

OI S.A.
Form 6-K
May 15, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer Pursuant to Rule 13a-16 or
15d-16 of the Securities Exchange Act of 1934

For the month of May 2014

Commission File Number: 1-15256

OI S.A.

(Exact Name as Specified in its Charter)

N/A

(Translation of registrant's name into English)

Rua General Polidoro, No. 99, 5th floor/part Botafogo

22280-001 Rio de Janeiro, RJ

Federative Republic of Brazil

(Address of principal executive offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F: x Form 40-F: "

Edgar Filing: OI S.A. - Form 6-K

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1)):

Yes: No:

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7)):

Yes: No:

(Indicate by check mark whether the registrant by furnishing the information contained in this Form, the Registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes: No:

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

QUARTERLY REPORT

Consolidated Information and Earnings (Unaudited)

This report contains the operating and financial performance of Oi S.A. and its direct and indirect subsidiaries for the first quarter of 2014.

Oi S.A. | www.oi.com.br/ir

Steady progress in the execution of the Company's business priorities

1Q14

During 1Q14 Oi continued to make further progress against its business priorities: opex control, capex control, asset monetisation, synergies and transformation of business model.

Routine opex declined by 4.8% y.o.y to R\$5,167 million. Excluding interconnection costs, non routing opex and rentals on asset sales declined only by 1.5% y.o.y, notwithstanding inflation observed during the last quarters. This reflected a significant effort on field force transformation, including the rollout of Click, process reengineering and multi skill, the renegotiation of scope and terms of major supplier contracts and the IT transformation. Oi also focused on overhead optimization and tight control of G&A expenses, including reduction of overtime, incentive to online billing amongst other initiatives.

Capex declined by 29% y.o.y to R\$1,208 million, reflecting more granular approach to investment and a focus on strengthening the partnership with key suppliers, including the rationalisation of supplies, the renegotiation of key contracts and focus on optimising the total cost of ownership of the network and ext rating network synergies amongst different technologies and with other partners, through RAN sharing.

During 1Q14 Oi did further progress on asset monetisation, having completed the sale of the second tranche of mobile towers in March 2014. During 1Q14 Oi received R\$3.3 billion related to the sale of Globenet in December 2013 and to the aforementioned sale of mobile towers. Whilst these initiatives represented an additional operational cost in 1Q14 with an impact of R\$156 million on EBITDA, these have a positive impact on cash-flow, including opex, capex and tax considerations.

On synergies of the combination between Oi and PT, further integration initiatives have been taken across various business segments and across operations.

Also during 1Q14, Oi continued to work on the transformation of its business and operating model across the various segments. On the residential segment Oi relaunched its TV service and increased efforts on Oi Voz Total and Oi Conta Total. On the personal mobility side Oi continued to do further progress on Oi Galera, Tudo por dia and bundling new data packages. In the corporate and enterprise segment, Oi also continued to do further progress on data center and cloud services and ICT services.

The performance of net revenues reflected primarily the decline in mobile termination rates with impact on Personal Mobility, Corporate and SMEs segments. Net revenues declined by 2.3% year-over-year to R\$6.9 billion, reflecting also the slowdown in handset sales and the focus on quality of sales and profitability.

EBITDA totaled R\$2.9 billion in 1Q14 (+37.5% vs 1Q13), impacted by the gain from sale of a tranche of mobile towers in the amount of R\$1.3 million. Excluding this one-off event, routine EBITDA improved 5.9% year-over-year, underpinned by continued efficiency gains and business transformation.

Operational cash flow (routine EBITDA minus Capex) reached R\$502 million, a 74.9% YoY increase and a 3.7% sequential growth, as a consequence of the improvement on routine EBITDA, cost control and Capex optimization.

Net income ended at R\$227 million, 13% lower than 1Q13, mainly due to higher financial results and income tax / social contribution.

Net debt totaled R\$30.3 billion, a sequential improvement of R\$1 billion (-3.3%), explained by the cash received from the GlobeNet and mobile towers sales and the improvement of the routine cash flow in R\$500 million, already observed on the previous quarter, demonstrating the Company's discipline on cash flow protection.

Revenue Generating Units (RGUs) stood at 74.6 million at the end of 1Q14, stable when compared to 1Q13, resulting from the Company's commitment to sales quality and profitability.

Consolidated Results

	1Q14	1Q13	4Q13	YoY	QoQ
Oi S.A.					
Revenue Generating Unit (000)	74,600	74,705	74,466	0.1%	0.2%
Residential	17,661	18,471	17,837	4.4%	1.0%
Personal Mobility	48,145	46,569	47,727	3.4%	0.9%
Corporate / SMEs	8,137	8,949	8,246	9.1%	1.3%
Public Telephones	657	716	655	8.2%	0.3%
Net Revenue (R\$ million)	6,877	7,041	7,209	2.3%	4.6%
Residential	2,552	2,555	2,606	0.1%	2.1%
Personal Mobility	2,166	2,316	2,389	6.5%	9.3%
Corporate / SMEs	2,091	2,079	2,117	0.6%	1.2%
VAS and Others	66	91	97	27.5%	32.0%
EBITDA (R\$ million)	2,957	2,151	3,496	37.5%	15.4%
EBITDA Margin (%)	43.0%	30.5%	48.5%	12.5 p.p.	5.5 p.p.
Routine EBITDA (R\$ million)	1,710	1,615	1,999	5.9%	14.5%
Routine EBITDA Margin (%)	24.9%	22.9%	27.7%	2.0 p.p.	2.8 p.p.
Net Earnings (R\$ million)	228	262	1,183	13.0%	80.7%
Net Debt (R\$ million)	30,291	28,390	31,331	6.7%	3.3%
Available Cash (R\$ million)	4,166	5,163	3,016	19.3%	38.1%
CAPEX (R\$ million)	1,208	1,691	1,515	28.6%	20.3%

Note: SMEs - small and medium enterprises.

Net Revenue:

Table 1 Breakdown of Net Revenue

R\$ million	Quarter			YoY	QoQ	%	
	1Q14	1Q13	4Q13			1Q14	1Q13
Residential	2,552	2,555	2,606	0.1%	2.1%	37.1%	36.3%
Personal Mobility	2,166	2,316	2,389	6.5%	9.3%	31.5%	32.9%
Service	2,053	2,168	2,228	5.3%	7.9%	29.8%	30.8%
Customer ⁽¹⁾	1,654	1,597	1,737	3.6%	4.8%	24.0%	22.7%
Network Usage	399	571	490	30.1%	18.6%	5.8%	8.1%
Sales of handsets, sim cards and others	114	148	161	23.0%	29.2%	1.7%	2.1%
Corporate / SMEs	2,091	2,079	2,117	0.6%	1.2%	30.4%	29.5%
Other Services	66	91	97	27.5%	32.0%	1.0%	1.3%
Public Phone	10	3	13	233.3%	23.1%	0.1%	0.0%
VAS and Others	56	89	84	37.1%	33.3%	0.8%	1.3%
Total Net Revenue	6,877	7,041	7,209	2.3%	4.6%	100.0%	100.0%

Note: (1) Includes subscriptions, outgoing calls, mobile long distance, roaming, data and value added services.

Net revenue totaled R\$6.9 billion in 1Q14, 2.3% down from the same period of the previous year, chiefly due to the reduction in network usage revenue, as a result of lower interconnection tariffs in mobile voice services (MTR cuts), with impact on Personal Mobility, Corporate and SMEs segments. Revenues in the Residential segment remained stable with the increase in broadband and pay TV offsetting the decline in fixed line voice. In Personal Mobility segment, the customer revenues grew 3.6% YoY, on the back of greater data usage and stronger recharge volume, while revenue from handset sales declined 23.0% YoY, reflecting the focus on quality of sales and profitability. Corporate/SMEs revenues remained stable, with the good performance on Corporate, underpinned by the increase of data and IT revenues, compensating the decline in SMEs, which is under an ongoing restructuring process.

In comparison to the previous quarter, net revenue fell by 4.6% mainly as a result of the decline in network usage and the seasonal impacts on traffic, data usage and handset sales, when we compare the fourth quarter, which has Christmas season, with the first quarter, which historically concentrates holidays in Brazil.

Residential

	1Q14	1Q13	4Q13	YoY	QoQ
Residential					
Net Revenue (R\$ million)	2,552	2,555	2,606	0.1%	2.1%
Revenue Generating Units (RGU) - (000)	17,661	18,471	17,837	4.4%	1.0%
Fixed Line in Service	11,556	12,383	11,750	6.7%	1.7%
Fixed Broadband	5,277	5,251	5,258	0.5%	0.4%
Pay TV	828	837	829	1.1%	0.1%
ARPU Residential (R\$)	73.6	68.8	73.9	7.0%	0.4%

Net revenue from the Residential segment totaled R\$2.6 billion in 1Q14, in line with the same period of the previous year. This performance reflected the continuing increase in broadband (+6.5% y.o.y.) and pay TV (+18.1% y.o.y.) revenues, which offset the decline in fixed voice revenue (-3.2% y.o.y). Important to highlight that the focus on improving quality of sales/base of clients, process and profitability have been consistently translated into better net revenue performance when compared to RGU performance.

The 2.1% sequential decline in net revenue reflects lower fixed line traffic, basically due to seasonal impacts and lower base, partially offset by the increase in broadband revenue. Pay TV revenue maintained stable as a result of minor commercial efforts in the last couple of quarters, when the company was preparing the launch of the new TV product occurred in March.

Upselling has continued to play a major role in ARPU growth, both in pay TV, with the offer of more complete packages and additional premier channels, and in broadband, underpinned by network improvements and attractive offerings designed to offer higher speeds. As a result, the share of speeds equal to or greater than 5 Mbps in the gross addition has increased substantially, and consequently has been impacting the base mix. In 1Q14, the average broadband speed was 4.0 Mbps, an increase of 17.6% over 1Q13. Additionally, in March 2014, 59% of the households connected to the network had more than one Oi product, a YoY increase of 3.0 p.p.. Following the Company's strategy of offering multiple-play services and implementing initiatives to increase profitability and customer loyalty, Residential ARPU grew 7.0% over 1Q13, reaching R\$73.6 in 1Q14.

Residential sales channels and processes have been restructured in order to reduce the risk of fraud and improve sales quality. Additionally, the implementation of Click has been expanded to other regional units now in the roll-out phase. Click is a Workforce Management tool (WFM) whose main focuses are the control of fieldforce activities, aimed at improving productivity and quality of service, increasing the rate at which installations are successfully completed, reducing complaints and lowering operating costs. In 1Q14, Click had already been fully implemented in the regional units of Minas Gerais, Pernambuco, Ceará and the North regional unit (Amapá, Amazonas, Pará and Roraima).

All in all, the Company continued the efforts to improve the quality of its sales and continued to focus on the strategy based on bundles, initiatives on existing customer retention and upselling, leading to increase ARPU and to a higher quality and more profitable customer base.

Wireline

At the end of 1Q14, Oi had 11,556 thousand wireline customers in the Residential segment, with net disconnections of 827 thousand fixed lines, or 6.7% down from 1Q13, and 1.7% or 194 thousand fixed lines less than in 4Q13. This performance resulted from lower gross additions, due to the maintenance of a more conservative credit policy and the natural reduction in sales volume following the sales channels restructuring, combined with the maintenance of a strict involuntary churn policy.

Retention rates improved throughout 2013 and 1Q14, due to cross selling efforts and other retention initiatives, aimed at offering products that are most suited to customers' current profiles. The options offered by the salesforce include customized wireline offers and bundled packages combining broadband, pay TV and mobile services, as well as plans in the Personal Mobility segment that promote fixed-to-mobile convergence.

The bundled offerings *Oi Conta Total* and *Oi Voz Total* have successfully increased ARPU and reduced churn. All these bundled offerings have a significant lower churn rate when compared to single products. *Oi Conta Total* (OCT) is a triple-play postpaid offer that combines wireline, broadband and postpaid mobile, and that can also be combined with pay TV (quadruple-play) and mobile data packages, while *Oi Voz Total* is a double-play offer combining wireline and prepaid mobile designed to improve fixed-to-mobile convergence, thereby increasing wireline customer loyalty. This offering has been presenting strong addition volume and already corresponded to approximately 12% of the wireline base in 1Q14, which represented a YoY increase of 42% in the number of fixed lines bundled with prepaid. In addition, it recorded a churn rate 36% lower than the standard wireline churn rate.

Broadband

Oi ended the first quarter with 5,277 thousand fixed broadband RGUs in the Residential segment, 0.5% up from 1Q13 and 0.4% higher than in 4Q13. The penetration of Oi's fixed broadband in residences with Oi products reached 45.7%, 1.7 p.p. up from the 44.0% recorded in 1Q13 and 1.5 p.p. higher than the 44.2% recorded in 4Q13. The slowdown in the annual RGU growth is a consequence of the Company's focus on sales quality, through a more restrictive credit policy and the sales channel restructuring.

In 1Q14, the average speed for Residential broadband customers moved up by 17.6% YoY, from 3.4 Mbps in 1Q13, to 4.0 Mbps. There was also an 8 p.p. year-on-year increase in the share of RGUs with speeds equal to or greater than 5 Mbps, ending 1Q14 at 41%. Approximately 19% of broadband RGUs have speeds equal to or greater than 10 Mbps (+4 p.p. YoY). The average speed of gross additions increased by 48.3% YoY, from 2.9 Mbps to 4.3 Mbps. Currently, around 51% of our gross additions have speeds equal to or greater than 5 Mbps and 21% have speeds equal to or greater than 10 Mbps. These advances are the result of Oi's efforts to increase its customer profitability and retention, supported by investments to expand the penetration and capacity of its broadband network and upgrade customer speeds. As a result, voluntary churn continued to decline, reflecting the strategy of focus on improving quality of the customer base.

Together with pay TV, broadband plays an important role in increasing profitability in the Residential segment, either through cross selling or upselling of bundled offerings, which help reduce churn and improve ARPU in the segment.

Pay TV

Oi ended 1Q14 with a pay TV base of 828 thousand RGUs, 1.1% less than in the same period last year and virtually flat over 4Q13 (-0.1%). This was a direct result of the initiatives focused on sales quality, in addition to the base

clean-up in 4Q13, the sales channel restructuring and, especially, the reduced sales efforts in the last two quarters for the relaunch of the Oi TV offer in February with media advertising starting in March. The relaunch followed the implementation of a new platform using the SES-6 satellite contracted in 2013.

SES-6 has expanded Oi TV's DTH capacity and is designed to improve signal quality and coverage, allowing the Company to offer more channels and new pay-per-view and interactive services. The resulting additional capacity is a competitive advantage that will support the expansion of Oi's pay TV via DTH in the medium and long term. Supported by this additional capacity and with the goal of making its channel portfolio more attractive, in March 2014, Oi entered into an agreement to increase the number of Rede Globo affiliate stations from 13 to 43, thereby becoming the satellite pay TV operator with the highest number of Globo channels. These 43 stations cover around 3 thousand municipalities, and Oi will be the only pay TV operator to receive Globo's signal in 2 thousand of them. Oi is also the only operator to offer open channels in HD via DTH. The new Oi TV product has reached the mark of around 3 thousand daily sales and has an early voluntary churn rate 17% lower than that of the previous product.

Penetration of Oi TV in homes with Oi products came to 7.2% in 1Q14, 0.5 p.p. up from the 6.7% recorded at the end of 1Q13. With the attraction of entry-level offerings with HD channels at competitive prices, the pay TV segment also has great upselling potential in Oi's portfolio due to the offer of various packages and extra channels, which has a positive impact on sustainable residential ARPU growth, in addition to playing a strategic role in retaining and increasing the loyalty of residential customers.

Residential ARPU

The Company ended 1Q14 with 11,551 thousand homes connected to the network, 59% of which, or 6,759 thousand homes, had more than one Oi product, 3.0 p.p. up YoY. As a result of the increase in bundled offering sales, together with the upselling initiatives, Residential ARPU continued to post positive results, closing 1Q14 at R\$73.6, 7.0% up on 1Q13. This performance was thus underpinned by fixed broadband and pay TV ARPU growth, as well as profitability, loyalty and retention initiatives, which more than offset the decline in the number of RGUs in the Residential segment. In comparison to the previous quarter, residential ARPU was stable.

Personal Mobility

	1Q14	1Q13	4Q13	YoY	QoQ
Personal Mobility					
Net Revenue (R\$ million)	2,166	2,316	2,389	6.5%	9.3%
Service	2,053	2,168	2,228	5.3%	7.9%
Customer ⁽¹⁾	1,654	1,597	1,737	3.6%	4.8%
Network Usage	399	571	490	30.1%	18.6%
Sales of handsets, sim cards and others	114	148	161	23.0%	29.2%
Revenue Generating Units (RGU) - ('000)	48,145	46,569	47,727	3.4%	0.9%
Pre-Paid Plans	41,417	39,905	41,019	3.8%	1.0%
Post-Paid Plans ⁽²⁾	6,729	6,664	6,708	1.0%	0.3%

Note: (1) Includes: subscriptions, outgoing calls, mobile long distance, roaming, data and value added services.

(2) Includes: high-end postpaid plans, Oi Controle, bundled mobile services (*Oi Conta Total* and *Oi Internet Total*) and 3G (mini-modem).

Net revenue from the Personal Mobility segment totaled R\$2.2 billion in 1Q14, down 6.5% from 1Q13, mainly impacted by the MTR cuts and lower revenue from handset sales, partially offset by the increase in customer revenues. Net revenue from the handset sales totaled R\$114 million, 23.0% less than in 1Q13, reflecting the revision of the subsidy policy, in line with the focus on sales quality and cash flow protection.

Customer revenue reached R\$1.7 billion this quarter, 3.6% up YoY, mainly due to (i) the robust data revenue performance (mobile internet, mobile broadband and value added services), which grew by 43.5% over 1Q13, reaching R\$439 million, (ii) the larger mobile customer base, and (iii) the targeted prepaid offerings launched in 2Q13, which, combined with the usage of the Active Campaign Management (ACM), has resulted in continued growth in average recharge volume. ACM is a tool used to promote one-to-one campaigns according to customers events, which increases significantly the rate of return of the promotions.

In comparison to the previous quarter, net revenue fell by 9.3%, as a result of the decline in network usage revenue, as well as the seasonal effect, with higher handset sales, voice traffic and data usage during Christmas season.

Oi closed 1Q14 with 48,145 thousand RGUs in the Personal Mobility segment, 3.4% up on 1Q13, equivalent to 1,576 thousand net additions, 1,512 thousand of which are prepaid and 65 thousand are postpaid. In 1Q14, monthly churn fell by 0.5 p.p., reaching 3.5%, its lowest level since 4Q11, a direct result of the change in the sales strategy to focus on sales quality.

At the end of 1Q14, Oi's mobile customer base (Personal Mobility + Corporate / SMEs) totaled 50,601 thousand RGUs, 48,145 thousand of which in Personal Mobility and 2,456 thousand in Corporate / SMEs. Gross and net additions came to 5.6 million and 363 thousand, respectively, in 1Q14.

Prepaid

The prepaid base ended the first quarter of 2014 with 41,417 thousand RGUs, representing an increase of 3.8%, or 1,512 thousand RGUs, over 1Q13, and a sequential increase of 1.0%. Company continue to focus on prepaid, given its intrinsic characteristics of scale, low customer acquisition costs, no billing and collection costs or bad debt and favorable impact on working capital. Thus, Oi has been concentrating on this segment, seeking to increase the use of voice and data by these customers, especially those with an active consumption and recharge profile, underlining the Company's focus on profitable growth.

This has led to continued strong recharge volume, a marked characteristic of recent quarters. Gross recharge volume moved up by 7.1% YoY, outpacing the 3.8% increase in the prepaid customer base. Not only the volume, but the average recharge ticket performed a 9% growth over the last 12 months. The Company has also been encouraging the increase in recharge use in order to indirectly boost demand for new recharges. Offerings such as *Tudo por Dia* and data and SMS packages give clients benefits conditioned on recharge consumption. As a result, the recharge consumption volume climbed by 10% between 1Q13 and 1Q14.

Mobile data consumption on prepaid lines also continued to record consistent substantial growth in terms of mobile internet. First-quarter prepaid data revenue doubled, while VAS revenue moved up by 32% over 1Q13, increasing the share of data usage in recharge consumption. This performance is a result of add-on packages that complement customer offerings and the use of active marketing tools.

The Company has successfully implemented a platform to manage recharge campaigns, which began as a pilot project in 2Q13. This tool creates, executes and manages customized campaigns for prepaid and *Oi Controle* customers

(one-on-one marketing concept), enabling the sending of real time messages to encourage

customers to recharge their accounts and purchase add-on packages based on their profile and context, making the offerings more relevant. The improved performance in recharge volume that Oi has been presenting in recent quarters is a direct result of the use of the new platform.

Postpaid

Oi closed 1Q14 with 6,729 thousand postpaid RGUs in the Personal Mobility segment, 1.0% up on 1Q13 and 0.3% higher than in the previous quarter, despite the more restrictive sales approach and the sales channel restructuring.

At the end of the quarter, the postpaid segment accounted for 14.0% of the Personal Mobility base, 0.3 p.p. down from the 14.3% recorded in 1Q13, reflecting the Company's increased focus on the prepaid segment and more stringent credit restrictions aimed at improving the quality and profitability of the customer base.

The offer of customer loyalty plans continued to drive the decline in voluntary churn, both in terms of postpaid and *Oi Conta Total* customers. On the back of the increasing appeal of data, the new *Oi Mais Conectado* offering, which combines voice, data, unlimited SMS and on-net calls, and unlimited Wifi until the 2014 World Cup, reached 17% of postpaid sales in March 2014. In this quarter, the Company started a promotion for this offering called *Oi, Eu Tô na Copa* that offers even more internet til the World Cup and includes a Football News Channel through SMS. In addition, early churn fell by 39% YoY.

In addition, *Oi Controle*, a fixed-mobile affordable offer which includes unlimited on-net calls to fixed and mobile in Brazil for R\$29.90/month, including also R\$10.90/month to be used for other services, including off-net calls, and R\$0.75/day for data, SMS and Wifi usage, already accounts for 10% of customer revenues. The payment is made through credit card, which means a bad debt risk free condition for the Company. In the 1Q14, the *Oi Controle* customer base grew 7.1% in comparison to the 1Q13. In the same period, the offer revenue ramp up 35% while the churn rate dropped 0.3 p.p.

3G and 4G LTE coverage

Oi closed the quarter with 3G coverage in 893 municipalities (76% of the country's urban population), an increase of 22%, or 163 municipalities, over 1Q13. This improvement is key to increasing data penetration in the customer base and sustaining consistent revenue growth in the mobile data segment.

Oi is already offering the 4G LTE data package in 24 municipalities, including the 12 cities that will host FIFA's World Cup.

Mobile ARPU

Mobile ARPU treats total mobile revenue (Personal Mobility + Corporate / SMEs) as if it were generated by a separate mobile company, i.e. including revenue from traffic between Oi's mobile and wireline divisions (intercompany), but excluding revenue from mobile long-distance calls that belongs to the STFC license (fixed voice concession). This amount is then divided by the average customer base to calculate mobile ARPU.

Mobile ARPU came to R\$18.5 in 1Q14, 9.8% less than in 1Q13, despite de 33.5% drop in the interconnection tariff. The lower interconnection revenue was partially offset by growth in data revenue and the increase in prepaid recharge levels. Excluding interconnection revenue, mobile ARPU grew by 4.2% between 1Q13 and 1Q14, supported by prepaid ARPU improvement in the period.

Corporate / SMEs

	1Q14	1Q13	4Q13	YoY	QoQ
Corporate / SMEs					
Net Revenue (R\$ million)	2,091	2,079	2,117	0.6%	1.2%
Revenue Generating Units (RGU) ('000)	8,137	8,949	8,246	9.1%	1.3%
Fixed	5,050	5,398	5,105	6.4%	1.1%
Broadband	630	604	630	4.3%	0.0%
Mobile	2,456	2,946	2,511	16.6%	2.2%

Net revenue totaled R\$2.1 billion, 0.6% up from 1Q13, essentially due to the increase in revenue from the Corporate segment, supported by data and IT revenues growth, which more than offset (i) the decline in interconnection tariffs, (ii) the decrease of gross additions in the SME segment due to sales channels restructuring, and (iii) the lower voice usage in both segments as a result of the migration to data usage. Also, in the Corporate segment, clients who used to hire only voice services and consume extra data were bundled to more suitable plans, with voice and data services included, leading to a more sustainable and stable revenue profile. The sequential drop of 1.2% is mainly explained by the settlement agreements in the wholesale segment occurred in 4Q13.

Oi closed 1Q14 with 8,137 thousand RGUs in the Corporate / SMEs segment, 9.1% down from 1Q13, reflecting the focus on sales quality, the base clean-up done in the last quarters, the ongoing restructuring in the SME segment and the less favorable macroeconomic scenario. In line with the focus on financial discipline and improved cash generation, the Company is moving forward with its strategy of rational handset subsidies, an important tool for boosting segment sales. At first, it naturally reduces gross additions, but will bring profitability gains. Another initiative put in place was the revision of sales processes to improve the quality of the customer addition mix, which led to review sales channels and partnerships with franchises, causing a natural decline in sales volume.

Oi's service offerings in the Corporate and SMEs segment are based on the association of data services with IT services and products. As a result, the technology partnership with Portugal Telecom has been essentially important, aimed at capturing synergies and taking advantage of its cloud computing expertise to provide more complete services, seeking solutions that are scalable and available, as well as reducing costs. In 3Q13, Oi launched the second phase of its cloud computing services targeted at the Corporate/SME segment, reinforcing its strategy of helping customers increase revenue and reduce costs through the use of innovative technology. The new solutions will operate in Oi and Portugal Telecom's international data center network, including the recently inaugurated Covilhã facility, one of the biggest and most efficient in the world.

SMEs

The SMEs segment increased its focus on sales quality and, especially, on the ongoing restructuring of its franchise network and the adoption of own stores to sell its offerings. The restructuring process was divided into three phases. The first phase was focused on quality when the Company created conditions for improving sales quality by repositioning offerings and channels that allowed it to focus on sustainable sales growth. At this stage, the Company changed its franchise commissioning policy, conditioning the payment of commissions on timely payments by the customers added, and implemented the quality call procedure to

better validate sales and reduce the risk of fraud. These initiatives improved the quality of the franchise base, which is now subject to stricter oversight. The second stage consisted of competitive gains, with the repositioning of offerings and channels. The Company launched new bundled offerings, focused on mobile products, and implemented initiatives to reduce its reliance on the franchise channel (internal sales force, branded stores and service to sales). The Company also strengthened its relations with the existing franchise base after the first phase was implemented. The Company has already begun the third and last phase, focusing on productivity through initiatives to improve the ratio gross additions / activation.

The segment's restructuring process reduced the number of franchises and, consequently, its sales force, directly reducing gross additions. The segment was also conservative in the use of subsidies, focusing on existing customer loyalty. The highlight was the continuing expansion of fixed voice (basic and advanced) and broadband services, underlining the assertiveness of the convergence strategy in this segment, and partially offsetting the reduction in the mobile base. However, the Company launched new mobile bundled offerings, widening the share of bundled offerings in total mobile gross additions from 6% in December 2013 to 40% in March 2014.

In this context, net revenue from SMEs dropped by 7.1% YoY in 1Q14, also impacted by the performance of mobile revenue YoY related to the MTR cuts. On the other hand, operating costs improved due to stricter control over bad debt and early churn (from non-payment of the first and second monthly bills), avoiding unnecessary billing, collection and logistics costs. In fact, average monthly churn fell by 37% over 2Q13, with lower disconnections in all products (fixed, broadband and mobile), while gross sales picked up during 1Q14