

**Portugal Telecom
International Finance B.V.**
Amsterdam, the Netherlands

**UNAUDITED FINANCIAL
REPORT 2015**

Portugal Telecom International Finance B.V.

<u>Contents</u>	<u>Page</u>
Director's report	1
 <u>Annual Accounts</u>	
Balance sheet as at December 31, 2015	4
Income statement for the financial year ended December 31, 2015	5
Notes to the balance sheet and income statement as at December 31, 2015	6
 <u>Other Information</u>	
Other reserves	
Appropriation of result	
Post balance sheet events	

Portugal Telecom International Finance B.V.

Director's report

The Board of Managing Directors herewith submits the Financial Statements of Portugal Telecom International Finance B.V. for the financial year ended December 31, 2015

The Company is engaged in holding and financing activities for the companies of Oi S.A. (Oi) group. Its ultimate parent company is Oi, a company incorporated under the laws of Brazil. Previously to the sale of PT Portugal, SGPS, S.A. (PT Portugal), which occurred in year 2015, the Company was engaged in financing activities for PT Portugal business.

During the period under review, the Company recorded a loss of EUR 317,662,399 (2014: loss EUR 420,468,828), which is set out in detail in the attached income statement.

Conformity statement

As required by section 5:25c paragraph 2(c) of the Dutch Financial Supervision Act (Wet op het financieel toezicht), the Managing Directors hereby confirm that to the best of their knowledge:

- The Portugal Telecom International Finance B.V. 2015 financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Portugal Telecom International Finance B.V.

- The Portugal Telecom International Finance B.V. 2015 annual report gives a true and fair view of the position of Portugal Telecom International Finance B.V. at the balance sheet date and of the development and performance of the business during the financial year 2015, together with a description of the principal risks Portugal Telecom International Finance B.V. is being confronted with.

Key activities

In April 2014, as part of the business combination between Oi and Pharol SGPS S.A. (former Portugal Telecom, SGPS, S.A., "Pharol"), a capital increase of Oi was approved, which was partially paid-in through the assignment, by Pharol, of all the shares issued by PT Portugal SGPS, S.A. ("PT Portugal"). As part of this transaction the Company became a fully subsidiary of PT Portugal, and therefore an indirect subsidiary of Oi.

On December 9, 2014, Oi, Altice Portugal S.A. ("Altice Portugal") and Altice S.A. executed a Share Purchase Agreement pursuant to which Oi has agreed to sell, and Altice Portugal has agreed to buy, all of the shares of PT Portugal (the "PT Portugal Sale"), the direct parent of the Company. The closing under the Share Purchase Agreement was conditional on, among other things, (a) the completion of a corporate reorganization to be implemented by Oi to spin-off the operations to be transferred as well as to spin-off PT Portugal's investments which were not to be included in the sale (including the Company), (b) the release of PT Portugal from its obligations under the EUR 400,000,000 notes issued on July 26, 2012 under the Portugal Telecom International Finance B.V. and Portugal Telecom, SGPS, S.A. EUR 7,500,000,000 Euro Medium Term Note Programme ("Program") and (c) obtaining the necessary competition and regulatory authorizations in accordance with applicable laws and regulations.

On June 2, 2015, Oi completed the sale process of PT Portugal to Altice S.A. and as part of this transaction the Company became a directly subsidiary of Oi. Following this transaction all the financial activity between the Company and PT Portugal (except Africa and Timor companies, which remained at Oi group) was settled.

Key activities (continued)

Since December 31, 2014, the Company entered into the main following transactions:

- On March 23, 2015, as scheduled, the Company repaid to a related party an amount of EUR 875,000,000 of notes originally issued on September 23, 2013 for an amount of EUR 2,438,000,000 at a fixed interest rate of 2.16%. On the same date, PT Portugal repaid commercial paper to the Company in a total principal amount of EUR 875,000,000.

- On March 27, 2015, the Company entered into an assignment agreement with PT Portugal, under which PT Portugal has transferred to the Company, on the same date, EUR 200,000,000 bonds issued by Rio Forte Investments S.A., together with all its rights and obligations under such bonds, in return for their market value, determined as defined under the abovementioned assignment agreement.

- On March 30, 2015, all the bonds issued by Rio Forte Investments S.A. that were held by the Company were transferred to Pharol in exchange for 474,348,720 Oi common shares and 948,697,440 Oi preferred shares represented by ADSs, under an Exchange Agreement entered into by Oi, Telemar Participações S.A., PT SGPS, Pharol and the Company.

- Effective April 13, 2015: (i) the Company redeemed its 2,566 notes with principal amount of EUR 1,000,000 each and maturity date on February 15, 2016 that were held by a related party; and (ii) the 2,566 bonds with principal amount of EUR 1,000,000 each and maturity date on February 15, 2016, that were held by the Company, were redeemed.

- On June 2, 2015, as part of the PT Portugal Sale, all the debt then due to the Company by PT Portugal and any of its subsidiaries, in the total principal amount of EUR 4,724,096,177 including interest was repaid. Available cash was used to subscribe Notes issued by Oi Brasil Holdings Cöoperatief U.A.

- On June 3, 2015, the Company set out the right of any holder of the 2016 Notes in principal of EUR 400,000,000 to exercise the option to redeem their Notes on July 14, 2015.

- On June 22, 2015, part of the Company notes maturing in February 2016, bearing interest at 5.625% and the notes maturing in March 2017, bearing interest at 5.242% were exchanged for cash or for newly issued notes of Oi Brasil Holdings Cöoperatief UA, bearing interest at 5.625% per annum and maturing in 2021. The Company bought back a total of EUR 56,925,000 of notes maturing in February 2016 and EUR 115,877,000 of notes maturing in March 2017.

- On July 1 and on July 14, 2015, the Company redeemed the aggregate nominal value of EUR 65,000,000 and EUR 103,793,000 of the 2016 Notes respectively upon the exercise by the noteholders of their option right.

- On October 8, 2015, the Company exchanged all Oi preferred shares for common shares at a ratio of 0.9211, under an exchange offer launched by Oi. After this transaction the Company became entitled to 26,963,878 ADSs representative of 134,819,393 Oi common shares.

- On December 4, 2015, the Company canceled EUR 11,500,000 of its notes maturing in February 2016, bearing interest at 5.625% that were bought back by Oi S.A.

Recent developments and post balance sheet events

- On December 30, 2015, Oi S.A., the sole shareholder of the Company, has resolved an irrevocable share premium contribution into the Company in the amount of EUR 500,000,000. This capital contribution merely determined the increase of the Company's assets, without any change in the nominal amount of its share capital, being recorded as a non-stipulated share premium in the books of the Company. This Contribution was fully paid on February 4, 2016.

On February 5, 2016, as scheduled, the Company repaid the amount of EUR 561,476,093.75 of notes, being EUR 531,575,000 of principal and EUR 29,901,093.75 of interest. The notes were issued by the Company in February 2011, in the original amount of EUR 600,000,000 at a fixed interest rate of 5.625%, for a 5-year period. The amount repaid represents 100% of the outstanding value.

Composition of the Board of Managing Directors

On March 3, 2016, pursuant to the terms of paragraph a), number 1 of article 4 of the Portuguese Securities Commission ("CMVM") Regulation no. 5/2008, the Company resolved by its sole shareholder (i) the termination of the office of Trust International Management (T.I.M.) B.V, Wilhelmus Joseph Langeveld and Johannes Petrus Vincentius Gerardus Visser as Managing Director B; (ii) the termination of the office of Bayard de Paoli Gontijo and Flavio Nicolay Guimarães as Managing Director A; and (iii) the appointment of Cristina Mocellin as Managing Director B of the Company.

Financial risk management

There are no concentrations of foreign currency risk at the balance sheet date.

The Company incurs interest rate risk on interest bearing receivables (in particular those included in financial assets, securities and cash) and on interest bearing non-current and current liabilities (including borrowings).

With respect to floating-interest rate loans and receivables, the Company incurs risks regarding future cash flows. In addition, the Company incurs risks on fixed interest loans obtained, notes issued and receivables with respect to the fair value due to changes in market interest rates. No financial derivatives for interest rate risk have been contracted with regard to the receivables or debt instruments.

The Company incurs credit risks on loans granted to group companies, as well as to the shareholder. These counterparties do not have a history of non-performance incidents.

The Company has shares of Oi, which are listed on BM&F Bovespa and are subject to market fluctuation (refer to note 14).

Audit committee

No audit committee was appointed for the Company. The Company uses the audit committee of the shareholder Oi S.A.

The Board of Managing Directors,

C. Mocellin

M.N. Schroeder

Amsterdam, 29 April, 2016

Portugal Telecom International Finance B.V.

Unaudited Balance sheet as at December 31, 2015

(in EUR, before appropriation of results)

	Notes	December 31, 2015	December 31, 2014
ASSETS			
Financial fixed assets			
	5		
Commercial paper, loans and notes to PT Portugal and Oi group companies		3,703,452,932	4,312,840,000
Prepaid issuance costs		10,713,074	14,623,813
		<u>3,714,166,006</u>	<u>4,327,463,813</u>
Current assets			
Receivables	6/7	744,717,488	4,245,785,403
Securities	8	76,126,140	--
Cash and cash equivalents	9	3,700,780	13,640,403
		<u>824,544,409</u>	<u>4,259,425,806</u>
TOTAL ASSETS		<u><u>4,538,710,415</u></u>	<u><u>8,586,889,619</u></u>
EQUITY AND LIABILITIES			
Shareholders' Equity			
	10		
Issued and paid-up capital		21,000	21,000
Share premium		752,090,368	252,090,368
Other reserves		(420,468,828)	--
Result for the year		(317,662,399)	(420,468,828)
		<u>13,980,141</u>	<u>(168,357,460)</u>
Non-current Liabilities			
	11		
EMTN notes		4,396,905,000	4,350,000,000
Revolving credit facilities / loan		--	54,983,665
		<u>4,396,905,000</u>	<u>4,404,983,665</u>
Current Liabilities			
	12		
Revolving credit facilities / loans		--	4,168,331,156
Interest received in advance		--	38,106,770
Interest EMTN / exchangeable bonds / credit facilities		126,849,702	141,499,365
Corporate income tax		811,173	415,674
Other debts and accruals		164,399	1,910,449
		<u>127,825,274</u>	<u>4,350,263,414</u>
TOTAL EQUITY AND LIABILITIES		<u><u>4,538,710,415</u></u>	<u><u>8,586,889,619</u></u>

Portugal Telecom International Finance B.V.

Unaudited Income statement for the financial year ended December 31, 2015

(in EUR)

	<u>Notes</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Interest Income on commercial papers / loans		240,110,834	312,970,294
Other Interest Income		570,735	18,364,203
Financial Expenses		(262,997,392)	(310,544,871)
Withholding tax on interest on deposits		(24,149)	(806,759)
Exchange differences		613,430	449
Amortization of prepaid issuance costs	5	<u>(4,326,739)</u>	<u>(4,680,286)</u>
Financial Income and Expenses		<u>(26,053,279)</u>	<u>15,303,030</u>
General and administrative expenses	13	<u>10,222,997</u>	<u>31,282,222</u>
Operating expenses		<u>10,222,997</u>	<u>31,282,222</u>
OPERATING RESULT		<u>(36,276,277)</u>	<u>(15,979,192)</u>
Result on investments	14	<u>(277,036,471)</u>	<u>(402,410,957)</u>
RESULT BEFORE TAXATION		<u>(313,312,748)</u>	<u>(418,390,149)</u>
Income tax expense	16	<u>(4,349,651)</u>	<u>(2,078,679)</u>
NET RESULT AFTER TAXATION		<u>(317,662,399)</u>	<u>(420,468,828)</u>

Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2015

(in EUR)

1 GENERAL

Activities

Portugal Telecom international Finance B.V. (the Company), having its statutory seat in Amsterdam and registered office at Naritaweg 165, 1043 BW, Amsterdam, the Netherlands, is engaged in holding and financing activities for the benefit of companies of the group of its sole shareholder and parent company Oi S.A., a company incorporated under the laws of Brasil (Oi and the Oi Group).

The Company was incorporated on November 26, 1998.

(a) Going concern

The Company had an equity deficit of EUR 168,394,970 at December 31, 2014 and recorded a loss of EUR 317,662,399 during 2015. On December 30, 2015, Oi S.A., the sole shareholder of the Company, has resolved an irrevocable share premium contribution into the Company in the amount of EUR 500,000,000. This capital contribution merely determined the increase of the Company's assets, without any change in the nominal amount of its share capital, being recorded as a non-stipulated share premium in the books of the Company. This Contribution was fully paid on February 4, 2016.

Oi, as the parent-company of the Oi Group, of which the Company is a part, announced on March 9, 2016 that, it had retained PJT Partners as financial advisor to assist the Oi Group in assessing financial and strategic alternatives to optimize the Oi Group's liquidity and debt profile. Following this, on April 25, 2016, Oi announced that it has entered into a customary non-disclosure agreement with an advisor to a diverse ad hoc group of holders of the bonds issued by Oi and certain of its affiliated companies, including the Company, as an initial step toward discussions regarding the terms of a potential restructuring.

The Oi Group's operating and business focus remains unchanged and the Oi Group remains committed to continuing to make investments that ensure a continual improvement of its quality of service, which it believes will allow it to continue to bring technological advances to its customers all over Brazil. Oi also continues to undertake efforts for the operating upgrading and transformation of its business by focusing on austerity, infrastructure optimisation, process revision, and sales actions.

The Group Consolidated financial statements for the year ended December 31, 2015 have been prepared assuming that the Group will continue as a going concern, based on its cash flow projections and other forecasts. The projections used depend on factors such as attainment of traffic volume targets, customer base, launching of bundled products attractive to customers, service sales prices, foreign exchange fluctuation, and the success of the efforts to identify and implement financial and strategic alternatives to optimize the Oi Group's liquidity and debt profile.

The Company's financial statements for the year ended December 31, 2015 have been prepared assuming the Company will continue as a going concern, based on Oi's declaration to maintain its financial interest in and support to the Company in the foreseeable future and based on the achievement of the cash flow projection and other forecasts for the Oi Group.

At the same time, the Company understands that the efforts to identify and implement financial and strategic alternatives to optimize the Oi Group's liquidity and debt profile are aimed at the continuation of Oi and the Oi Group, including the Company, as a going concern. Based upon the information available to it, the Company has no reason to believe that those efforts will not be successful.

Should one of more of the assumptions underlying the Oi Group's cash flow projections and other forecasts, the financial support of Oi to the Company, or the outcome of the efforts to identify and implement financial and strategic alternatives to optimize the Oi Group's liquidity and debt profile not be met, this could be an indication of material uncertainties that would generate doubts as to the Company's ability to realize its assets and discharge its obligations at their carrying amounts.

(b) Audit committee

No audit committee was appointed for the Company. The Company uses the audit committee of the shareholder Oi S.A.

(c) Group structure

The Company is a member of Oi group. The ultimate parent company of this group is Oi S.A. (Oi). The Company's financial statements are included in the consolidated financial statements of Oi S.A.

Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2015

(in EUR)

1 GENERAL (continued)

(d) Related party transactions

Up to June 2015, the Company has subscribed Notes issued by PT Portugal. The Company has also subscribed Commercial Papers made available by financial institutions. The Commercial Papers have been issued by related parties for the financing of their activities. The conditions for the Commercial Papers are at arms' length. The Company issued Notes subscribed by CVTEL, which were sold to PT Portugal on 30 December, 2014.

Following the sale of PT Portugal to Altice, all financial transactions between the Company and PT Portugal and its subsidiaries (except Africa and Timor companies, which remained at Oi group) were settled/paid/received and the Company subscribed Notes issued by Oi Brasil Holdings Cöoperatief U.A. with a portion of the net cash received.

(e) Use of estimates

In applying the accounting policies and guidelines for preparing the financial statements, management makes a range of estimates and judgments that might be essential for the amounts disclosed in the financial statements. If necessary for the purposes of providing the view required under Section 362(1), Book 2, of the Dutch Civil Code, the nature of these estimates and judgments, including the related assumptions, is disclosed in the notes to the Financial Statement items in question. Actual amounts may differ from these estimates.

2 ACCOUNTING POLICIES FOR THE BALANCE SHEET

The accompanying Financial Statements have been prepared in accordance with the statutory provisions of Title 9, Book 2, of the Dutch Civil Code and the firm pronouncements in the Guidelines for Annual Reporting as issued by the Dutch Accounting Standards Board, taking into account the exemptions offered by the Dutch Accounting Standards Board. If the Company were to apply EU-IFRS there would be no differences in valuation of assets and liabilities and determination of result

Assets and liabilities are stated at amortised cost, unless indicated otherwise.

(a) Comparison with previous year

The accounting policies have been consistently applied to all the years presented.

(b) Foreign currencies

The financial statements are presented in Euros, which is the functional and presentation currency.

Receivables, liabilities and obligations denominated in foreign currency are translated at the exchange rates prevailing at balance sheet date. Transaction in foreign currency during the financial year are recognised in the financial statements at the exchange rates prevailing at transaction date. The exchange differences resulting from the translation as of balance sheet date, taking into account possible hedge transactions, are recorded in the profit and loss account.

(c) Financial fixed assets

The commercial papers, bonds and notes stated under the financial fixed assets are initially recorded at fair value and subsequently at amortized cost, net of impairment.

Issuance Costs

Issuance costs of Euro Medium Term Notes and Exchangeable Bonds are capitalized and amortized on a straight-line basis, based on the term of the related Euro Medium Term Notes and Exchangeable Bond (refer to note 5).

Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2015

(in EUR)

2 ACCOUNTING POLICIES FOR THE BALANCE SHEET (continued)

(d) Impairment

At each balance sheet date, the Company tests whether there are any indications of assets being subject to impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. An asset is subject to impairment if its carrying amount exceeds its recoverable amount; the recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss is recognised immediately in the income statement.

If it is established that a previously recognised impairment loss no longer applies or has declined, the increased carrying amount of the assets in question is not set any higher than the carrying amount that would have been determined had no asset impairment been recognised. A reversal of an impairment loss is recognised immediately in the income statement.

(e) Receivables

Receivables are initially recorded at fair value and then valued at amortised costs, less any provision for doubtful accounts. These provisions are determined by individual assessment of the receivables. On initial recognition the fair value and the amortised cost equal the face value.

(f) Securities

Securities that are classified under current assets are due within one year.

Securities that are held for trading are carried at fair value after initial recognition. Changes in the fair value are recognised directly in profit or loss.

(g) Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank balances and deposits held at call with maturities of less than 12 months. Bank overdrafts, if any, are shown within borrowings in current liabilities on the balance sheet. Cash and cash equivalents are stated at face value.

(h) Non-current liabilities

EMTN Programme

The notes issued under the EMTN Programme are valued at nominal value and the amortized issuance costs have been accounted for as prepaid issuance costs and are presented under note 5 Financial Fixed Assets.

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, being the amount received taking account of any premium or discount, less transaction costs.

Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest in the income statement over the period of the borrowings using the applicable interest method.

(i) Current liabilities

Short term liabilities are liabilities due within one year or less.

Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2015

(in EUR)

3 ACCOUNTING POLICIES FOR THE INCOME STATEMENT

(a) General

Profits or transactions are recognized in the year they are realized. Losses are recognized when foreseen.

(b) Exchange rate differences

Exchange rate differences arising upon the settlement or conversion of monetary items are recognised in the income statement in the period that they arise.

(c) General and administrative expenses

Costs are taken into account under the historical cost convention and allocated to the year concerned.

(d) Amortization

Amortization expenses are taken on issuance costs and compensated on the interest receipts.

(e) Financial income and expenses

Interest paid and received is recognised on a time-weighted basis, taking account of the effective interest rate of the assets and liabilities concerned.

(f) Taxation

Income tax is calculated on the profit/loss before tax in the income statement, taking into account any losses carried forward from previous financial years (where not included in deferred income tax assets) and tax-exempt items, and plus non-deductible expenses. Changes in deferred income tax assets and liabilities due to changes in the applicable tax rates are also taken into account.

Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2015

(in EUR)

4 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Market risk

Market risk arises from the Company's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk). Furthermore, the Company has shares of Oi, which are listed on BM&F Bovespa and are subject to market fluctuation.

Currency risk

The Company mainly operates in the European Union. Consequently, the Euro is its functional currency and reporting currency. The Company does not hold any material positions other than its functional currency, reason why it does not incur in any currency risk. Therefore, the Company does not have any hedge positions.

Foreign currencies

The financial statements are presented in Euros, which is the functional and presentation currency. Therefore, there are no concentrations of foreign currency risk at balance sheet date.

Receivables, liabilities and obligations denominated in foreign currency are translated at the exchange rates prevailing at balance sheet date. Transactions in foreign currency during the financial year are recognised in the financial statements at the exchange rates prevailing at transaction date. The exchange differences resulting from the translation as of balance sheet date, taking into account possible hedge transactions, are recorded in the profit and loss account. This consists of trade payables and Timor Telecom loan in USD and USD denominated bank accounts (2015: EUR 613,430, 2014: EUR 449).

Interest rate and cash flow risk

The Company incurs interest rate risk on interest-bearing receivables (in particular those included in financial assets, securities and cash).

Where floating-interest receivables are concerned, the Company incurs risk regarding future cash flows. In addition, the Company incurs risks on fixed-interest loans and receivables with respect to the fair value due to changes in the market rate of interest. No financial derivatives for interest rate risk are contracted with regard to the receivables or debt instruments.

Credit risks

The Company incurs credit risks on loans granted to Oi group companies. These counterparties do not have a history of non-performance.

Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2015

(in EUR)

5 FINANCIAL FIXED ASSETS

Movements in financial fixed assets can be broken down as follows:

	Commercial paper, loans and notes to PT Portugal and Oi group companies	Prepaid issuance costs	Total
Opening balance	4,312,840,000	14,623,813	6,293,294,099
Movements 2015			
Additions	4,788,677,000	416,000	4,789,093,000
Repayments	(5,301,288,704)	--	(5,301,288,704)
Reclassification to short term (-) / long term (+)	(96,775,364)	--	(96,775,364)
Amortization	--	(4,326,739)	(4,326,739)
Closing balance	<u>3,703,452,932</u>	<u>10,713,074</u>	<u>5,679,996,292</u>

The Company's commercial paper, loans and notes to Portugal Telecom SGPS S.A. (PT SGPS) group companies can be specified as follows:

Commercial Papers issued by PT SGPS

Commercial papers issued by PT SGPS can be specified as follows:

	2015	2014
Opening balance	--	1,209,000,000
Repayment in financial year	--	(1,209,000,000)
Closing balance	<u>--</u>	<u>--</u>

The Company's commercial paper, loans and notes to PT Portugal SGPS S.A. (PT Portugal) and Oi group companies can be specified as follows:

<u>Name</u>	2015	2014
Commercial papers issued by PT Portugal	--	3,490,150,000
Commercial papers issued by MEO, Serviços de Comunicações e Multimédia, SA (MEO)(ex-PTC)	--	813,400,000
Loan to Timor Telecom S.A.	500,000	9,290,000
Loan to Oi Brasil Holdings Coop U.A.	3,702,952,932	--
	<u>3,703,452,932</u>	<u>4,312,840,000</u>

Commercial Papers issued by PTP

Commercial papers issued by PTP can be specified as follows:

	2015	2014
Opening balance	3,490,150,000	1,737,950,000
Issued in financial year	59,800,000	8,919,500,000
Reclassification to short term (-) / long term (+)	--	(1,360,150,000)
Repayment in financial year	(3,549,950,000)	(5,807,150,000)
Closing balance	<u>--</u>	<u>3,490,150,000</u>

Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2015

(in EUR)

5 FINANCIAL FIXED ASSETS (continued)

Commercial Papers issued by MEO (ex-PTC)

The commercial papers issued by MEO can be specified as follows:

	2015	2014
Opening balance	813,400,000	3,086,750,000
Issued in financial year	--	982,200,000
Repayment in financial year	(813,400,000)	(3,255,550,000)
Closing balance	--	813,400,000

Commercial papers issued by MEO (ex-TMN)

The commercial papers issued by MEO can be specified as follows:

	2015	2014
Opening balance	--	230,000,000
Repayment in financial year	-	(230,000,000)
Closing balance	--	--

Loan to Timor Telecom S.A.

The loan to Timor Telecom S.A. can be specified as follows:

	2015	2014
Opening balance	9,290,000	10,290,000
Issued in financial year	--	--
Reclassification to short term (-) / long term (+)	(7,790,000)	--
Repayment in financial year	(1,000,000)	(1,000,000)
Closing balance	500,000	9,290,000

Intercompany receivable loan from Timor Telecom S.A. in the amount of EUR 1,500,000 bears interest at 3M EURIBOR + 9.25% per annum (2014: 3M EURIBOR + 9.25%). The amount will be repaid in 6 installments of EUR 250,000 each, payable quarterly, beginning on 19 March 2016 and ending on 19 June 2017 as final maturity date. Repayment obligation within 12 months in the amount of EUR 1,000,000 as at balance sheet date are included in current assets (refer to note 6).

Loan to Oi Brasil Holdings Coop U.A.

The loan to Oi Brasil Holdings Coop U.A. can be specified as follows:

	2015	2014
Opening balance	--	--
Issued in financial year	4,728,877,000	--
Reclassification to short term (-) / long term (+)	(88,985,364)	--
Repayment in financial year	(936,938,704)	--
Closing balance	3,702,952,932	--

On March 17, 2016 credit agreement with Oi Brasil Holdings Coop U.A. was amended by refinancing and opening the credit line with seven separate tranches up to EUR 3,723,236,983. Intercompany receivable loan from Oi Brasil Holdings Coop U.A. in the amount of EUR 3,702,952,932 bears interest at 5.26375% per annum with the maturity date varying from March 22, 2017 to June 14, 2025 depending on different tranches. Repayment obligation within 12 months in the amount of EUR 88,985,364 as at balance sheet date are included in current assets (refer to note 6).

Notes issued by PT Portugal

The Company's notes can be specified as follows:

	2015	2014
Opening balance	--	--
Issued in financial year	--	2,566,000,000
Reclassification to short term	-	(2,566,000,000)
Closing balance	--	--

Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2015

(in EUR)

5 FINANCIAL FIXED ASSETS (continued)

On December 23, 2008, PT SGPS issued convertible bonds in the amount of EUR 750,000,000 due on August 28, 2014. These convertible bonds aim to support the exchangeable bonds issued by the company in 2007, replicating their main terms and conditions. The exchangeable bonds were redeemed in May, 2014.

The notes in the amount of EUR 2,566,000,000 were issued by PT Portugal on May 13, 2014. The notes bear interest at a rate of 1.54075%. Effective April 13, 2015, the Company redeemed its 2,566 notes with principal amount of EUR 1,000,000 each and maturity date on February 15, 2016 that were held by a related party.

The Company's prepaid issuance costs can be specified as follows:

	2015	2014
Opening balance	14,623,813	19,304,099
Additions	416,000	--
Amortization	(4,326,739)	(4,680,286)
Closing balance	10,713,074	14,623,813

Cost of issuance of each note is deferred and recognized in net income until the maturity of each note on a straight line basis.

As agreed in the Advance Pricing Agreement with the Dutch Tax Authorities, the Company will be compensated by PT Portugal and/or other group companies for the annual portion of issuance costs that is amortized in connection with the bonds it issued and for any interest expenses relating to the financing of these expenditures.

CURRENT ASSETS

6 COMMERCIAL PAPER AND LOANS TO PT PORTUGAL AND OI GROUP COMPANIES

	CCY	Amount in CCY	2015	2014
Commercial Papers issued by PTP (refer to note 5)			--	1,360,150,000
Loan to Timor Telecom S.A. (refer to note 5)			8,790,000	1,000,000
Loan to Timor Telecom S.A.	USD	15,000,000.00	13,780,350	--
Loan to PT Participações SGPS S.A.			1,882,677	--
Loan to Oi Brasil Holdings Coop U.A. (refer to note 5)			88,985,364	--
Notes issued by PT Portugal (refer to note 5)			--	2,566,000,000
			113,438,391	3,927,150,000

All commercial paper and loans to PT Portugal Group and Oi companies stated under the current assets fall due in less than one year, was paid within 12 months.

Intercompany receivable loan from Timor Telecom S.A. in the amount of EUR 4,000,000 bears interest at 12% per annum (2014: 12%) with the maturity date on September 24, 2016.

Intercompany receivable loan from Timor Telecom S.A. in the amount of EUR 3,790,000 bears interest at 10% per annum (2014: 10%) with the maturity date on April 22, 2016.

Intercompany receivable loan from Timor Telecom S.A. in the amount of USD 15,000,000 bears interest at 10% per annum with the maturity date on September 24, 2016.

Intercompany receivable loan from PT Participações SGPS S.A. in the amount of EUR 1,882,677 bears interest at 5.26375% per annum with the maturity date on May 28, 2016.

Intercompany receivable loan from Oi Brasil Holdings Coop U.A. in the amount of EUR 88,985,364 bears interest at 5.26375% per annum with the maturity date on July 24, 2016.

Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2015

(in EUR)

7 RECEIVABLES

As at December 31, 2015, this item can be detailed as follows:

	2015	2014
Amounts due from shareholders	500,000,000	--
Interest loan receivable	123,320,190	5,366,294
Interest receivable from commercial papers	1,018,952	--
Accrued upfront fees	1,562,178	3,732,227
Corporate income tax 2013	--	1,219,396
Corporate income tax 2014	2,087,645	2,087,645
Withholding taxes	3,206,355	5,015,415
Rio Forte note	--	294,589,043
Interest on Rio Forte notes	--	6,606,980
Other receivables	83,776	18,403
	631,279,097	318,635,403

Amounts due from shareholder are specified as follows:

Name	Ownership	2015	2014
Oi S.A.	100.00%	500,000,000	--
		500,000,000	--

All receivables fall due in less than one year. The fair value of the receivables approximates the book value.

On March 30, 2015, all securities issued by Rio Forte Investments SA held by the Company were transferred to Pharol in exchange of 474,348,720 common shares (ON) and 948,697,440 preferred shares (PN) of Oi, as provided in the Exchange Agreement entered into between the Oi, Telemar Participações SA, Pharol, PT Portugal and the Company. In October, 2015 Oi executed an exchange program whereby each PN was exchanged by 0.9211 ON. The Company exchanged all preferred shares for common shares and has become entitled to 134,819,393 Oi common shares considering a reverse split from 10 to 1 shares implemented during 2015. On December 31, 2015 the market value of Oi shares held by the Company is EUR 76,126,140. On December 31, 2015 the Company recorded EUR (163,321,544) relating to changes in the market value of the shares of Oi.

The corporate income tax receivable relates to the refund of year 2014.

The withholding tax receivable relates to 15% reduction of paid withholding taxes that the Company is entitled to. Part of withholding taxes is expected to be settled after one year.

8 SECURITIES

	2015	2014
Oi shares	76,126,140	--
	76,126,140	--

On March 30, 2015, all securities issued by Rio Forte Investments SA held by the Company were transferred to Pharol in exchange of 474,348,720 common shares (ON) and 948,697,440 preferred shares (PN) of Oi, as provided in the Exchange Agreement entered into between the Oi, Telemar Participações SA, Pharol, PT Portugal and the Company. On December 31, 2015 the market value of Oi shares held by the Company is EUR 76,126,140. In 2015 the Company recorded EUR (163,321,544) relating to changes in the market value of the shares of Oi.

Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2015

(in EUR)

9 CASH AND CASH EQUIVALENTS

	2015	2014
Current account balances	3,700,780	1,140,403
Fixed deposits	--	12,500,000
	3,700,780	13,640,403

The fixed deposits expire within one year after balance sheet date. No other restrictions on usage exist. In order to dilute the credit risk related to fixed deposits, the Company's policy is to invest its cash for short term periods, entering in agreements with reputable financial institutions and diversifying counterparties. The total of the current account balances is at the Company's free disposal.

10 SHAREHOLDERS' EQUITY

The Company's authorised share capital amounts to EUR 100,000 and consists of 200 ordinary shares with a nominal value of EUR 500 each.

As at December 31, 2015, 42 shares were issued and fully paid-up. The movements in the year under review can be summarised as follows:

	Issued and paid- up capital	Share premium	Other reserves	Result for the year	Total
Opening balance 2014	21,000	252,090,368	--	21,442,132	273,553,500
Result for the year	--	--	--	(420,468,828)	(420,468,828)
Profit appropriation	--	--	21,442,132	(21,442,132)	--
Dividend distribution	--	--	(21,442,132)	--	(21,442,132)
Opening balance 2015	21,000	252,090,368	--	(420,468,828)	(168,357,460)
Additions (refer to note 7)	--	500,000,000	--	--	500,000,000
Result for the year	--	--	--	(317,662,399)	(317,662,399)
Profit appropriation	--	--	(420,468,828)	420,468,828	--
Closing balance 2015	21,000	752,090,368	(420,468,828)	(317,662,399)	13,980,141

Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2015

(in EUR)

11 NON-CURRENT LIABILITIES

	Remaining term between 1 and 5 years	Remaining term more than 5 years	Total non-current liabilities 2015
EMTN notes	2,896,905,000	1,500,000,000	4,396,905,000
	<u>2,896,905,000</u>	<u>1,500,000,000</u>	<u>4,396,905,000</u>

Repayment obligation within 12 months as at balance sheet date are included in current liabilities.

EMTN notes

The Company's EMTN notes are specified as follows:

	2015	2014
Opening balance	4,350,000,000	4,350,000,000
Issued in financial year	400,000,000	--
Buy-back	(353,095,000)	--
Closing balance	<u>4,396,905,000</u>	<u>4,350,000,000</u>

The Company entered into a Global Medium Term Note Programme signed on December 17, 1998, which was changed and renamed Euro Medium Term Note Programme on April 23, 2010 (EMTN). The notes issued by the Company under the EMTN are listed on the London Stock Exchange, Euronext Lisbon and are guaranteed by Oi.

The fair value of the notes issued by the Company under the EMTN Program, determined on market information, amounted to EUR 4,520,811,500 on December 31, 2014 and amounts to EUR 2,652,045,279 on December 31, 2015.

Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2015

(in EUR)

11 NON-CURRENT LIABILITIES (continued)

The following table provides detailed information about the bonds issued under the EMTN and the exchangeable bonds outstanding as at December 31, 2015, which were issued by the company:

Description	Notional (EUR)	Issue Date	Maturity Date	Coupon
Eurobond	384,123,000	24-Mar-05	24-Mar-17	4.375%
Eurobond	500,000,000	16-Jun-05	16-Jun-25	4.500%
Fixed rate notes	250,000,000	30-Jul-09	6-Nov-17	5.242%
Eurobond	750,000,000	2-Nov-09	4-Nov-19	5.000%
Eurobond	531,575,000	8-Feb-11	8-Feb-16	5.625%
Eurobond	750,000,000	17-Oct-12	17-Apr-18	5.875%
Eurobond	1,000,000,000	10-May-13	8-May-20	4.625%
Retail bond	231,207,000	26-Jul-12	26-Jul-16	6.250%
	<u>4,396,905,000</u>			

The Company's revolving credit facilities / loan are specified as follows:

Description	2015	2014
Export credit facility	--	54,983,665
	--	<u>54,983,665</u>

The fair value of the revolving credit facilities / loan approximates the book value.

Export credit facility with Bank of China Limited, London branch payable loan in the amount of EUR 62,314,821 bears interest at 12 % per annum (2014: 12%) with the maturity date on September 24, 2016. On September 25, 2015 the Company prepaid the total long term portion in the amount of EUR 54,983,665.

Loans from group companies

The Company's loans from group companies comprise the following:

	2015	2014
Note PT Portugal	--	2,566,000,000
Reclassification to short term	--	(2,566,000,000)
	--	<u>--</u>

On April 14, 2014 the note for an amount of EUR 2,438,000,000 was redeemed at an amount EUR 1,603,000,000 and remaining balance of EUR 835,000,000 was transferred to PT Portugal.

On May 13, 2014 the Company issued a note for an amount of EUR 2,566,000,000 at a fixed interest rate of 1,417%, which maturity date is on February 15, 2016. The fair value of the note, based on discounted cash flows, amounts to EUR 2,546,467,941. Effective April 13, 2015, the 2,566 bonds with principal amount of EUR 1,000,000 each and maturity date on February 15, 2016, that were held by the Company, were redeemed.

Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2015

(in EUR)

12 CURRENT LIABILITIES

The remaining term of the current liabilities is less than one year.

The Company's revolving credit facilities / loans are specified as follows:

<u>Description</u>	<u>2015</u>	<u>2014</u>
Notes PT Portugal (refer to note 11)	--	3,401,000,000
Note Oi S.A.	--	750,000,000
Export credit facility (refer to note 11)	--	7,331,156
Credit Facility KFW	--	10,000,000
	<u>--</u>	<u>4,168,331,156</u>

On August 26, 2014, the Company issued notes to Oi S.A. for an amount of EUR 750,000,000 at a floating interest rate of 6M Euribor + 2.5% and maturity date on August 27, 2015. On the maturity date the note was repaid.

On December 29, 2014, the Company repaid amount of EUR 10,000,000 with respect to the loan obtained from KFW IPEX-Bank GmbH.

13 GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2015</u>	<u>2014</u>
Bank expenses	1,135,221	6,380
General expenses	20,825	18,423
Legal expenses	140,375	81,184
Audit expenses	37,510	14,520
Accounting expenses	33,275	33,275
Tax advisory expenses	227,322	38,663
Professional services*	240,710	2,906,509
Management expenses	62,616	132,025
Stock listing fees	701	8,712
Non-refundable VAT cost	601,658	4,772
Bank fees related to credit facilities*	7,688,821	27,862,657
Advanced interest payments fees	33,964	175,102
	<u>10,222,997</u>	<u>31,282,222</u>

* In 2014 the amounts mainly relate to the fees paid in connection with the consent solicitation to note holders executed in 2014 related to the business combination between Oi and Pharol.

14 RESULT ON INVESTMENTS

The result on investments can be broken down as follows:

	<u>2015</u>	<u>2014</u>
Impairment of Rio Forte Investments, SA (refer to note 7)	--	(402,410,957)
Reversal of impairment of Rio Forte Investments, SA	402,410,957	--
Loss on exchange Rio Forte notes for Oi shares	(516,125,884)	--
Impairment of Oi shares (refer to note 8)	(163,321,544)	--
	<u>(277,036,471)</u>	<u>(402,410,957)</u>

Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2015

(in EUR)

15 SPECIFICATION OF AUDIT FEES

Specification of Audit fees 2015

	BDO Audit & Assurance B.V.
Audit of the financial statements	37,510
Other audit engagements	--
	37,510

Specification of Audit fees 2014

	BDO Audit & Assurance B.V.
Audit of the financial statements	37,510
Other audit engagements	--
	37,510

No tax advisory or other non-audit services have been rendered by BDO Audit & Assurance B.V. - in 2015.

16 TAXATION

	2015	2014
Corporate Income Tax 2009	797	--
Corporate Income Tax 2012	--	184,169
Corporate Income Tax 2013	202	--
Corporate Income Tax 2014	--	(2,262,848)
Corporate Income Tax 2015	(4,350,650)	--
	(4,349,651)	(2,078,679)

The company is subject to Dutch taxation and tax calculations are made in accordance with the Advance Pricing Agreement entered into with the Dutch tax authorities.

17 OTHER NOTES

Commitments and contingencies not included in the balance sheet

Legal disputes

On March 16, 2016, a noteholder of notes of which the Company is the issuer, commenced legal proceedings before the Amsterdam district court against, amongst others, the Company, Oi Brasil Holdings Coöperatief U.A. (the Cooperative) and another Oi group company, mainly challenging the loan granted by the Company to the Cooperative and claiming damages. The initial Court date for the first appearance in the proceedings is 27 July 2016. The Company intends to defend itself against the claims brought.

There are no other commitments and contingencies to be disclosed that were not included in the balance sheet.

Number of employees and employees costs

Neither during the year under review nor in the previous year did the Company have any employees. Hence, it did not pay any wages and related social security.

Portugal Telecom International Finance B.V.

Notes to the balance sheet and income statement as at December 31, 2015

(in EUR)

18 DIRECTORS

During the year under review, the Company had seven Managing Directors, who received no remuneration during the current or the previous financial year. The Company has no Board of Supervisory Directors.

As per March 3, 2016, Trust International Management (T.I.M.) B.V., Wilhelmus Joseph Langeveld and Johannes Petrus Vincentius Gerardus Visser resigned as Managing Director B and as per same date Cristina Mocellin was appointed as Managing Director.

The Board of Managing Directors ,

C. Mocellin

M.N. Schroeder

Amsterdam, 29 April, 2016

Portugal Telecom International Finance B.V.

Other Information

Statutory provision regarding appropriation of result

In accordance with Article 14 of the Articles of Association, profit shall be at the disposal of the Annual General meeting of Shareholders. Profit distribution can only be made to the extent that Shareholder's Equity exceeds the issued and paid-up share capital and legal reserves. Dutch law stipulates that distributions may only be made to the extent the Company's equity is in excess of the reserves it is required to maintain by law and its Articles of Association. Moreover, no distributions may be made if the Management Board is of the opinion that, by such distribution, the Company will not be able to fulfill its financial obligations in the foreseeable future.

Proposed appropriation of result

The loss sustained by the Company during the year under review will be debited to the other reserve. This proposed appropriation of the result has not been reflected in these financial statements and is subject to the approval of the General Meeting of Shareholders.

Post balance sheet events

Since December 31, 2015, the Company entered into the main following transactions:

- On December 30, 2015, Oi S.A., the sole shareholder of the Company, has resolved an irrevocable share premium contribution into the Company in the amount of EUR 500,000,000. This capital contribution merely determined the increase of the Company's assets, without any change in the nominal amount of its share capital, being recorded as a non-stipulated share premium in the books of the Company. This Contribution was fully paid on February 4, 2016.

- On February 5, 2016, as scheduled, the Company repaid the amount of EUR 561,476,093.75 of notes, being EUR 531,575,000 of principal and EUR 29,901,093.75 of interest. The notes were issued by the Company in February 2011, in the original amount of EUR 600,000,000 at a fixed interest rate of 5.625%, for a 5-year period. The amount repaid represents 100% of the outstanding value, as the Company prepaid EUR 68,425,000.00 of principal during 2015.

- On March 3, 2016, pursuant to the terms of paragraph a), number 1 of article 4 of the Portuguese Securities Commission ("CMVM") Regulation no. 5/2008, the Company resolved by its sole shareholder (i) the termination of the office of Trust International Management (T.I.M.) B.V, Wilhelmus Joseph Langeveld and Johannes Petrus Vincentius Gerardus Visser as Managing Director B; (ii) the termination of the office of Bayard de Paoli Gontijo and Flavio Nicolay Guimarães as Managing Director A; and (iii) the appointment of Cristina Mocellin as Managing Director B of the Company.