

9. Contingent Liabilities (Legal Presentation)

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Legal

Eurico Teles



Glossary

Small Claims Court (JEC)

Less relevant cases (up to 40 monthly minimum wages) conducted with fast track procedures in courts specialized in matters relating to consumer rights law.

Civil Consumer

More relevant cases, related to consumer rights law and adjudicated in ordinary courts. In addition to Class Action and Public Civil Action cases.

Labor

Administrative and judicial cases filed by unions, the Ministry of Labor, own and third party employees in relation to remuneration and potential breaches of labor rights.

Expansion plan (PEX)

Contracts for financing the public fixed-line telephony network via contributions made by promissory subscribers, as per ordinances enacted by the Ministry of Communications, later converted into shares of the companies in the Telebrás System / CRT (before privatization).

Tax

Administrative and judicial cases related to taxation on income / profit earned by the Company.

Civil Strategic

Administrative and judicial cases related to commercial, civil, criminal and corporate law.

Regulatory

Lawsuits related to the legal interpretation of telecommunications legislation.

Numerical overview

Number of cases / Financial R\$ Bn

	Total Liabilities	Provisioned Contingencies	Deposits / Frozen Assets	Other Collateral	Number of cases
Small Claims Court (JEC)	0,37	0,37	1,20	0,01	468.813
Labor	1,63	0,85	2,38	0,38	63.738
Expansion plan (PEX)	3,71	1,11	6,00	0,60	143.334
Subtotal	5,71	2,33	9,58	0,99	675.885
Civil Consumer	0,17	0,03	0,65	0,08	126.984
Civil Strategic	1,39	0,44	0,35	0,39	7.707
Tax	25,66	1,61	2,54	9,28	6.146
Judicialized Regulatory *	3,19	1,15	1,26	3,21	530
Subtotal	30,41	3,23	4,80	12,96	141.367
Grand Total	36,12	5,56	14,38	13,95	817.252

Info: Refers to December/15

* In addition, there are Administrative Procedures on Non-Compliance of Obligations (PADOs) yet to be filed, which will be handled by Department of Institutional and Regulatory Affairs.

Comparison between concessionaires

	Oi*	Vivo **
Judicial Deposits	14,38	5.75
Total Contingencies	38,42	40.06
Provision Contingencies	5,56	6.80
Potential Contingencies	32,86	33.26

*Source: Information from Controller December/2015

**Source: Quarterly information December/2015

Numerical overview

Cash / EBITDA

Payments – R\$ MM		
	December 2015	2015
Total	128,08	1.065,43

Contingency Provisions – R\$ MM		
	December 2015	2015
Total	80,66	566,62

Small Claims Court and Civil Consumer

Area	Total Liabilities	Provisioned Contingencies	R\$ Bn		Number of cases
			Deposits / Frozen Assets	Other Collateral	
Small Claims Court (JEC)	0,37	0,37	1,20	0,01	468.813
Civil Consumer	0,17	0,03	0,65	0,08	126.984

Historical context – Quality

- Structure of the Brazilian judiciary encourages litigation (industry of litigation);
- Growth in the volume of Small Claims Court filings, due to the decline in quality of services;
- High volume of cases upsets the courts, increasing the value of penalties;

Expansion plan (PEX)

Area	Total Liabilities	Provisioned Contingencies	R\$ Bn		Number of cases
			Deposits / Frozen Assets	Other Collateral	
Expansion Plan (PEX)	3,71	1,11	6,00	0,60	143.334

Historical context

- Illegality of the emission criteria for shares resulting from financial participation agreements (PEX) celebrated between the promissory subscribers and the companies in the Telebrás System / CRT.
- Concentration of cases in Brazil Telecom, due to the strategy adopted prior to the acquisition of the company by Telemar.
- Barrier to conducting Due Diligence before the purchase of Brazil Telecom.
- Discussions involving expansion plans are specific to the telecommunications sector (fixed-line telephony).

Amount Recovered

Labor

Area	Total Liabilities	Provisioned Contingencies	R\$ Bn		Number of cases
			Deposits / Frozen Assets	Other Collateral	
Labor	1,63	0,85	2,38	0,38	63.738

Historical context – Outsourcing

- Improper outsourcing – Core vs. Non-Core Activity – Legal Uncertainty – Absence of Specific Law, in process;
- About 120 thousand active outsourced employees (Outside Plant, Call Center and Retail Sales) – Subsidiary Liability and Employment;
- Large demobilizations of suppliers – contract terminations.

Civil Strategic and Judicialized Regulatory

Area	Total Liabilities	Provisioned Contingencies	R\$ Bn		Number of cases
			Deposits / Frozen Assets	Other Collateral	
Civil Strategic	1,39	0,44	0,35	0,39	7.707
Judicialized Regulatory	3,19	1,15	1,26	3,21	530

Historical context

- Final judgment unfavorable to Oi in Administrative Procedures on Non-Compliance of Obligations (PADOs) at the National Telecommunications Agency (ANATEL);
- Absence of reasonable and objective criteria for the application of penalties by ANATEL;
- Termination and contract management of former NSPs and business partners.

Tax

Area	Total Liabilities	Provisioned Contingencies	R\$ Bn		Number of cases
			Deposits / Frozen Assets	Other Collateral	
Tax	25,66	1,61	2,54	9,28	6.146

Historical context – Previous practices in credits and compensations / complex Brazilian tax system

- Up until 2006 tax credits and compensations were carried out without supporting documentation (approximately R\$ 5 Bn);
- After 17 years of privatization, there is still no definition from the higher courts on the concept of "telecommunications services" for ICMS tax purposes (VAS, subscription without included consumption allowance, services utilities and amenities (PUCs) – caller ID, follow-me, conference call, call blocking, duplicate invoice copy, call transfer etc.).