

# 1Q16 RESULTS

RIO DE JANEIRO, MAY 12, 2016

oi





This communication contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and Brazilian applicable regulation. Statements that are not historical facts, including statements regarding the beliefs and expectations of Oi, business strategies, future synergies and cost savings, future costs and future liquidity are forward-looking statements.

The words “will,” “may,” “should,” “could,” “anticipates,” “intends,” “believes,” “estimates,” “expects,” “forecasts”, “plans,” “targets,” “goal” and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. There is no guarantee that the expected events, tendencies or expected results will actually occur. Such statements reflect the current views of the Company’s management and are subject to a number of risks and uncertainties. These statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, corporate approvals, operational factors and other factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations. All forward-looking statements attributable to the Company or its affiliates, or persons acting on their behalf, are expressly qualified in their entirety by the cautionary statements set forth in this paragraph. Undue reliance should not be placed on such statements. Forward-looking statements speak only as of the date they are made.

Except as required under the Brazilian and U.S. federal securities laws and the rules and regulations of the CVM, the SEC or of regulatory authorities in other applicable jurisdictions, the Company and its affiliates do not have any intention or obligation to update or to publicly announce the results of any revisions to any of the forward-looking statements to reflect actual results, future events or developments, changes in assumptions or changes in other factors affecting the forward-looking statements. You are advised, however, to consult any further disclosures the Company makes on related subjects in reports and communications that the Company files with the CVM and the SEC.



## Personal Mobility

- Annual growth of **24%** in **mobile data revenues**
- Oi Livre* reached **33% of prepaid base** with a **19% increase in recharges** of customers who migrated from old offers to *Oi Livre per week*
- Oi Mais* customers **with ARPU 32% higher** than the ARPU of other postpaid offers

## Residential

- Annual increase of **4.2%** in Residential **ARPU**
- Improving RGUs trends** in all products, especially TV and broadband, both presenting net adds
- Nationwide launch of convergent offer *Oi Total*: **19% of March sales were to new customers**

## B2B

- About **80,000** SMEs joined *Oi Mais Empresas*
- Oi Mais Empresas* app with **93% customer satisfaction**

**Brazilian operational costs: real decrease** of approximately **10%** in the year

Evolution of Oi's brand with new positioning: **to enhance connections that drive people**



## 1. Business transformation

- Transformation Plan is based on pillars of convergence, digitalization, austerity in costs and customer experience.
- Relaunch of brand with broader purpose.
- Increase in commercial activity driven by the launch of disruptive new offers (Oi Livre, Oi Mais, Oi Mais Empresas and Oi Total).
- Modernization and capacity expansion of network, supporting new launches and improving substantially customer experience.
- Cost efficiency: 1.2%\* y.o.y. reduction [approx. 10% of real decrease].
- Focus on structural projects to improve service quality and strict cost control.

\* Brazilian operations.

## 2. Improvement of regulatory environment

- TAC: First set of projects in the final stages of ANATEL approval process. Three board members have already voted in favor.
- Concession: Ministry of Communications published ordinance with guidelines for ANATEL to execute the necessary adjustments to the current rules of the sector.

## 3. Capital structure: optimization of liquidity and debt profile

- Engagement of PJT Partners as financial advisor and White & Case and Barbosa Müssnich Aragão as legal advisors, to assist Oi in evaluating financial and strategic alternatives to optimize its liquidity and debt profile.
- Signing of non-disclosure agreement with Moelis & Company, in the quality of advisor of a committee of bondholders, to initiate discussions on the terms of a potential debt restructuring.

1

**BUSINESS  
TRANSFORMATION**



# REVENUES IMPACTED BY MACRO ENVIRONMENT. MAINTENANCE OF STRICT COST CONTROL, DESPITE INFLATIONARY PRESSURE AND INCREASED COMMERCIAL ACTIVITY.



## Financial highlights

R\$ million

	1Q16	1Q15	y.o.y.	4Q15	q.o.q.
<b>Brazil</b>					
<b>Net Service Revenues<sup>1</sup></b>	<b>6,480</b>	<b>6,639</b>	<b>-2.4%</b>	<b>6,474</b>	<b>+0.1%</b>
Residential	2,394	2,491	-3.9%	2,392	+0.1%
Personal Mobility	1,974	2,060	-4.2%	2,050	-3.7%
Customer <sup>2</sup>	1,784	1,799	-0.8%	1,830	-2.5%
Corporate/SMEs	2,065	2,019	+2.3%	1,984	+4.1%
<b>Net Customer Revenues<sup>2</sup></b>	<b>6,159</b>	<b>6,203</b>	<b>-0.7%</b>	<b>6,078</b>	<b>+1.3%</b>
<b>Routine OPEX</b>	<b>4,853</b>	<b>4,912</b>	<b>-1.2%</b>	<b>4,786</b>	<b>+1.4%</b>
<b>Routine EBITDA</b>	<b>1,686</b>	<b>1,928</b>	<b>-12.6%</b>	<b>1,745</b>	<b>-3.4%</b>
Routine EBITDA margin	25.8%	28.2%	-2.4pp	26.7%	-0.9pp
<b>CAPEX</b>	<b>1,204</b>	<b>984</b>	<b>+22.3%</b>	<b>1,072</b>	<b>+12.3%</b>
<b>Routine EBITDA – Capex</b>	<b>482</b>	<b>944</b>	<b>-49.0%</b>	<b>673</b>	<b>-28.4%</b>
<b>Consolidated</b>					
<b>Reported EBITDA</b>	<b>1,766</b>	<b>2,011</b>	<b>-12.2%</b>	<b>1,706</b>	<b>+3.5%</b>

1 - Excludes handset revenues; 2 - Excludes revenues from handsets and network usage.

# SELECTIVE INCREASE IN COMMERCIAL ACTIVITY, WITH IMPROVING TRENDS, SUPPORTED BY NEW PORTFOLIO OF OFFERS AND FOCUS ON PROFITABILITY AND EFFICIENCY

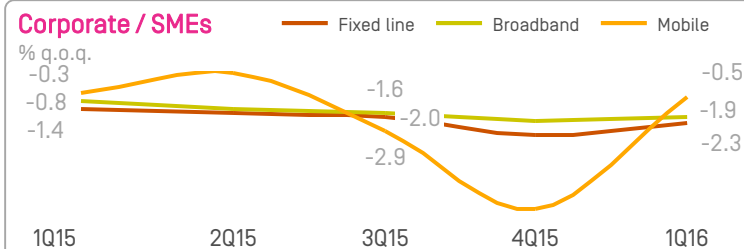
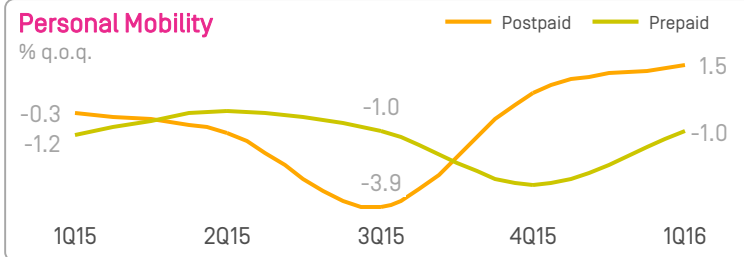
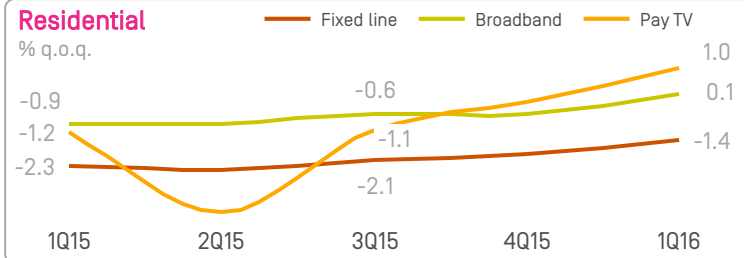


## Operational highlights

In thousands of RGUs

	1Q16	y.o.y.	q.o.q.
<b>Total - Brazil</b>	<b>69,496</b>	<b>-5.5%</b>	<b>-0.8%</b>
<b>Residential</b>	<b>16,170</b>	<b>-5.7%</b>	<b>-0.8%</b>
Fixed line	9,874	-7.7%	-1.4%
Broadband	5,115	-1.9%	+0.1%
Pay TV	1,181	-4.2%	+1.0%
<b>Residential ARPU</b>	<b>80.8</b>	<b>+4.2%</b>	<b>+1.5%</b>
<b>Personal Mobility</b>	<b>45,559</b>	<b>-5.0%</b>	<b>-0.7%</b>
Prepaid	38,668	-5.3%	-1.0%
Postpaid	6,891	-3.2%	+1.5%
<b>Corporate/SMEs</b>	<b>7,115</b>	<b>-9.2%</b>	<b>-1.7%</b>
Fixed line	4,335	-8.8%	-2.3%
Broadband	569	-7.0%	-1.9%
Mobile	2,211	-10.5%	-0.5%
<b>Public phones</b>	<b>651</b>	<b>-0.2%</b>	<b>0.0%</b>

## q.o.q. - Trends



# REVENUE EVOLUTION IMPACTED BY REDUCTION IN INTERCONNECTION TARIFFS, OUTSOURCING OF HANDSET SALES AND MACROECONOMIC ENVIRONMENT



## Total net revenues

R\$ million

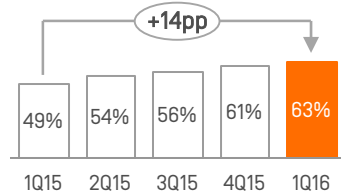
	1Q16	1Q15	y.o.y.	4Q15	q.o.q.
<b>Brazil</b>	<b>6,539</b>	<b>6,841</b>	<b>-4.4%</b>	<b>6,531</b>	<b>+0.1%</b>
Residential	2,394	2,491	-3.9%	2,392	+0.1%
Personal Mobility	2,032	2,259	-10.0%	2,106	-3.5%
Services	1,974	2,060	-4.2%	2,050	-3.7%
<i>Customers</i>	1,784	1,799	-0.8%	1,830	-2.5%
<i>Network Usage</i>	189	260	-27.2%	219	-13.7%
Sales of handsets and others	58	199	-70.8%	56	+3.0%
Corporate/SMEs	2,065	2,021	+2.2%	1,984	+4.1%
Other Services	48	70	-32.1%	48	-1.2%
<b>Other</b>	<b>217</b>	<b>199</b>	<b>+8.7%</b>	<b>173</b>	<b>+25.5%</b>

# SOLID DATA GROWTH CONTINUES TO SUSTAIN PERSONAL MOBILITY RESULTS IN AN ADVERSE ENVIRONMENT, ESPECIALLY FOR PREPAID ...



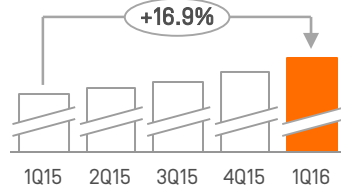
## 3G/4G handset penetration

% of total base



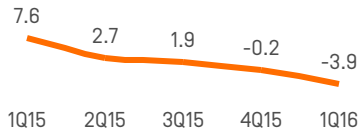
## Postpaid gross ARPU (ex-MTR)

Indexed



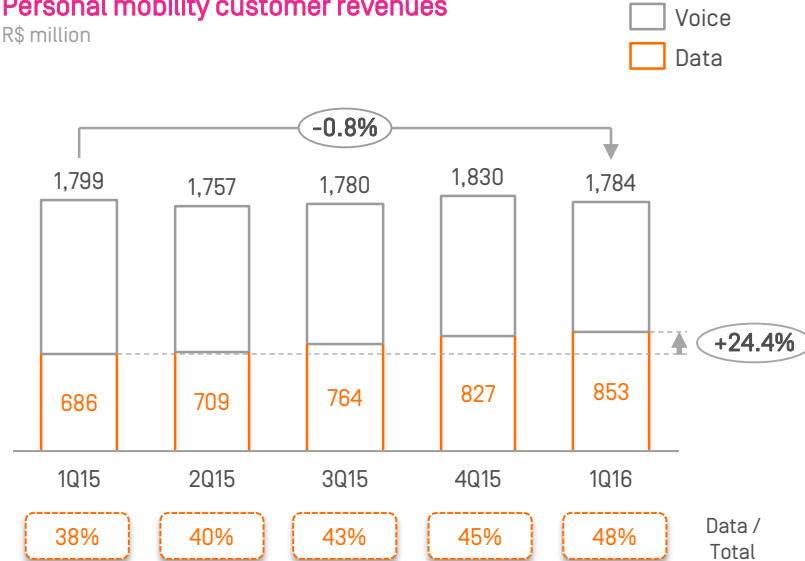
## Recharges<sup>1</sup>

% y. o. y. (Financial volume)



## Personal mobility customer revenues

R\$ million



1 - Recharges include the prepaid portion of fixed+prepaid offers (OVT).

- Continuous growth of data revenues [+24.4% y.o.y.]
- Data revenues represented 48% of customer revenues in this quarter [+10 p.p. y.o.y.]
- Greater profitability of customer base as a result of better mix of acquisition, increased penetration of smartphones and launch of new offers
- Prepaid recharges impacted by macroeconomic slowdown
- VAS such as *Oi Mais Música*, *Oi Apps Clube*, *Oi Revistas*, *Oi Segurança* and *Oi Recompensa* stimulate data revenues increase

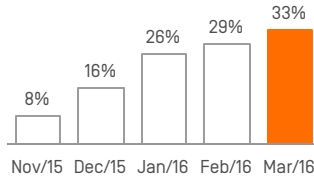
# ... HOWEVER, NEW ALL-NET OFFERS HAVE SHOWN POSITIVE PRELIMINARY RESULTS, MINIMIZING MACRO ENVIRONMENT IMPACTS WHEN COMPARED TO PEERS



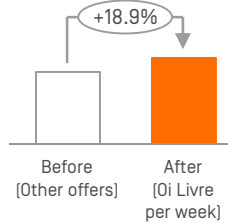
## Oi Livre [prepaid]



**Oi Livre customer base**  
% of total prepaid customer base

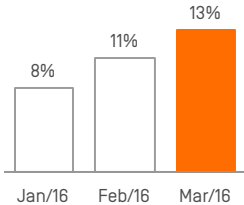


**Recharges of customers who migrated to Oi Livre per Week**  
Indexed

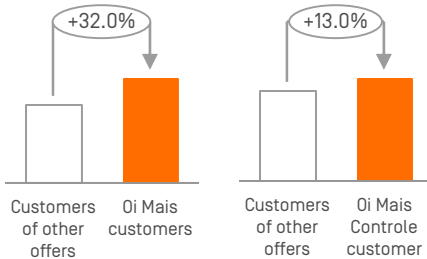


## Oi Mais (postpaid and control)

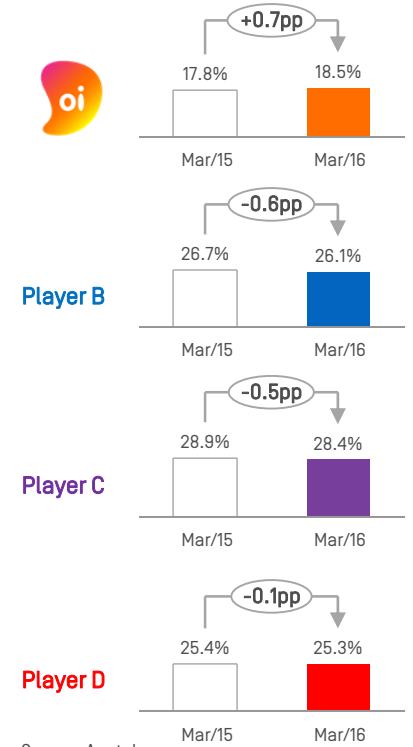
**Oi Mais and Oi Mais Controle base**  
% of total postpaid and control base



**ARPU Oi Mais vs. other plans**  
Indexed



## Mobile market share

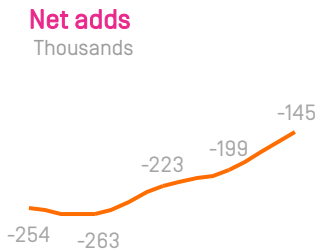


Source: Anatel

# RESIDENTIAL: RESUME OF COMMERCIAL ACTIVITY WITH NEW PORTFOLIO OF OFFERS AND ACTIONS ON PROFITABILITY AND RETENTION LEAD TO IMPROVEMENTS IN NET ADDS AND ARPU GROWTH

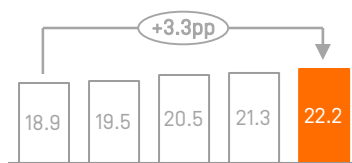


## Fixed Line

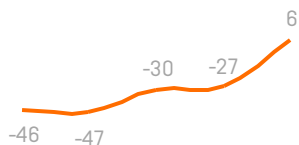


## Penetration of unlimited plans

% of total fixed line customer base

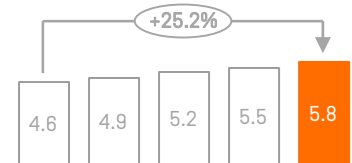


## Broadband

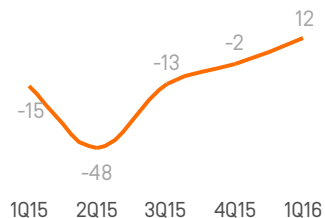


## Average speed

Mbps. total broadband customer base

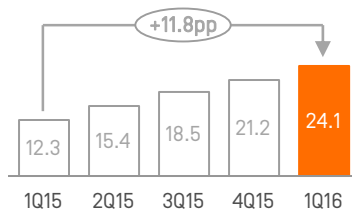


## TV



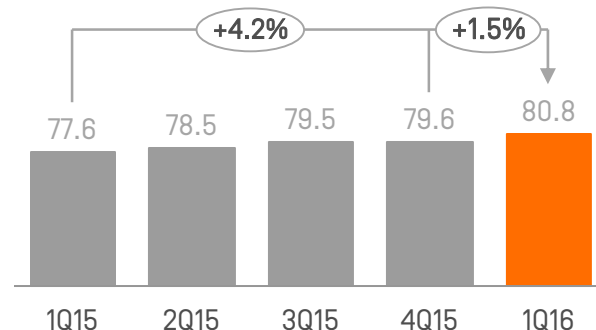
## High-end mix

% of total TV customer base



## Residential ARPU

R\$



- Acceleration of gross adds and better churn rates, sustained by the new portfolio of offers and retention actions
- Quality of sales with a focus on profitability and customer experience
- Sales concentrated on higher value offers
- Broadband speed keeps increasing (54% of gross adds with speeds equal or higher than 10 Mbps)

# PRELIMINARY RESULTS OF CONVERGENT PLAN, OI TOTAL, SHOW POTENTIAL OF NEW OFFER ON CUSTOMER BASE PROFITABILITY AND GROWTH

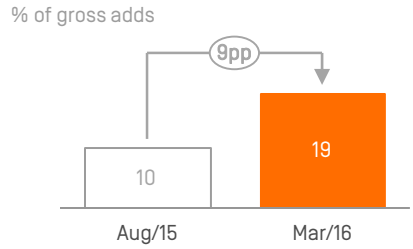


## Nationwide launch of Oi Total (ex-SP)

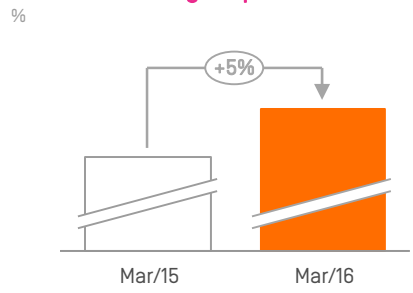


- Commercial leverage in states with the inclusion of Oi Total:
  - More RGUs per household
  - Higher acquisition of new customers [households]: 19% of Oi Total sales come from new customers
- Launch of new services adding value to the Oi Total offer:
  - Oi Play** - multidevice portal with live and non-linear content
  - VDSL** - new broadband speeds up to 35 Mbps
  - All-net calls** - mobile minutes to call any operator

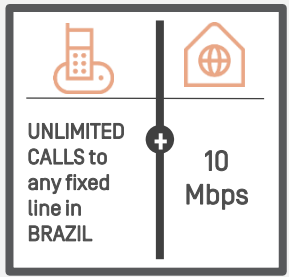
## Oi Total Residencial sales for new customers



## ARPU of convergent plans



## Oi Total convergent platform



Oi Total Solução Completa

Oi Total Residencial

Oi Total Conectado

Plans\*

+ R\$229.90 - R\$449.90
 R\$169.90 - R\$279.90
 R\$169.90 - R\$279.90

\*Plans: Basic, Intermediate, Advanced and Top. Prices may vary according to minutes/internet usage and number of channels.

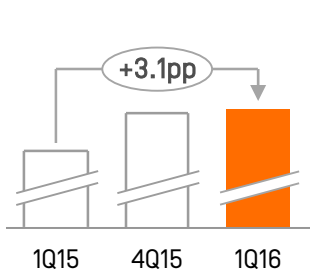
# B2B HAS BEEN INCREASING THE SHARE OF DATA/IT SERVICES AND IMPROVING THE QUALITY OF REVENUES WITH INVESTMENTS IN DIGITALIZATION AND BETTER CUSTOMER EXPERIENCE



## Corporate: less dependency on voice services

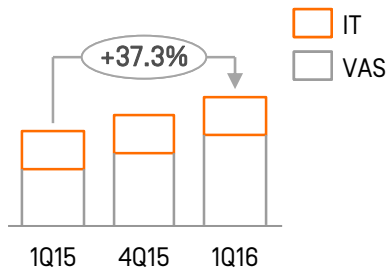
### Non-voice revenues<sup>1</sup>

% of Corporate revenues



### Non-traditional services<sup>2</sup>

Indexed. Revenues.



- Focus on profitability through data and IT/IS services (Network security, Cloud, Home Office, Security VAS and managed services, etc.)
- Growth on IT and other non-traditional services to reduce dependency on voice
- Improved customer experience via simplification and automation of delivery chain and convergence of post sale service (IT and telecom)

1 - 1Q15 excludes FIFA revenues.

2 - IT = Cloud, ICT and Datacenter services; VAS = Managed Services, Security Solutions and Special Projects

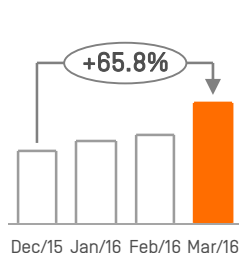
3 - Includes fixed, broadband and mobile.

4 - Includes fixed and mobile.

## SMEs: *Oi Mais Empresas* launch positively impacts gross and ARPU. App reduces billing complaints.

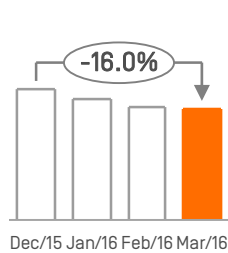
### Gross adds<sup>3</sup>

RGUs (thousand)



### Billing complaints<sup>4</sup>

R\$

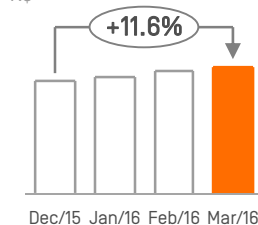


### *Oi Mais Empresas* App



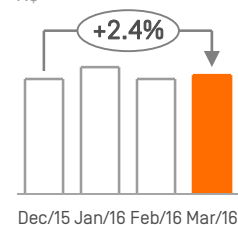
### ARPU gross – fixed line

R\$



### ARPU gross – mobile

R\$



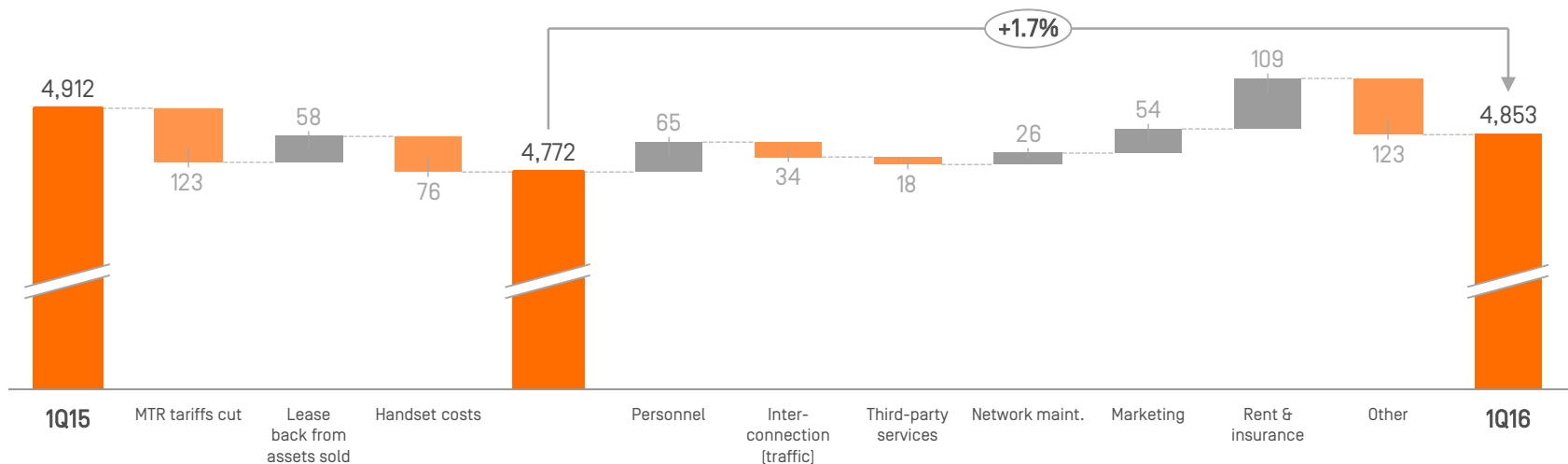
# AUSTERITY AS ONE OF THE PILLARS OF TRANSFORMATION KEEPS COSTS UNDER CONTROL DESPITE NEARLY 10% INFLATION IN THE LAST 12 MONTHS



## Routine operating costs and expenses

R\$ million – Brazilian operations

12-month inflation: +9.4%



# AS PART OF THE TRANSFORMATION PLAN, FOCUS IN 2016 REMAINS ON IMPROVING QUALITY OF SERVICES AND STRICT COST CONTROL



## Transformation Plan



### Digitalization

Increased availability and agility of potential connections to customers.



### Data

Data availability responds to new communication style of most consumers.



### Convergence

Convergent offers and plans bring unique, complete and comfortable experience and higher profitability.

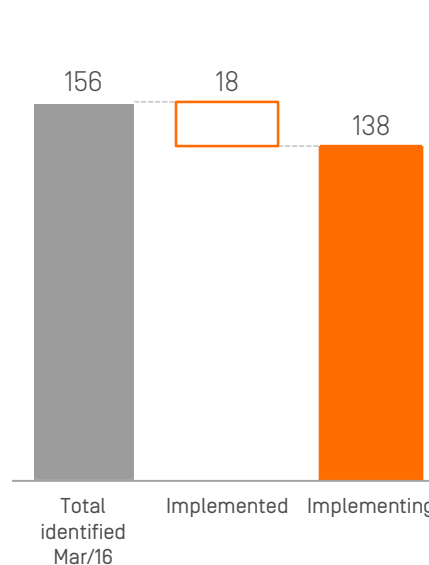


### Costs

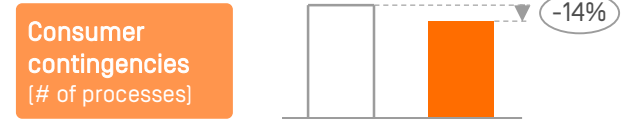
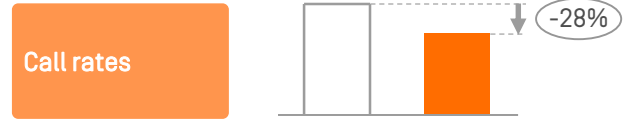
Controlled costs allow Oi to deliver more and better, while meeting customer price requirements.

## New initiatives identified and implemented

Number of initiatives [accumulated]



## Examples of key subjects for 2016 and initial results



<sup>1</sup> measures levels of satisfaction and loyalty of consumers

# DIGITAL: A CRUCIAL MOVEMENT FOR OI'S TRANSFORMATION. SIGNIFICANT AND QUICK GAINS VIA DIGITALIZATION OF THE CORE TO FINANCE THE JOURNEY FOR A "DIGITAL OI".



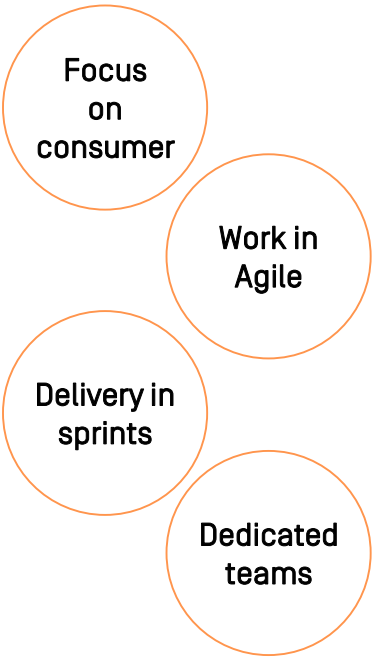
The world changes ...



... and Oi changes with it

**A** Disruption via New Digital Businesses, redesigning customers' journey

**B** Financing of journey via Digitalization of the Core Business



Digital 2.0 captures the value of the digitalization of the core and positions it into new value proposals

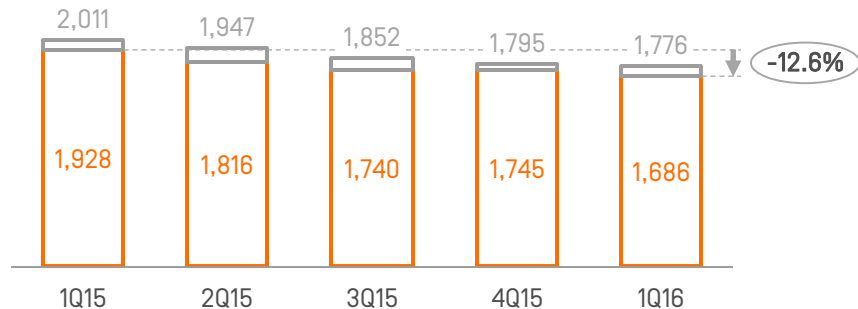
# EBITDA IMPACTED BY REVENUE DECREASE DUE TO ADVERSE MACRO ENVIRONMENT. CAPEX INCREASE AIMED AT NETWORK IMPROVEMENT.



## Routine EBITDA

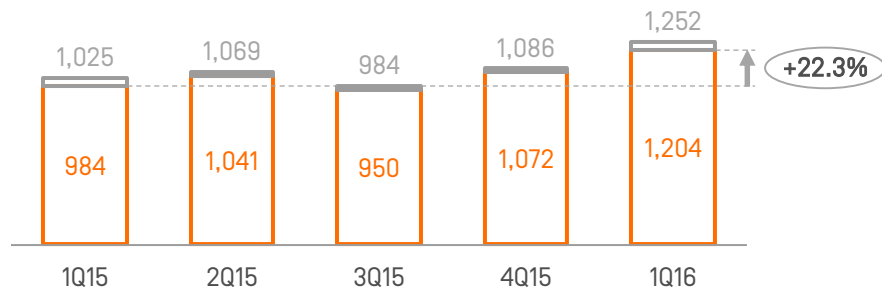
R\$ million

□ Brazil □ Other



## CAPEX

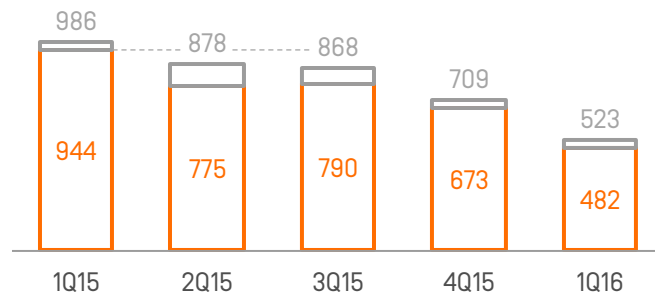
R\$ million



## Routine EBITDA minus CAPEX

R\$ million

□ Brazil □ Other



- Revenues impacted by macro environment
- Costs under control despite inflation and more intense commercial activity
- Increased investments in network to support business transformation plan

# INVESTMENTS ON INFRASTRUCTURE IMPROVE CUSTOMER EXPERIENCE AND SPEED UP TIME-TO-MARKET ON THE LAUNCH OF NEW OFFERS



Investments in modernization and capacity expansion of network and IT...



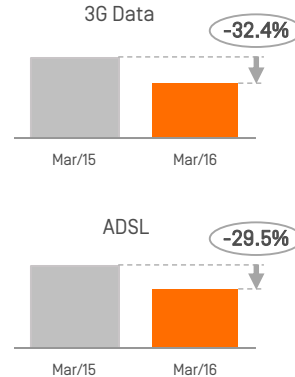
- Expansion and modernization of transport network:
  - New optical backbone - OTN 100G
  - New IP network - Single Edge
  - Inner Core
- Fiber and capacity swap aiming to improve network resilience
- IT architecture consolidation

... allow the delivery of new products that offer what the customer wants ...

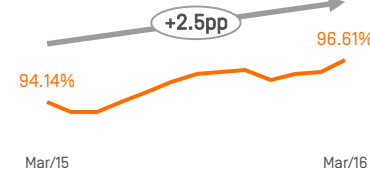


... with increasing level of quality.

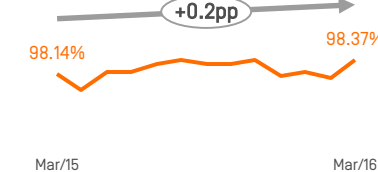
**Bandwidth congestion**  
% congestion



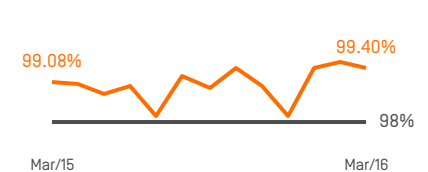
**Data access** ↑  
2G/3G/4G



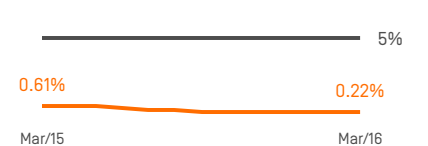
**Voice access** ↑  
2G/3G



**SMP8 - Data connection rate** ↑  
2G/3G



**SMP9 - Data drop rate** ↓  
2G/3G



Source: ANATEL and Company's data

2

**REGULATORY  
ENVIRONMENT**





## CONCEPT

- The TAC implies investments from Oi over 4 years for the execution of adjustments of conduct, allowing the exchange of fines for infrastructure projects and/or benefits for the consumers.
- Opportunity to transform Oi's operations, improving the quality of its service and increasing regulatory compliance.

## STATUS

- Oi's first TAC is focused on Service Quality and Universalization and has reached its last stages to be approved by ANATEL's Board [already with 3 favorable votes].
  - Upon approval, the proposal will be sent to the Federal Court of Audit (TCU) for its appraisal. If no changes are made, ANATEL and Oi will have up to 30 days for the signing of the TAC contract.
  - Other TACs [e.g. issues related to consumer rights] will come after the analyses from ANATEL's technical areas.



## CONCEPT

- Substantial reduction in obligations for voice services universalization, given (i) lack of attractiveness to society, and (ii) unsustainability of the current concession model.
- Extinction of the biannual concession fee [2% of fixed line voice revenues].
- Release of the reversible and non reversible assets.
- Fixed broadband goals that will only be committed if (i) financial resources are released for such purpose and (ii) goals are operationally feasible.
- Considering the five-year term, this is a unique regulatory time window to review the regulatory environment and migrate to a more sustainable model of wireline services: from concession to authorization.

## STATUS

- There were already 2 votes from the ANATEL Board members regarding service Concession and Universalization. Both reports indicate a change from a concession to an authorization license, but with different approaches. A third member asked to review the subject on April 14 and should present his vote by June 23.
- On April 6, the Ministry of Communications published a report with guidelines regarding alternatives for the review of the model of telecommunications services in Brazil.
- An update of the regulatory framework by ANATEL is necessary and the outputs must be financially and operationally reasonable in order to be accepted by the current concessionaries.
- It is critical that the broadband expansion program, to be published by the government, must be realistic and consistent to market demands.

# CELEBRATION OF TAC AND CONCESSION REVIEW WILL CONTRIBUTE TO OI'S TRANSFORMATION THROUGH A BALANCED AND SUSTAINABLE REGULATORY FRAMEWORK



## TAC: TERMS OF ADJUSTMENT OF CONDUCT

- Correction of non-conformities with increase of regulatory compliance
- Exchange of approx. R\$5 billion in fine liabilities for investments in infrastructure and/or benefits to customers (considering discounts rules)
- 4 years to adjust conduct



## CONCESSION AGREEMENT REVIEW

- Sustainable revised contract with more reasonable targets
- Possibility to evolve regulatory framework from concession into authorization
- Autonomy on asset management
- Broadband driven policies



## BALANCED REGULATORY MODEL

- Greater adherence to society's needs
- Greater financial sustainability
- Regulatory contingencies regularized
- Investments in core business and oriented to attend consumers' needs
- Compliance with agreed rules

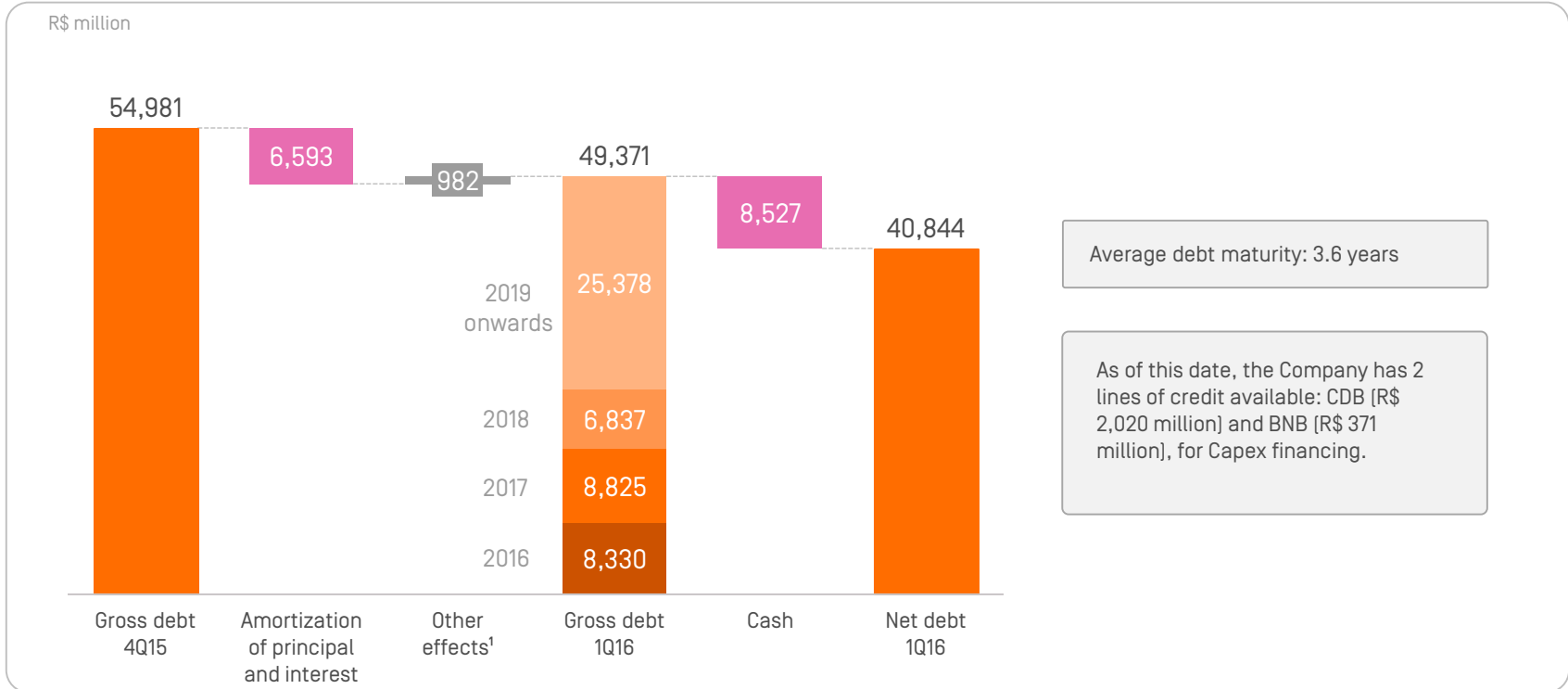
Both topics are expected to be concluded in 2016

3

A man in a dark suit and tie is looking at his smartphone in a modern office setting. The background is a bright, blurred office interior with white railings and large windows. The text 'CAPITAL STRUCTURE' is overlaid in large, bold, orange letters at the bottom right of the image.

**CAPITAL  
STRUCTURE**

# NET DEBT AS OF MARCH, 31, 2016



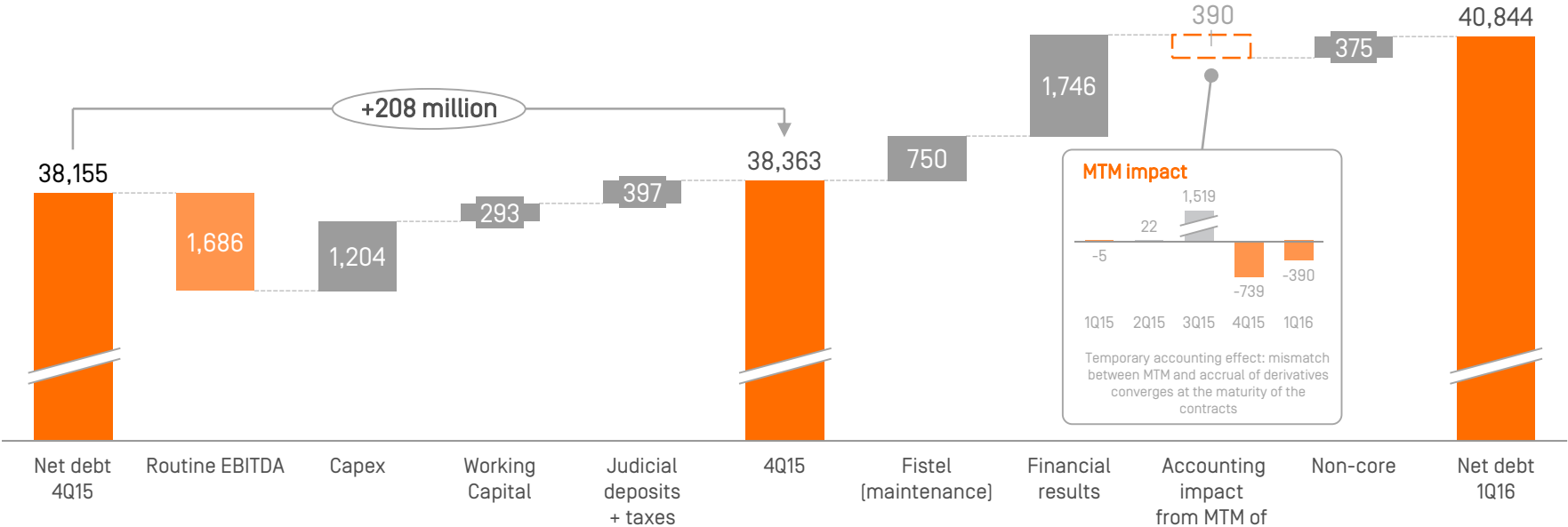
<sup>1</sup> Includes: (i) interest accrual, exchange variation and hedging results, (ii) impact from MTM of derivatives, and (iii) payment of derivatives.

# OPERATIONAL CASH FLOW REFLECTS CAPEX INCREASE. NET DEBT IMPACTED MAINLY BY FINANCIAL RESULTS AND ANNUAL REGULATORY FEE.



## Change in net debt

R\$ million





## 1. Business transformation

- Transformation Plan is based on pillars of convergence, digitalization, austerity in costs and customer experience.
- Relaunch of brand with broader purpose.
- Increase in commercial activity driven by the launch of disruptive new offers (Oi Livre, Oi Mais, Oi Mais Empresas and Oi Total).
- Modernization and capacity expansion of network, supporting new launches and improving substantially customer experience.
- Cost efficiency: 1.2%\* y.o.y. reduction [approx. 10% of real decrease].
- Focus on structural projects to improve service quality and strict cost control.

\* Brazilian operations.

## 2. Improvement of regulatory environment

- TAC: First set of projects in the final stages of ANATEL approval process. Three board members have already voted in favor.
- Concession: Ministry of Communications published ordinance with guidelines for ANATEL to execute the necessary adjustments to the current rules of the sector.

## 3. Capital structure: optimization of liquidity and debt profile

- Engagement of PJT Partners as financial advisor and White & Case and Barbosa Müssnich Aragão as legal advisors, to assist Oi in evaluating financial and strategic alternatives to optimize its liquidity and debt profile.
- Signing of non-disclosure agreement with Moelis & Company, in the quality of advisor of a committee of bondholders, to initiate discussions on the terms of a potential debt restructuring.