6, PHAROL acquired these financial interests in 2014, the first of which for an amount of Euro 4,195 million and the second through a subscription of a capital increase by a contribution in kind of its 100% interest in PT Portugal.
- b) The financial interests in these companies were disposed of during the fiscal year ending December 31, 2014, within the scope of the reorganization of the financial interests held by PHAROL (Note 1).

8.2. Balances and transactions with Related Parties

PHAROL continued influence the entities detailed below until the increase of capital of Oi on May 5, 2014, when it contributed its 100% in the share capital of PT Portugal, including the indirect investment in associated companies. Tables below show the transactions that occurred during the 2015 and 2014 exercises between PHAROL Group, including prior subsidiaries of PHAROL until May 5, 2014, and the associated companies and joint ventures:

Company	Custos		Receitas		Juros Recebidos	
	Costs and losses		Revenues and gains		Net interest income	
	2015	30 Apr 2014	2015	30 Apr 2014	2015	30 Apr 2014
Joint ventures	681,470	1,035,361	-	4,178,146	-	-
International companies						
Unitel	-	2,579,292	-	4,542,112	-	-
Multitel	-	62,348	-	476,471	-	-
Others	-	-	-	-	-	-
National companies:						
PT ACS	-	3,910,991	-	-	-	-
Sportinveste	-	143,441	-	58,727	-	10,798
Siresp	-	-	-	6,490,862	-	16,738
Others	-	229,763	-	1,297,778	-	40,057
	681,470	7,961,196	-	17,044,096	-	67,593

In addition to the above transactions, on December 31, 2014, PHAROL had payables to joint ventures in the amount of Euro 7,874,531 (included in Other payables) and had accounts receivable from joint ventures in the amount of Euro 114,903.

Although these are not associated companies on December 31, 2014 and PHAROL did not have significant influence over these entities that date, the investments entities above continued belong to Oi.

8.3. Other information

For the fiscal years ended December 31, 2015 and 2014, fixed remuneration of Board members, which were established by the Remuneration Committee, amounted to Euro 1.6 million and Euro 5.02 million respectively.

Related to the fiscal years ended December 31, 2014, under the terms of the remuneration policy established by the Remuneration Committee, the executive Board members were entitled to receive a variable remuneration depending on performance achieved, 50% of which paid the in the following year and the remaining 50% paid three years later if certain performance measures were met. PHAROL annually recognizes the charges for this variable compensation. On March 31, 2014, and after the Evaluation Commission verified that the criteria set out in the remuneration policy were fully met, an amount de Euro 4.89 was paid to the executive directors in respect to 50% of variable remuneration for 2010 which had not been paid the following year, but deferred for a period of three years.

At December 31, 2015, no share-based program or termination benefit program were in place.

In the periods ended December 31, 2015 and 2014, fixed remuneration of PHAROL key employees amounted to Euros 1.1 million and Euros 1.5 million, respectively, with no variable remuneration.

For the year ended December 31, 2015, the fees paid to the Statutory Auditor of PHAROL amounted to 0.37 million euros, 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

9.1. Classification

In 2015, the companies located in mainland Portugal were subject to Corporate Income Tax at a base rate of 21% (23% in 2014), 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 millions and of 7% levied on taxable profit in excess 25 millions, resulting in a maximum aggregate tax rate of approximately 29,5% (31.5% for 2014), for taxable profit in excess of Euro 7.5 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.

In 2015 and 2014, the Company ascertained tax losses on an individual basis, therefore the Company applied the rates of 21.0% and 23.0% to calculate the respective estimated tax on income.

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. The Company's Board of Directors, supported by the information given by their fiscal consultants, understands that possible fiscal contingencies should not have a significant impact on the financial statements of December 31, 2015, considering the provisions and the existing expectations at this time, regarding the resolution of the fiscal contingencies described in Note 12.

10. State and other public entities

On December 31, 2015 and 2014, the debtor and creditor balances in respect of State and Other Public Entities are as follows:

	2015		Euro 2014	
	Receivable	Payable	Receivable	Payable
Current taxes				
Operations in Portugal				
Value-added tax	-	297,832	-	183,629
Income taxes	1,371	-	-	4,576,704
Personnel income tax withholdings	-	39,664	-	153,738
Social Security Contributions	-	50,484	-	110,195
Other	2,358	-	2,358	-
	3,729	387,980	2,358	5,024,266

11. Shareholders' equity

11.1. Share Capital

As at December 31, 2015, the Company's share capital was fully paid and amounted to Euro 26,895,375, and was represented by 896,512,000 ordinary shares and 500 Class A shares, with a nominal value of 3 cents of Euro each.

At the PHAROL Annual General Meeting held on July 26, 2011, an amendment was approved to the Company's articles of association to remove the special rights allocated to the 500 Category A shares (designated by "golden share"). As a consequence of this approval, these shares have no special rights.

11.2. Own shares

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

	Euro	
	2015	2014
Shares held by PHAROL	178,071,827	178,071,827
	178,071,827	178,071,827

In the past, PHAROL contracted equity swaps over 20,640,000 own shares, which were recognized as an effective acquisition of treasury shares and led to the registration of a financial liability for the corresponding acquisition value. In 2014, PHAROL proceeded to exercise these contracts, so PHAROL directly owned portfolio in these 20,640,000 shares as at December 31, 2015.

11.3. Legal reserve

Portuguese law provides that at least 5% of each annual profits must be appropriated 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, 2015, 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 2015 and 2014 are as follows:

Euro					
	Free reserves	Conversion option of exchangeable bonds (a)	Reserves for treasury shares cancelled (b)	Own shares (c)	Total
Balance as at 1 January 2014	105,209,244	44,001,990	6,970,320	-	156,181,554
Transfer to reserves for use in own shares	-	-	-	178,071,826	178,071,826
Transfer to retained earnings	-	(44,001,990)	-	-	(44,001,990)
Balance as at 31 December 2014	105,209,244	-	6,970,320	178,071,826	290,251,390
Balance as at 31 December 2015	105,209,244	-	6,970,320	178,071,826	290,251,390

- a) This item corresponded to the fair value of the conversion option included in the securities issued by the Company, in the net amount of Euro 57,145,442, with a corresponding tax load of Euro 13,143,452 that were transferred to retained earnings, given that its respective financing was transferred to PT Finance as part of the Group's corporate reorganization.
- b) This item corresponds to a reserve which is unavailable for distribution, in the equivalent amount of the nominal value of the cancelled shares or the fair value of the treasury shares held by PHAROL, and has a legal framework similar to that of the legal reserve. On December 31, 2015 and 2014, this reserve relates to shares canceled on December 20, 2007, March 24, 2008, and December 10, 2008.
- c) Following the physical exercise of the equity swap contracts on 20,640,000 of treasury shares (Note 11), the Company consequently holds these shares, and therefore, as per applicable legislation, a reserve, unavailable for distribution, was constituted, in the equivalent amount of the cost of purchase of these shares.

11.5. Adjustments to financial assets

During the fiscal years of 2015 and 2014 the movements under this item were as follows:

Euro				
	Unpaid dividends	Currency translation adjustments	Other changes in translation shareholders' equity	Total
Balance as at 1 January 2014	5,474,880	(1,116,787,420)	32,716,800	(1,078,595,740)
Equity method (Note 6) (a)	-	180,718,523	(479,249,073)	(298,530,550)
Transfer to retained earnings (b)	-	-	(15,858,051)	(15,858,051)
Transfer to net income (Note 15)	-	(699,696)	-	(699,696)
Unpaid dividends from subsidiaries and associated companies	(5,474,880)	-	-	(5,474,880)
Balance as at 31 December 2014	-	(936,768,593)	(462,390,324)	(1,399,158,917)
Equity method (Note 6) (a)	-	(53,852,297)	(105,423,819)	(159,276,116)
Balance as at 31 December 2015	-	(990,620,890)	(567,814,143)	(1,558,435,034)

- a) Cumulative translation adjustments registered as a result of the equity method, representing gains of Euro 180,718,523 in 2014, and losses of Euro 53,852,297 in 2014, are essentially related to the impact of the valuation and devaluation of the Real against the Euro respectively, in relation to the investments in Brazil. Other changes in shareholders' equity resulting from the equity method, amounting to losses of Euro 479,249,073 and Euro 105,423,819 in 2014 and 2015, respectively, essentially include: (1) the effective participation of PHAROL in other changes in Oi's equity (Euro 471 million and Euro 105 million, respectively); (2) the net actuarial gains and losses acknowledged by PT Comunicacoes as a result of the estimation of their liabilities with retirement benefits (earnings in the amount of Euro 22 million in the first quarter of 2014); and (3) other changes in the equity of other holdings. In 2014, PHAROL's effective participation in other changes in Oi's equity essentially reflects the following losses

registered by this company, directly on their equity: (i) a loss of Euro 373 million corresponding to the participation of PHAROL regarding the classification of the Rio Forte Instruments as own shares, following the agreement between Oi and PHAROL for the exchange of these instruments for Oi shares held by PHAROL SGPS; and (ii) a loss of Euro 85 million corresponding to the participation of PHAROL relative to the actuarial losses estimated by Oi of its retirement benefit plans, which, since May 5, 2014, include PT Comunicacoes' plans, which were consolidated by PHAROL until then. In 2015, the effective participation of PHAROL in the other changes in Oi's equity reflects the effective participation of Pharol (1) in losses accumulated by Oi in the valuation of hedging derivatives in the amount of Euro 79 million; (2) the reversal by Oi of foreign currency translation adjustments amounting to Euro 131 million recorded due to the appreciation of the participation of PT Portugal since May 2014 and reversed the date of sale; and (3) the net gains recorded by Oi directly in equity associated with the implementation of the new structure, in the amount of Euro 109 million, primarily related to the recognition of tax benefits associated with goodwill.

- b) In 2014, these movements correspond to the cumulative amount of changes in equity of company investments, which were transferred to retained earnings during the sale of their respective holdings

11.6. Application of earnings

In the financial year of 2014, PHAROL paid dividends in the amounts of Euro 87,587,250.

On April 30, 2014, the Annual Shareholders' Meeting of PHAROL approved the Board of Directors' proposal to distribute a dividend of 10.0 cents per share, which was paid on May 30, 2014, in the total amount of Euro 87,587,250, in relation to 875,872,500 shares, which includes Euros 2,076,949 (Note 6) paid to Telemar Norte Leste, pertaining to a portion of the 89,651,205 PHAROL shares held by this company, resulting in a net impact on shareholders' equity amounting to Euro 85,510,301.

The cash amounts mentioned above correspond to the unitary dividend paid considering the 896,512,500 issued shares adjusted by 20,640,000 treasury shares.

12. Provisions

12.1. Movements occurred during the provisions

During the years of 2015 and 2014, the movements in provisions were as follows:

	Euro 2015			
	Taxes	Litigation	Other Provisions	Total
Opening balance	2,358	73,500	27,110,319	27,186,177
Increases	-	-	-	-
Reductions	-	-	(27,110,319)	(27,110,319)
Utilizations	-	-	-	-
Other	-	-	-	-
Closing balance	2,358	73,500	-	75,858

				Euro
				2014
	Taxes	Litigation	Other Provisions	Total
Opening balance	47,656,135	-	8,061,561	55,717,696
Increases	1,878,172	73,500	27,110,319	29,061,991
Reductions	(27,278,736)	-	-	(27,278,736)
Utilizations	(22,253,213)	-	-	(22,253,213)
Other	-	-	(8,061,561)	(8,061,561)
Closing balance	2,358	73,500	27,110,319	27,186,177

The movements in fiscal provisions are a result of the assessment made by management regarding the possibility of the materialization of fiscal contingencies and payments made in relation to contingencies which took place in previous years.

In 2015, following the completion of the Exchange, PHAROL derecognised the provision in the amount of 27,110,319 euros recorded in 2014.

In 2014, PHAROL derecognised provisions for fiscal contingencies in the total amount of approximately Euro 27 million, within the framework of an agreement entered into with Oi, in which Oi assumed responsibility for all of the contingencies originating before May 5, 2014, related to PHAROL subsidiaries or directly related to PHAROL.

The increase in other provisions amounting to Euro 27,110,319 (Note 25) is related to the Exchange Agreement concluded between PHAROL and Oi regarding the financial impact of the Exchange agreement entered into with Oi.

12.2. Proceedings with probable losses

Provisions for taxes relate to several tax contingencies regarding Corporate Income Tax, Value Added Tax and Social Security Tax, among other taxes and fees. Provisions for litigation relate to legal actions against the Company, which were estimated based on the opinion of its attorneys.

13. Suppliers

The detail of this caption as at December 31, 2015 and 2014 is as follows:

	Euro	
	2015	2014
Current suppliers	1,852,839	984,563
Invoices in validation procedures	-	-
	1,852,839	984,563

14. Accrued expenses

The detail of this caption as at December, 31 2015 and 2014 is as follows:

	Euro	
	2015	2014
Supplies and external services	6,084,565	19,248,143
Vacation pay and bonuses	389,769	4,187,317
	6,474,334	23,435,460

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

The detail of this caption as at December 31, 2015 and 2014 is as follows:

	Euro	
	2015	2014
Gain recorded by Portugal Telecom in Oi's share capital increase	-	4,565,385,597
Gains and losses in affiliated companies - equity method		
Gains	131,029,236	26,699,265
Losses	(365,965,241)	(4,102,869,510)
Gains and losses on the disposal of affiliated companies		
Gains (Note 11.3) (b)	-	699,696
Losses (Notes 6 and 11.3) (c)	-	(59,265,552)
Reversal of the 2014 provision regarding the exchange	(141,006,050)	-
Impairment of investment in subsidiaries and associates	(225,606,892)	-
	(601,548,946)	430,649,496

- a) Under the Oi capital increase, PHAROL recorded a net profit of approximately Euro 827 million, which mainly reflects the difference between the fair value of the shares obtained in the Oi share capital increase and the carrying value of PT Assets, partially offset by the dilution effect on PHAROL's previous investment in Oi held through Bratel Brasil and the effect of the remeasurement of the previous investment in Oi to fair value. The above stated net profit includes an Euro 4,565 million gain, directly recorded by PHAROL and an Euro 3,738 million loss recorded by Bratel Brasil. Bratel Brasil's is reflected in PHAROL's interest in the company's income under the application of the equity method of accounting, as detailed below. Gains recorded directly in PHAROL reflect the difference between (1) the fair value of shares obtained by PHAROL in the Oi capital increase made on May 5, 2014, amounting to Euro 1,854 million (Note 6), and (2) the carrying value of the net assets contributed to the Oi capital increase amounting to a negative Euro 2,870 million, including financial investments net of the deferred capital gains, amounting to Euro 2,585 million (Note 6) and Euro 4,454 million, respectively, the effects of which were partially offset by (3) an Euro 159 million loss corresponding to the impact from the cancellation of treasury shares associated with the reciprocal interest of Oi in PHAROL.
- b) In 2014, this caption corresponds to the transfer to net income of the cumulative translation adjustments over the affiliated companies contributed to the Oi capital increase.
- c) This caption includes an Euro 50 million loss (Note 6) related to the acquisition of the interest held by PT Móveis in Bratel BV and an Euro 9 million loss (Note 6) related to the disposal of 6.55% of Bratel Brasil.

In 2015 and 2014, profits and losses from affiliated companies resulting from the application of the equity method of accounting are composed as follows:

	Euro	
	2015	2014
Financial investments (Note 6.1)		
Bratel BV (a)	(72,248,439)	(3,863,121,583)
Oi, S.A. (a)	(162,687,565)	(229,237,094)
PT Participações (b)	-	23,841,915
PT Portugal (b)	-	(7,719,417)
PT Finance	-	(1,922,139)
PT Investimentos	-	1,463,719
PT Centro Corporativo	-	1,393,631
PT Brasil	-	(869,277)
	(234,936,005)	(4,076,170,245)
Gains and losses in affiliated companies - equity method		
Ganhos	131,029,236	26,699,265
Perdas	(365,965,241)	(4,102,869,510)
	(234,936,005)	(4,076,170,245)

(a) These captions correspond to the direct interest of the Company in the net income of these entities from May 5, 2014, the date on which PHAROL acquired these investments. In 2014, Bratel BV's income include an Euro 3.742 million loss from the Oi capital increase, as mentioned above. In 2014 Oi profits were adversely affected by an Euro 1,300 million loss, recognized to adjust the carrying value of the investment in PT Portugal, acquired under the capital increase of May 5, for the corresponding recoverable amount under the agreement entered into with Altice for the disposal of PT Portugal's domestic business. This loss impacted the direct and indirect interest (through Bratel BV) of the Company in Oi's profits.. In 2014, these captions correspond to the Company's interest in the profits of these entities up to May 5.

16. Supplies and external services

The detail of this caption as at December 31, 2015 and 2014 is as follows:

	Euro	
	2015	2014
Specialized work	7,042,147	19,467,487
Insurance	375,823	2,397,852
Travel	331,051	366,983
Other	453,095	1,945,652
	8,202,115	24,177,974

17. Wages and salaries

The detail of this caption as at December 31, 2015 and 2014 is as follows:

	Euro	
	2015	2014
Fixed and variable remuneration (i)	2,309,664	(12,109,444)
Social security	468,371	1,066,988
Other	339,955	107,791
	3,117,990	(10,934,665)

(i) The negative expense of this caption in 2014 mainly reflects the revised estimate for compensation to be paid, and as such, PHAROL partially reversed part of the accrual booked in prior years.

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, 2015 and 2014:

	2015	Euro 2014
Losses on non-current assets held for sale (Note 6.2.)(i)	-	(361,986,307)
Call option over Oi Shares (Note 7)	(62,925,391)	-
	(62,925,391)	(361,986,307)

- (i) This amount is in respect of the devaluation of Oi's shares within the scope of the classification in this heading, between September 8, 2014 and December 31, 2014, following the Exchange Agreement.

19. Other income and gains

Other expenses and losses, amounting to Euro 16,720,100 and Euro 8,533,374 in 2015 and 2014, respectively, include mainly unfavorable exchange the Call Option in the amount of 16.2 million in 2014 and an adjustment for receivables from PT Brasil in 2014.

20. Interest and related income/expenses

The composition of this caption in the 2015 and 2014 financial years is as follows:

	2015	Euro 2014
Interest and related income		
Interest income (a)	227,563	46,273,457
Currency exchange gains	-	15,685,511
Dividends received	-	-
Other	1,268,527	851,096
	1,496,090	62,810,064
Interest and related expenses		
Interest expense	-	(52,511,686)
Bank commissions and expenses	-	(10,661,846)
Currency exchange losses	-	(15,998,818)
Other	(165,435)	(33,415,208)
	(165,435)	(112,587,558)

- (a) In 2015 and 2014, the details of the interest income and expenses is as follows:

	2015	Euro 2014
Interest income		
Intragroup loans	-	41,071,797
Short-term investments	227,563	2,963,963
Other investments	-	2,120,833
Other	-	116,864
	227,563	46,273,457
Interest expense		
Bank loans	-	(26,617,550)
Bonds	-	(25,889,320)
Other	-	(4,816)
	-	(52,511,686)

21. Net result per share

The net result per share for the years 2015 and 2014 was calculated in the following manner:

	2015	Euro 2014
Loss from continuing operations	(695,388,392)	(175,082,979)
Financial costs related to exchangeable bonds (net of tax) (i)	-	10,866,947
Net loss considered in the computation of the diluted earnings per	(695,388,392)	(164,216,032)
Weighted average common shares outstanding in the period (ii)	875,872,500	868,759,659
Effect of the exchangeable bonds (i)	-	28,827,084
	875,872,500	897,586,743
Basic	(0.79)	(0.20)
Diluted	(0.79)	(0.20)

22. Guarantees

As of December 31, 2014 and 2013, the Company had presented the following guarantees and comfort letters to third parties:

	2015	Euro 2014
Bank and other guarantees presented tax authorities and other public entities (i)	384,314,678	384,314,678
Bank guarantees presented by PHAROL to European Commission (ii)	12,843,050	12,843,050
	397,157,728	397,157,728

- (i) The bank and other guarantees presented to the fiscal authorities essentially include Euro 378 million 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. Providing a guarantee of security thereby avoids the payment of tax before the appeal decision or attachment of assets in enforcement proceedings. 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, 2014 and 2015, the contingencies associated to these guarantees are not the Company's responsibility, having been transferred to Oi (Note 12).
- (ii) On December 31, 2014 and 2015, these bank guarantees were presented PHAROL to the European Commission under an alleged infringement of article 101 of the TFEU, with reference to the alleged non-compete commitment in the Iberian market between PHAROL and Telefónica.

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.

23. 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, 2015, and December 31, 2014, and the transactions that took place in the fiscal years ending December 31, 2015 and 2014, between the PHAROL Group and these entities identify as shareholders with qualified holdings respective economic groups:

Shareholder	2015		Euro 2014	
	Cash and cash equivalents (i)	Accounts payable	Cash and cash equivalents (i)	Accounts payable
Novo Banco, S.A. (i)(ii)	20,755,397	-	371,430	5,755,946
	20,755,397	-	371,430	5,755,946

- (i) From August 3, 2014 onwards, the qualified holding of PHAROL previously held or imputed to Banco Espírito Santo, S.A., is held by Novo Banco, S.A.
- (ii) Cash equivalents December 31, 2015 and December 31, 2014 mainly include deposits equivalents in Novo Banco, Banco Espírito Santo and Banco Espírito Santo Investment. The amount recorded in accounts payable at December 31, 2014 concerned a balance with Banco Espírito Santo Investimento ("BESI") that came out of Novo Banco's consolidation perimeter during September 2015.

In addition, as at March 31, 2014, PHAROL held in its Balance Sheet Euro 897 million corresponding to debt securities issued by Rio Forte, subscribed through BES, which were repaid in April 2014, and reinvested in new debt securities also issued by Rio Forte, which were transferred to Oi on May 5, 2014, within the scope of the Oi Capital Increase. These debt securities were not settled by the debtor on maturity. On March 30, 2015, these debt instruments were exchanged with Oi for a number of Oi shares owned by PHAROL, as explained in Notes 1, 6.2 and 12.

Shareholder	2015		Euro 2014 (i)		
	Costs and losses	Net interest income	Revenues and gains (i)	Costs and losses (i)	Net interest income
Novo Banco, S.A. (ii)	1,152,712	25,293	-	570,311	-
Grupo BES (ii)	-	-	4,667,477	12,786,280	13,772,609
RS Holding	-	-	143,861	1,228,160	-
Visabeira	-	-	2,245,730	22,608,561	-
	1,152,712	25,293	7,057,068	37,193,312	13,772,609

- (i) As mentioned above, from May 5, 2014, PHAROL failed to control the contributed entities in Oi capital increase and that were the counterpart in most transactions with shareholders with qualifying holdings.
- (ii) As of August 3, 2014 the qualifying holding in Pharol previously held or charged to Banco Espírito Santo, SA has become detained or charged to Novo Banco, SA

24. Events occurring after the balance date

On February 25, 2016, subsequent to the Relevant Facts disclosed on October 26 and October 30, 2015, Oi informed that LetterOne Technology (UK) LLP (“L1 Technology”) contacted Oi, as it was warned by TIM that this Company has no interest in deepening negotiations, in respect of a potential business combination with Oi, in Brazil. L1 Technology informed that, without the participation of TIM, it could not proceed, as at that moment, with the operation, in the form previously foreseen.

Oi has confirmed that it will continue to evaluate the impacts of this notice, in what matters to the possibilities of consolidation in the Brazilian Market, and that it will continue to endeavor operational improvement efforts, as well as market transformation improvements, focused on austerity, infrastructure optimization, process review, and commercial actions.

On March 9, 2016, Oi informed that it had hired PJT Partners as its financial advisor. PJT Partners is to assist Oi in evaluate financial and strategic alternatives, so as to optimize its liquidity and indebtedness profile. The operational and commercial focus of the company remains unchanged.

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.

Oi’s stock price evolution between December 31, 2015, and March 31, 2016, is to be found below:

	Price per share	
	31.Dec.2015	31.Mar.2016
Oi ON share price (Reais)	2.40	1.05
Oi PN share price (Reais)	2.02	1.15
Exchange rate Real/Euro	4.3117	4.1174
Oi ON share price (Euros)	0.56	0.26
Oi PN share price (Euros)	0.47	0.28

03 QUALIFIED HOLDINGS

Under the terms of article 9, number 1 c), of Regulation number 5/2008 of CMVM, the following information is presented with respect to the qualified holdings held by third parties in PHAROL's share capital, which the company was informed about with reference to December 31, 2015 or the previous date, as indicated.

On December 31, 2015, the holdings of the qualified shareholders represented more than 38%.

Date of information	Entities	No. of shares	% of capital	% of voting rights
12/nov/14	Novo Banco (a)	112,702,533	12.60%	10.00%
31/may/12	Telemar Norte Leste S.A.	89,651,205	10.00%	10.00%
14/aug/15	Banco Comercial Português, S.A.	55,304,969	6.16%	6.16%
31/dec/15	Norges Bank	33,028,373	3.68%	3.68%
19/aug/15	RS Holding (b)	29,735,000	3.46%	3.46%
02/jan/14	Grupo Visabeira	23,642,885	2.64%	2.64%

a. PHAROL Bylaws include a limitation on the counting of votes, whereby any votes in excess of 10% of the total voting rights corresponding to the share capital cast by a single shareholder of ordinary shares, directly or through a representative, in his own name or as a representative of another shareholder, shall not be counted (article 13,10). As such, the voting rights that may be effectively exercised by Novo Banco should be considered as limited to 10%.

b. On January, 26 2016, PHAROL informed that RS Holding AG became the holder of less than 2% of PHAROL share capital and corresponding voting rights.

On November 12, 2014, PHAROL communicated that on October 31, 2014, 112,702,533 representative shares with 12.6% voting rights in PHAROL's share capital, were attributed to Novo Banco, as described in the following table:

Entities	No. of shares
Shares held by societies in a controlling relationship or group with Novo Banco, S.A.	137,447
Shares held by Novo Banco, S.A.	112,564,086
Shared held by Governing Bodies - directors and individuals	868
Total	112,702,533

On May 31, 2012, PHAROL announced that Telemar Norte Leste SA ("TMAR") held a qualifying stake in PHAROL corresponding to 89,651,205 shares, representing 10.0% of the respective share capital and voting rights. The only shareholder of TMAR is Oi.

On August 14, 2015, PHAROL disclosed that Banco Comercial Português, S.A. ("BCP") held an effective stake of 6.16% of the share capital and corresponding voting rights.

As at December 31, 2015, PHAROL was informed that Norges Bank held a qualifying stake in PHAROL corresponding to 33,028,373 shares, representing 3.68% of its share capital and corresponding voting rights.

On August 19, 2015, RS Holding communicated to the CMVM the reduction of its effective stake in PHAROL from 10.05% to 3.46%, and on January 26, 2016, PHAROL disclosed that RS Holding's effective stake in PHAROL was less than 2% along with its corresponding voting rights.

On January 2, 2014, PHAROL announced that it attributed to the Visabeira SGPS Group, S.A. ("Visabeira Group", a company held 77.85% by Engineer Fernando Campos Nunes) a qualifying stake of 23,642,885 PHAROL shares, representing 2.637% of the share capital and voting rights, under the following terms:

Entities	No. of shares
Visabeira Group	11,523,213
Visabeira Estudos e Investimentos, S.A., (company held at 100% by Visabeira Participações Financeiras, SGPS, S.A., Which in turn was held at 100% by the Visabeira Group)	12,119,672
	12,119,672
Total	23,642,885

PHAROL was also informed that a participation corresponding to 78.2642% of the Visabeira Group's share capital and corresponding voting rights are directly held by the NCFGEST, SGPS, S.A. society, which is 100% held by Engineer Fernando Campo Nunes, by which the qualified holdings of the Visabeira Group are equally attributable to these entities.

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

1. Number of shares and obligations issued by PHAROL and societies, that with it, are in a controlling or group relationship, and which are principals or members of administrative and inspecting organs of PHAROL, on December 31, 2014:

Board of Directors

Luís Palha da Silva owns 100,000 PHAROL shares. He was appointed for the Board of Directors of PHAROL on May 29, 2015 and he is also a member of the Board of Directors of Oi.

André Cardoso de Meneses Navarro owns 397 shares of PHAROL. He was co-opted non-executive Director of PHAROL on September 2, 2015. He is also a member of the Board of Directors of Oi.

Francisco Ravara Cary owns 22,000 shares of PHAROL. He was co-opted non-executive Director of PHAROL on 16 September, 2014. He is also a member of the Board of Directors of Novo Banco, SA. He was also a member of the Board of Directors of Oi, until February 17, 2016, on which date he resigned his appointment.

João do Passo Vicente Ribeiro is not an owner of any marketable securities of PHAROL nor of other companies which are in a controlling or group relationship with it. He was appointed for the Board of Directors of PHAROL on May 29, 2015. He is an alternate member of the Oi Board of Directors.

João Manuel Pisco de Castro is not an owner of any marketable securities of PHAROL nor of other companies which are in a controlling or group relationship with it. He was appointed for the Board of Directors of PHAROL on March 17, 2015. He is also Vice-President of Grupo Visabeira, SGPS, SA. He was alternate member of the Board of Directors of Oi up to February 17, 2016, date on which he became an effective member.

Jorge Freire Cardoso is not an owner of any marketable securities of PHAROL nor of other companies which are in a controlling or group relationship with it. He was appointed for the Board of Directors of PHAROL on November 5, 2015. He is also a member of the Board of Directors and CFO of Novo Banco, SA. He was also a alternate member of the Board of Directors of Oi, until February 17, 2016, on which date he resigned his appointment.

José Mauro Mettrau Carneiro da Cunha is not an owner of any marketable securities of PHAROL nor of other companies which are in a controlling or group relationship with it. He was appointed for the Board of Directors of PHAROL on 29 May, 2015 and he is also a member of the Board of Directors of Oi.

Maria do Rosário Pinto-Correia owns 40 shares of PHAROL. She was co-opted non-executive Director of PHAROL on September 2, 2015. She is an alternate member of the Board of Directors of Oi since February 16, 2016.

Pedro Zañartu Gubert Morais Leitão is not an owner of any marketable securities of PHAROL nor of other companies which are in a controlling or group relationship with it. He was appointed for the Board of Directors of PHAROL on May 29, 2015. He is an alternate member of the Oi Board of Directors.

Rafael Luís Mora Funes is not an owner of any marketable securities of PHAROL nor of other companies which are in a controlling or group relationship with it. His spouse sold 501 shares of PHAROL on January 30, 2015. Rafael Luís Mora Funes is a member of the Board of Directors of PHAROL since June, 22, 2007 and he is also a member of the Board of Directors of Oi.

Ricardo Malavazi Martins is not an owner of any marketable securities of PHAROL nor of other companies which are in a controlling or group relationship with it. He was appointed for the Board of Directors of PHAROL on May 29, 2015.

Fiscal Council

The fiscal council does not own any shares of PHAROL.

- José Maria Rego Ribeiro da Cunha
- Isabel Maria Beja Gonçalves Novo
- Pedro Miguel Ribeiro de Almeida Fontes Falcão

Executive Committee

- Luís Maria Viana Palha da Silva
- Rafael Luís Mora Funes

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 bond 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:

Under the terms of and for effects of the provisions in article 248-B of the Code for Marketable Securities and article 14, no. 7 of the CMVM Regulation no. 5/2008, the following information is presented about the PHAROL share transactions and financial instruments related to it, performed during the year 2015, by directors of PHAROL and persons directly related to them:

- I. On February 23, 2015, PHAROL informed it had been notified of the occurrence of a change in the voting rights of imputation under the qualifying holding owned by Controlinveste International Finance, SA. This change resulted from the acquisition by the Olivedesportos - Publicidade, Televisão e Media, S.A, outside the regulated market, on last February 13, 2015, following the purchase and sale contracts between Controlinveste International Finance, SA and Controlinveste International, S.À.RL and between Controlinveste International, S.A.R.L. and Olivedesportos - Publicidade, Televisão e Media, S.A, of 20,419,325 ordinary shares representing 2.28% of the share capital of PHAROL and voting rights previously held by Controlinveste International Finance, SA. PHAROL was informed that Controlinveste International Finance, SA is indirectly wholly owned by Mr. Joaquim Francisco Alves Ferreira de Oliveira, which continue to be attributable, in accordance with paragraph 1 of article 20 of the Portuguese Securities Code, the voting rights corresponding to the qualified holding of 20,419,325 ordinary shares representing 2.28% of PHAROL's share capital and corresponding voting rights.
- II. On February 24, 2015, Pharol informed that Olivedesportos - Publicidade, Televisão e Media, S.A, holds a shareholding of less than 2% of the share capital of PHAROL and corresponding voting rights. This change resulted from the sale of 2,919,325 common shares of PHAROL, between 16 and 19 February 2015 in several transactions on the Euronext Lisbon. Following these transactions, the interest held by Olivedesportos - Publicidade, Televisão e Media, S.A, was reduced to 1.95% of the share capital of PHAROL and corresponding rights corresponding to 17,500,000 voting common shares, thus leaving Olivedesportos - Publicidade, Televisão e Media, S.A of a qualifying holding in PHAROL, also ceasing to be attributed to Mr. Joaquim Francisco Alves Ferreira de Oliveira a qualifying holding in PHAROL (formerly attributed by the following chain Olivedesportos - Publicidade, Televisão e Media, S.A, Olivedesportos, SGPS, SA, Controlinvest Media, SGPS, SA and Controlinvest, SGPS, SA).
- III. On July 2, 2015, PHAROL announced the purchase of 100,000 shares of Pharol, held on July 1, 2015, in the regulated market, by Chairman of the Board of Directors, Luis Maria Viana Palha da Silva, at an average price (EUR): 0.4030. On July 7, 2015, PHAROL reported an Addendum to the July 2, 2015, releasr detailing information about the transaction as follows:

REPORT AND OPINION
OF THE FISCAL COUNCIL
Financial Year of 2015
(standalone accounts)

To the Shareholders of
PHAROL, SGPS S.A.

1. As required by Article 420.1 g) of the Portuguese Companies Code, it falls to us, as the members of the Fiscal Council of "PHAROL, SGPS, S.A." (referred to below as PHAROL) to issue our annual report on our audit activities and to issue our opinion on the management report and standalone financial statements and proposal presented by the Board of Directors for the year ended 31 December 2015.

2. As the supervisory body, it is incumbent on us to mention that:

2.1. For reasons with which all the shareholders are familiar, a significant change took place in the first half of 2015 in the company's affairs, leading it to change its name from PT SGPS, S.A. to PHAROL, SGPS, S.A.;

2.2. That we were elected to this office at the General Meeting held on 29 May 2015.

3. We kept abreast of management developments and PHAROL's affairs through joint meetings with the Board of Directors and also on the basis of reports and explanations provided by managers responsible for administrative matters, compliance and risk.

We also checked the financial information produced during the financial year of 2015, conducting the analyses we deemed useful and necessary.

4. Our work consisted at all times of complying with requirements established in law, permanent monitoring of PHAROL's affairs and checking that the valuation criteria adopted in preparing the accounts are in accordance with the New Portuguese Accounting System, named, "Sistema de Normalização Contabilística".

5. The Fiscal Council has met seven times since its appointment on 29 May 2015, and has undertaken a range of tasks, most notably:

- 5.1. Assessing the effectiveness of the internal control and risk management systems and adjustments to the Financial Statements, obtained from the Statutory and the External Auditor;
 - 5.2. Analysis of the consolidated financial information;
 - 5.3. Assessing the accounting policies adopted by PHAROL, looking in particular at their adequacy and consistency;
 - 5.4. Verifying that the financial statements comply with the applicable legal requirements;
6. In the course of its duties, the Fiscal Council held regular meetings with the Statutory and External Auditor, who at all times provided full explanations of technical and accounting matters, as deemed necessary.
7. It also took note of the Statutory and Auditors' Certification and Audit Report on the Standalone financial information, issued without qualifications and with emphasis of matter paragraphs, by the Statutory and External Auditor, which it endorsed.
8. In the course of its duties, we have confirmed that the Directors' report mentions the most significant administrative facts, complements the accounts and contains references to PHAROL's business activities, with adequate explanations of its management over the period.
9. The Fiscal Council hereby declares that, as far as it is aware, the information required in Article 245.1 a) of the Securities Code, for the standalone accounts:
 - i) Was drawn up in accordance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, the financial situation and the results of PHAROL;
 - ii) Accurately describes the evolution of the affairs, performance and position of PHAROL;
 - iii) Contains a description of the main risks and uncertainties faced by PHAROL in its business activities.
10. On the basis of the report set out above, it is our opinion that:
 - 1.º The General Meeting of PHAROL should approve the management report and consolidated financial statements and reports for the financial year of 2015;

2.º The General Meeting of PHAROL should approve the proposal for the application of net earnings.

11 - The members of the Fiscal Council wish to acknowledge and express their appreciation for the assistance provided by the Board of Directors, the senior managers and other staff of PHAROL.

Lisbon, 28 April 2016

THE FISCAL COUNCIL

José Maria Ribeiro da Cunha — Chairman

Isabel Maria Beja Gonçalves Novo — Member

Pedro Miguel Ribeiro de Almeida Fontes Falcão - Member

Transaction	Date	Location	Price EUR	Volume
Acquisition	July 1, 2015	Lisbon	0.4	84,089
Acquisition	July 1, 2015	Lisbon	0.4	12,407
Acquisition	July 1, 2015	Lisbon	0.4	3,504

IV. On August 14, 2015, PHAROL reported that the Banco Comercial Português Portuguese Commercial Bank, SA ("BCP"), now holds a qualified holding of 6.1689% of the share capital and voting rights of PHAROL. This occurred following the exercise on 12 August, the right of ownership provided for in the loan agreement with pledges of shares and other securities, in which BCP acquired 37,804,969 common shares, representing approximately 4.2169% of the share capital and voting rights of PHAROL. Following this event, BCP now holds a corresponding participation to of 55,304,969 common shares, representing approximately 6.1689% of the share capital and rights voting of PHAROL.

V. On August 18, 2015, PHAROL reported that Ongoing - Strategy Investments, SGPS, SA ("Ongoing"), reduced its stake directly and through Nivalis Holdings BV ("Nivalis"), to approximately 3.46% of the capital and voting rights of PHAROL. This reduction is the result:

- a) Of the sale, on August 12, 37,804,969 common shares of the Company, as a result of the exercise of a right of ownership provided for in the loan agreement with stock pledges; and
- b) Of the non reacquisition by Ongoing of 22,560,000 shares of the Company, which were the subject of an Equity Swap Transaction ("Swap"), as communicated in due course, which expired on August 12.

Because of these two events, and as stated above, qualifying holdings attributed to Ongoing, in accordance with the provisions of article 20 of CVM, represented by 29,735,000 common shares, representing approximately 3.46% the Company's capital and voting rights.

Please note that the aforementioned 29,735,000 common shares are directly held by Nivalis, of which the holding is attributed, under paragraph b) of paragraph 1 of article 20 of CVM, to Insight Strategic Investments, SGPS, SA ("Insight"), which has a state of 62.55% of the voting rights in Nivalis, Ongoing being the majority shareholder of Insight. The votes attributable to Nivalis, Insight of Ongoing are also attributable to the company RS Holding, SGPS, SA ("RS Holding"), which is majority shareholder of Ongoing, and Mrs. Isabel Rocha dos Santos, who is majority shareholder of RS Holding.

STATUTORY AUDITORS' CERTIFICATION AND AUDIT REPORT ON THE INDIVIDUAL FINANCIAL INFORMATION (free translation of the original issued in Portuguese)

Introduction

1. Pursuant to applicable law, we present the Statutory Auditors' Certification and the Audit Report on the financial information for the year ended December 31, 2015, of Pharol, SGPS, SA (hereinafter referred to as the Company), which includes: the Management Report, the Balance sheet as of December 31, 2015 (which presents a total of 309 124 948 euro and a total equity of 299 332 586 euro, including a net loss of 693 892 303 euro), the statement of income, the statement of changes in equity, the statement of cash flows, for the year then ended, along with the corresponding Annex.

Responsibilities

2. The Board of Directors is responsible for: (i) the preparation of financial statements that give a true and fair view of the financial position of the Company, the results of its operations, changes in equity and cash flows; (ii) the historical financial information to be prepared in accordance with the generally accepted accounting principles in Portugal and that it is complete, true, current, clear, objective and lawful, as required by the Securities Code (*Código dos Valores Mobiliários*); (iii) the adoption of adequate accounting policies and criteria; (iv) the maintenance of an appropriate internal control system; and (v) the information about any material facts that have influenced the activity of the Company, its financial position or results.

3. Our responsibility is to verify the financial information contained in the documents referred to above, namely whether they are complete, true, current, clear, objective and lawful, as required by the Securities Code (*Código dos Valores Mobiliários*), and to issue a professional and independent report based on our audit.

Scope

4. The audit we performed was done in accordance with the Technical Standards and Guidelines of the Order of Statutory Auditors (*Normas Técnicas e as Diretrizes de Revisão/Auditoria da Ordem dos Revisores Oficiais de Contas*), which require that it should be planned and executed in order to obtain a reasonable assurance whether the financial statements are free of material misstatements. To this end, the audit included: (i) the verification, on a test basis, of the evidence supporting the amounts and disclosures contained in the financial statements and an assessment of estimates, based on judgments and criteria defined by the Board of Directors that were used in their preparation, as well as the verification of the application of the equity method that comprised the review of the audit of the financial statements of the significant component Oi, SA, carried out by other auditors; (ii) the assessment of whether adopted accounting policies and related disclosures are appropriate under the circumstances; (iii) the verification of the applicability of the going concern; (iv) evaluation of the adequacy of the overall presentation of the financial statements; and (v) assessment of whether the financial information is complete, true, current, clear, objective and lawful.

5. Our audit also included the verification that the information contained in the Management Report was consistent with other accounting documents and the requirements contained in numbers 4 and 5 of Article 451.º of the Commercial Companies Code (*Código das Sociedades Comerciais*).



6. We believe that the performed audit provides a reasonable basis for our opinion.

Opinion

7. In our opinion, the financial statements give a true and fair view, in all material respects, of the financial position of Pharol, SGPS, SA, as of December 31, 2015, the results of its operations, the changes in equity and the cash flows, for the year then ended, in accordance with the generally accepted accounting principles in Portugal, and that the information contained therein is complete, true, current, clear, objective and lawful.

Emphasis

8. Without affecting the opinion expressed in the previous paragraph, we draw attention to the following situations:

8.1. Bearing in mind the Independent auditors' report on the individual and consolidated financial statements for the year ended December 31, 2015 of the significant component Oi, SA, dated March 23, 2016, we highlight the following modifications taking into account the requirements of DRA 700 and ISA 706 and also the note 16.1 to the consolidated financial statements:

8.1.1. *"Net gain and impairment of assets - As disclosed in Note 1, the Company incorporated its shareholder Telemar Participações S.A. ("TmarPart") at September 1, 2015. TmarPart assets included the net gain from the acquisition of Brasil Telecom Participações S.A. ("BrT", currently Oi, SA), that as allowed by Comissão de Valores Mobiliários - CVM, in their OFÍCIO/CVM/SEP/GEA-5/N.º119/2013, was reversed from the Company's accounts and recomposed at a consolidated level in TmarPart, until its complete amortization in 2025. Although, there isn't a specific accounting standard about the incorporation of entities under common control in the IFRS and in the accounting practices adopted in Brazil, interpretations indicate that, when incorporating, the maintenance or reversal of the net gain would be an accounting policy choice of the Company. However, the positioning included in Ofício CVM is for its maintenance in the consolidated financial statements of the shareholder TmarPart. As described in Note 23.c, the Company, in the incorporation, didn't include the net gain in its net assets. Consequently, as of December 31, 2015, the non-current assets and the equity are undervalued in R\$ 1.233.299 thousand, relative to the net balance of the net gain of R\$ 9.079.988 thousand deducted of an impairment loss of R\$7.211.353 thousand and the tax effects of R\$ 635.336 thousand. The loss for the year then ended is undervalued by R\$ 4.993.072 thousand, relative to the non registration of the amortization of the net gain of R\$ 233.579 thousand and of the impairment loss of R\$ 4.759.493 thousand, both net from tax effects. The Company's Board of Directors presented a technical consultation to CVM about the accounting practice adopted, which is under the regulator analysis."*

8.1.2. *"Operating continuity - Without affecting our opinion, we draw attention to the Notes 1 and 3.4.3 of the financial statements, which describe the action plan defined by management to equalize the financial obligations to the cash flow generation of the Company. Those conditions combined with an eventual fail to implement the described plan, indicate the existence of significant uncertainty which may raise doubts about the going concern."*



8.2. As presented in note 24 to the financial statements, the quoted market price of the shares of the significant component Oi, SA evolved from R\$ 2,40 (€ 0,56) as at December 31, 2015, to R\$ 1,05 (€ 0,26) as at March 31, 2016.

8.3. As described in chapter 4 of the Management Report and in notes 3.14 and 7 to the financial statements, 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.

8.4 The financial statements for the year ended December 31, 2014, were examined by another statutory auditor whose certification, dated April 30, 2015, was issued with emphasis which are no longer applicable to the year ended December 31, 2015.

Report on other legal requirements

9. It is also our opinion that the information in the Management Report is consistent with the financial statements for the period and the Corporate Governance Report includes the information required under Article 245.º-A of the Securities Code (*Código dos Valores Mobiliários*).

Lisbon, April 28, 2016

Rui Carlos Lourenço Helena, as representative of
BDO & Associados, SROC, Lda.
(registered with CMVM, n.º 20161384)