



Project Ocean

BONDHOLDER PRESENTATION

June 6, 2016

Confidential Settlement Discussions Subject to FRE 408
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Contains Material Non-Public Information

Preliminary Topics for Discussion

Restructuring Objectives

- > Right-size capital structure
- > Position Company for industry consolidation

Available Consideration

- > Secured debt
- > Equity

Timing

- > Minimum liquidity requirements
- > Current cash burn
- > July 2016 maturity

Execution Mechanics

- > Out-of-court
- > RJ / EJ

Treatment of Creditors

- > Banks / Bonds
- > Non-financial creditors

Next Steps

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I. Executive Summary

Situation Overview

Oi S.A., along with its subsidiaries (“Oi” or the “Company”), has retained advisors to help address capital structure and liquidity concerns. The following proposal reflects the Company’s desire to materially reduce leverage while offering acceptable consideration to exchange participants.

Preliminary Observations

- > The Company is significantly over-levered relative to industry competitors
 - Total Debt/2016E EBITDA of 6.9x
 - Global competitors’ leverage ranges from ~2.5x to ~3.5x, while Brazilian competitors have leverage below 1.0x
- > **Current cash flow is not sustainable**
 - Cumulative cash flow after interest (before amortization) from 2016-2018 is projected to be negative R\$7.0 billion
- > In addition, the Company faces significant near-term amortization requirements / debt maturities
 - R\$10.1 billion in 2016
 - R\$8.4 billion in 2017
 - R\$7.3 billion in 2018
- > As a result of the Company’s financial situation, as well as general conditions in Brazil, Oi is unable to raise new capital

Situation Overview (cont'd)

Takeaways

- > Despite its current challenges, Oi is well positioned to benefit from industry consolidation
- > In order to achieve the business plan improvements, the Company must address near-term capital structure issues
- > Creditors should be supportive of a transaction that improves the viability of the Company and increases enterprise value

Goals for the Proposal

- > Provide the Company with a sustainable capital structure
- > Address capital structure and liquidity concerns in one transaction
- > Incentivize participation from all financial creditors in the Company's capital structure
- > Better position the Company to execute long-term business plan and strategic alternatives
- > Provide flexibility to pursue future strategic transactions
- > Avoids judicial recovery proceedings

The following out-of-court exchange proposal is intended to address the capital structure and liquidity challenges faced by Oi while keeping the Company out of a Brazilian court process.

Status Quo Liquidity Forecast

(BRL in millions, unless otherwise stated)

	Quarter Ending				FYE 2016	FYE 2017	FYE 2018
	3/31/16	6/30/16	9/30/16	12/31/16			
Routine EBITDA	\$1,581	\$1,648	\$1,764	\$2,011	\$7,005	\$7,768	\$8,580
Capital Expenditures	(1,514)	(1,277)	(1,264)	(1,203)	(5,259)	(5,178)	(5,100)
3G/4G Licenses	-	(632)	-	(3)	(636)	(4)	(4)
Change in Working Capital	(1,023)	(385)	(73)	(27)	(1,509)	(1,035)	(857)
Operating Free Cash Flow	(956)	(646)	427	777	(398)	1,552	2,618
Taxes & Legal	(311)	(324)	(279)	(315)	(1,229)	(1,231)	(1,337)
Mandatory Dividends	-	(35)	-	(35)	(70)	(70)	(70)
Non-recurring Cash Flows ⁽¹⁾	(50)	(200)	-	145	(105)	2,317	(483)
Cash Flow Pre-Financing	(1,317)	(1,206)	148	572	(1,802)	2,568	728
Total Cash Interest	(651)	(1,243)	(432)	(857)	(3,183)	(3,038)	(2,277)
Cash Flow After Interest	(1,968)	(2,449)	(284)	(285)	(4,986)	(469)	(1,549)
<u>Amortization & Maturities</u>							
USD Bond Maturities	-	-	-	-	-	-	-
EUR Bond Maturities	(2,298)	-	(1,013)	-	(3,311)	(5,128)	(3,195)
BRL Bond Maturities	(33)	-	(1,055)	(783)	(1,871)	(783)	(791)
Other Facility Amortization	(3,383)	(576)	(424)	(404)	(4,788)	(2,535)	(3,355)
Total Amortization	(5,714)	(576)	(2,492)	(1,188)	(9,971)	(8,446)	(7,341)
Hedging Contracts	-	(486)	33	(106)	(559)	(174)	(11)
Cash Used in Exchange	-	-	-	-	-	-	-
Total Cash Flow	(7,682)	(3,511)	(2,743)	(1,579)	(15,516)	(9,089)	(8,901)
Beginning Cash	16,826	8,527	5,016	2,273	16,826	694	(8,395)
Change in Cash	(8,299)	(3,511)	(2,743)	(1,579)	(16,132)	(9,089)	(8,901)
Ending Cash / (Financing Needs)	8,527	5,016	2,273	694	694	(8,395)	(17,296)
<u>Credit Statistics</u>							
Total Debt ⁽²⁾	48,546	48,242	48,393	47,040	47,040	46,616	48,805
Net Debt ⁽²⁾	40,019	43,226	46,120	46,346	46,346	46,616	48,805
Total Debt / EBITDA	7.1x	7.2x	7.2x	6.7x	6.7x	6.0x	5.7x
Net Debt / EBITDA	5.8x	6.4x	6.8x	6.6x	6.6x	6.0x	5.7x
EBITDA / Cash Interest ⁽²⁾				2.2x	2.2x	2.3x	2.4x
(EBITDA - Capex) / Cash Interest ⁽²⁾				0.5x	0.5x	0.8x	1.0x
Memo: Total Interest	(651)	(1,243)	(432)	(857)	(3,183)	(3,410)	(3,608)

- > The status quo is not sustainable
- > Given the size and complexity of the Company, we believe it is inadvisable for cash to be below R\$5 billion without clarity on a solution to the capital structure
- > Status quo assumes 6 month amortization standstill from BNDES and BB starting May 25th

(1) 2018 includes a one-time R\$400 million cash outflow associated with a put option on an off-balance sheet financing.

(2) Debt balances and ratios include the impact of financing needs treated as incremental debt and paying cash interest at 9.2%. Total debt is net of hedging contracts.

II. Exchange Proposal

Exchange Proposal Overview

Banks and ECAs are offered to extend maturities

- > There are 4 different types of Bank debt with correspondingly different treatment:
 - Existing commitments for new-money
 - CRI debt
 - Secured debt
 - Unsecured debt
- > Treatment is explained on the following pages

Bondholders are offered take-back debt and equity at a premium to market prices

- > Total consideration offered at a premium to market trading prices (approximately 12%-15% above market price)
 - Inclusive of early tender premium
- > Consideration will be in the form of:
 - 50% take-back debt
 - 50% equity
- > Terms of the take-back debt explained in the following pages

PTIF Retail Bonds

- > Due to the retail status of these bonds and CMVM regulation, these bonds cannot be included in the exchange offer in a timely manner
- > Ongoing discussions with CMVM regarding the purchase of retail bonds at a discount
- > Concurrent with the exchange of other bonds, the Company will pursue a cash tender offer for these retail bonds at a discount to par

Offer to Banks

Bank Category	Impacted Amounts	Treatment	Rationale
Existing commitments for new-money	> R\$2,418mm	<ul style="list-style-type: none"> > No modifications to amortization, maturities or interest > Will also be offered same treatment as unsecured debt 	<ul style="list-style-type: none"> > Creditors with existing commitments for new credit are unaffected by the transaction
CRI debt	> R\$1,356mm	<ul style="list-style-type: none"> > Minimum 4 year amortization extension, paid equally between 2020-2022 > Minimum 4 year cash interest delayed via PIK/accrual/holiday 	<ul style="list-style-type: none"> > Necessary to maintain tax-exempt status (<i>mapa 4</i>) > Further adjustments could result in an incremental claim to Oi
Secured debt	> R\$3,518mm	<ul style="list-style-type: none"> > Minimum 6 years amortization & maturity extension > Cash interest paid current 	<ul style="list-style-type: none"> > Interest paid current due to existence of collateral
Unsecured debt	> R\$9,567mm	<ul style="list-style-type: none"> > Minimum 4 years amortization & maturity extension > Minimum 4 year cash interest delayed via PIK/accrual/holiday 	<ul style="list-style-type: none"> > Both amortization and interest relief due to unsecured status
Total debt	> Total debt affected: R\$16,860mm		

Offer to ECAs

In addition to the terms detailed on the previous page, Banks and ECAs are requested to:

- > Grant a temporary waiver on negative pledge conditioned on a successful exchange
- > Agree to a standstill on acceleration rights until expiration of exchange offer

Offer to Bonds: Overview

Term	Treatment
Summary	<ul style="list-style-type: none"> > Bonds exchange for new secured debt and Oi S.A. equity
Exchanging Bonds	<ul style="list-style-type: none"> > R\$10.0 billion of bonds issued at Oi S.A. > R\$7.3 billion of bonds issued at Oi Brasil Holdings Coöpertief U.A. (Coöp) > R\$14.3 billion of bonds issued at Portugal Telecom International Finance B.V. (PTIF)
Exchange Consideration	<ul style="list-style-type: none"> > R\$8.8 billion of consideration, comprised of: <ul style="list-style-type: none"> • R\$4.4 billion of New Secured Notes • R\$4.4 billion of New Equity
New Secured Notes	<ul style="list-style-type: none"> > R\$1.1 billion 6.375% EUR Notes due 2021 > R\$1.4 billion 7.25% EUR Notes due 2023 > R\$1.3 billion 7.5% USD Notes due 2021 > R\$0.6 billion 8.375% USD Notes due 2023 > Additional individual terms on following page
New Equity	<ul style="list-style-type: none"> > R\$4.4 billion > Issue price is the greater of: <ul style="list-style-type: none"> • 5-day volume-weighted average price prior to closing • 90-day volume-weighted average price prior to closing • Timing of price determination subject to legal analysis underway

Note: Exchange Consideration assumes 95% participation. Excludes PTIF retail bond tender offer.

Offer to Bonds: New Secured Notes Terms

Note	Exchanging Notes	Key Terms
R\$1.1 billion 6.375% EUR Notes due 2021	<ul style="list-style-type: none"> > PTIF EUR Notes due 2017-2018⁽¹⁾ > Oi Senior EUR Notes due 2017 	<ul style="list-style-type: none"> > Maturity: December 31, 2021
R\$1.4 billion 7.25% EUR Notes due 2023	<ul style="list-style-type: none"> > PTIF EUR Notes due 2019-2025 > Coöp Notes due 2021 	<ul style="list-style-type: none"> > Maturity: December 31, 2023
R\$1.3 billion 7.5% USD Notes due 2021	<ul style="list-style-type: none"> > Oi Senior BRL Notes due 2016 > Oi Senior USD Notes due 2019-2020 	<ul style="list-style-type: none"> > Maturity: December 31, 2021
R\$0.6 billion 8.375% USD Notes due 2023	<ul style="list-style-type: none"> > Coöp Notes due 2022 	<ul style="list-style-type: none"> > Maturity: December 31, 2023
Global Terms		<ul style="list-style-type: none"> > Issuer: Oi S.A. > Collateral: Equity of Oi Móvel S.A. > Guarantors: Telemar Norte Leste S.A., Oi Móvel S.A.

(1) Excludes PTIF retail tender offer.

Exchange Consideration Detail

(BRL in millions)

Facility	Maturity	Interest Rate	Amount Outstanding	Amount / EBITDA	Transaction Adjustment	Recovery (% of Principal)	Allocation			Pro Forma Debt		
							Debt	Equity	Cash	Amount	/ EBITDA	
BNDES Development Facility	2018-2021	Various	3,260		-						3,260	
New Secured Debt	Various	7.485%	-		4,407						4,407	
Secured Debt			3,260	0.5x	4,407						7,667	1.1x
Oi Móvel Bi-lateral Facilities	Various	Various	167		-						167	
Telemar Local Debentures	7/20/2021	IPCA+50	31		-						31	
Telemar Bi-lateral Facilities	Various	Various	7,364		-						7,364	
Telemar SPV Debt	8/31/2022	IPCA+794	919		-						919	
Total Subsidiary Debt			8,480	1.2x	-						8,480	1.2x
Senior EUR Notes due 2017	12/15/2017	5.125%	2,425		(2,306)	35%	50.0%	50.0%	-		119	
Senior USD Notes due 2019	4/23/2019	9.500%	506		(481)	35%	50.0%	50.0%	-		25	
Senior USD Notes due 2020	10/23/2020	5.500%	6,516		(6,192)	35%	50.0%	50.0%	-		324	
Telemar Guarantee Notes			9,447	1.3x	(8,979)						467	0.1x
PTIF EUR Notes due 2016	8/1/2016	6.250%				50%	-	-	100.0%			
PTIF EUR Notes due 2017	3/24/2017	4.375%	1,590		(1,511)	25%	50.0%	50.0%	-		79	
PTIF EUR Notes due 2017	11/6/2017	5.242%	1,053		(1,002)	25%	50.0%	50.0%	-		51	
PTIF EUR Notes due 2018	4/17/2018	5.875%	3,099		(2,945)	25%	50.0%	50.0%	-		154	
PTIF EUR Notes due 2019	11/4/2019	5.000%	3,156		(3,002)	25%	50.0%	50.0%	-		154	
PTIF EUR Notes due 2020	5/8/2020	4.625%	4,110		(3,905)	25%	50.0%	50.0%	-		205	
PTIF EUR Notes due 2025	6/16/2025	4.500%	2,051		(1,949)	25%	50.0%	50.0%	-		103	
Oi Netherlands Notes due 2021	6/22/2021	5.625%	2,462		(2,338)	25%	50.0%	50.0%	-		123	
Oi Netherlands Notes due 2022	2/10/2022	5.750%	5,269		(5,009)	25%	50.0%	50.0%	-		259	
European Notes			23,759	3.4x	(22,441)						1,318	0.2x
Senior BRL Notes due 2016	9/15/2016	9.750%	1,076		(1,023)	25%	50.0%	50.0%	-		53	
Oi S.A. Local Debentures	Various	Various	3,850		-						3,850	
Other Oi Bi-lateral Debt	Various	Various	833		-						833	
Oi SPV Debt	8/31/2022	IPCA+794	437		-						437	
Total Other Parent Debt			6,195	0.9x	(1,023)						5,172	0.7x
Total			51,141	7.3x	(5,595)		4,407	4,407	390		23,104	3.3x
Less: Hedging Portfolio MTM			(2,268)		(188)						(2,456)	
Consolidated Covenant Debt			48,872	7.0x	(28,225)						20,648	2.9x
Less: Cash & Equivalents			(8,527)								(4,482)	
Consolidated Net Debt			40,345	5.8x							16,166	2.3x

2016E EBITDA

7,005

Note: Amount Outstanding includes accrued interest. Assumes 95% exchange participation.
 Mentions of Oi Netherlands refer to Coöp.

Exchange Liquidity Forecast

(BRL in millions, unless otherwise stated)

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Change in Working Capital	(1,023)	(385)	(73)	(27)	(1,509)	(1,035)	(857)
Operating Free Cash Flow	(956)	(646)	427	777	(398)	1,552	2,618
Taxes & Legal	(311)	(324)	(279)	(315)	(1,229)	(1,231)	(1,337)
Mandatory Dividends	-	(35)	-	(35)	(70)	(70)	(70)
Non-recurring Cash Flows ⁽¹⁾	(50)	(200)	-	145	(105)	2,317	(483)
Cash Flow Pre-Financing	(1,317)	(1,206)	148	572	(1,802)	2,568	728
Total Cash Interest	(651)	(1,081)	(63)	(315)	(2,111)	(744)	(735)
Cash Flow After Interest	(1,968)	(2,287)	85	256	(3,913)	1,824	(7)
<u>Amortization & Maturities</u>							
USD Bond Maturities	-	-	-	-	-	-	-
EUR Bond Maturities	(2,298)	-	(203)	-	(2,501)	(256)	(160)
BRL Bond Maturities	(33)	-	(53)	-	(85)	-	-
Other Facility Amortization	(3,383)	(508)	-	(72)	(3,964)	(71)	-
Total Amortization	(5,714)	(508)	(255)	(72)	(6,550)	(327)	(160)
Hedging Contracts	-	(486)	33	(106)	(559)	(174)	(11)
Cash Used in Exchange	-	(764)	-	-	(764)	-	-
Total Cash Flow	(7,682)	(4,045)	(137)	78	(11,787)	1,323	(178)
Beginning Cash	16,826	8,527	4,482	4,345	16,826	4,423	5,746
Change in Cash	(8,299)	(4,045)	(137)	78	(12,403)	1,323	(178)
Ending Cash / (Financing Needs)	8,527	4,482	4,345	4,423	4,423	5,746	5,569
<u>Credit Statistics</u>							
Total Debt ⁽²⁾	48,546	20,648	20,910	20,873	20,873	22,095	23,524
Net Debt ⁽²⁾	40,019	16,166	16,565	16,451	16,451	16,348	17,956
Total Debt / EBITDA	7.1x	3.1x	3.1x	3.0x	3.0x	2.8x	2.7x
Net Debt / EBITDA	5.8x	2.4x	2.5x	2.3x	2.3x	2.1x	2.1x
EBITDA / Cash Interest ⁽²⁾				3.3x	3.3x	10.4x	11.7x
(EBITDA - Capex) / Cash Interest ⁽²⁾				0.8x	0.8x	3.5x	4.7x
Memo: Total Interest	(651)	(1,250)	(91)	(709)	(2,701)	(1,813)	(1,853)

(1) 2018 includes a one-time R\$400 million cash outflow associated with a put option on an off-balance sheet financing.

(2) Debt balances and ratios include the impact of financing needs treated as incremental debt and paying cash interest at 9.2%. Total debt is net of hedging contracts.

Exchange Offer Key Milestones

The timeline below allows for the possible extension of a week due to bondholder negotiations.

Week of	Key Event
June 7 th	> Continued negotiations with bondholders, ECAs and Brazilian banks
June 13 th	> Launch pre-emptive rights, exchange offers, PTIF consent solicitation and PTIF retail bonds tender offer
July 4 th	> Early tender date
July 11 th	> Voting deadline for non-retail PTIF bondholders > Non-retail PTIF bondholder meeting > Exchange offer, tender offer and pre-emptive rights expire contemporaneously
July 18 th	> Tabulation for exchange offer / board meeting to confirm exchange
	> Announcement to market

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