

OI S.A.  
Form 20-F  
May 07, 2015  
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As filed with the Securities and Exchange Commission on May 6, 2015

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 20-F**

- .. **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**OR**
- x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014**  
**OR**
- .. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**OR**
- .. **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OI S.A.**

**(Exact Name of Registrant as Specified in Its Charter)**

<b>N/A</b> <b>(Translation of Registrant's Name into English)</b>	<b>The Federative Republic of Brazil</b> <b>(Jurisdiction of Incorporation or Organization)</b>
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**Rua Humberto de Campos, 425**

**Leblon, Rio de Janeiro, RJ, Brazil 22430-190**

**(Address of Principal Executive Offices)**

**Flavio Nicolay Guimarães**

**Investor Relations Officer**

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**8° andar**

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**Tel: +55 21 3131-2918**

**invest@oi.net.br**

**(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)**

**Securities registered or to be registered pursuant to section 12(b) of the Act:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on which Registered</b>
<b>Common Shares, without par value, each represented by American Depositary Shares</b>	<b>New York Stock Exchange</b>
<b>Preferred Shares, without par value, each represented by American Depositary Shares</b>	<b>New York Stock Exchange</b>

**Securities registered or to be registered pursuant to Section 12(g) of the Act: None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None**

**The total number of issued shares of each class of stock of OI S.A. as of December 31, 2014 was:**

286,155,319 common shares, without par value

572,316,691 preferred shares, without par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting  
Standards as issued by the  
International

Other

Accounting Standards Board

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.  Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No



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**PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

All references herein to *real*, *reais* or R\$ are to the Brazilian *real*, the official currency of Brazil. All references to U.S. dollars, dollars or US\$ are to U.S. dollars.

On May 4, 2015, the exchange rate for *reais* into U.S. dollars was R\$3.075 to US\$1.00, based on the selling rate as reported by the Central Bank of Brazil (*Banco Central do Brasil*), or the Brazilian Central Bank. The selling rate was R\$2.656 to US\$1.00 on December 31, 2014, R\$2.343 to US\$1.00 on December 31, 2013 and R\$2.044 to US\$1.00 on December 31, 2012, in each case, as reported by the Brazilian Central Bank. The *real*/U.S. dollar exchange rate fluctuates widely, and the selling rate on May 4, 2015 may not be indicative of future exchange rates. See Item 3. Key Information Exchange Rates for information regarding exchange rates for the *real* since January 1, 2010.

Solely for the convenience of the reader, we have translated some amounts included in Item 3. Key Information Selected Financial Information and in this annual report from *reais* into U.S. dollars using the selling rate as reported by the Brazilian Central Bank on December 31, 2014 of R\$2.656 to US\$1.00. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate.

**Financial Statements**

We maintain our books and records in *reais*. Our consolidated financial statements as of December 31, 2014 and 2013 and for the three years ended December 31, 2014 are included in this annual report.

We prepare our consolidated financial statements in accordance with accounting practices adopted in Brazil, or Brazilian GAAP, which are based on:

Brazilian Law No. 6,404/76, as amended by Brazilian Law No. 9,457/97, Brazilian Law No. 10,303/01, and Brazilian Law No. 11,638/07, which we refer to collectively as the Brazilian Corporation Law;

the rules and regulations of the Brazilian Securities Commission (*Comissão de Valores Mobiliários*), or the CVM, and the Brazilian Federal Accounting Council (*Conselho Federal de Contabilidade*); and

the accounting standards issued by the Brazilian Accounting Pronouncements Committee (*Comitê de Pronunciamentos Contábeis*), or the CPC.

Brazilian GAAP differs in certain important respects from accounting principles generally accepted in the United States, or U.S. GAAP. Differences between Brazilian GAAP and U.S. GAAP where applicable to Oi are summarized in note 30 to our audited consolidated financial statements included in this annual report.

**Certain Defined Terms**

Unless otherwise indicated or the context otherwise requires:

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all references to our company, we, our, ours, us or similar terms are to Oi S.A. and its consolidated subsidiaries with respect to current information and information as of and for periods ended after February 27, 2012 and to Brasil Telecom S.A. and its consolidated subsidiaries with respect to information as of and for periods ended on or prior to February 27, 2012;

all references to Oi or Brasil Telecom are to Oi S.A. (formerly known as Brasil Telecom S.A.);

all references to TmarPart are to Telemar Participações S.A., which, prior to the capital increase of Oi on May 5, 2014, was the direct controlling shareholder of Oi;

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all references to TNL are to Tele Norte Leste Participações S.A., a company that was directly controlled by TmarPart prior to its merger with and into Oi on February 27, 2012 as part of the corporate reorganization;

all references to Telemar are to Telemar Norte Leste S.A., a company that was directly controlled by TNL prior to the corporate reorganization and which became a wholly-owned subsidiary of Oi on February 27, 2012 as part of the corporate reorganization;

all references to Coari are to Coari Participações S.A., a company that was wholly-owned by Telemar prior to its merger with and into Oi on February 27, 2012 as part of the corporate reorganization;

all references to PT SGPS are to Portugal Telecom, SGPS, S.A.;

all references to our Common ADSs are to American Depositary Shares, or ADSs, each representing one common share of our company, all references to our Preferred ADSs are to ADSs, each representing one preferred share of our company, and all references to our ADSs are to our Common ADSs and Preferred ADSs;

all references to Brazil are to the Federative Republic of Brazil; and

all references to the Brazilian government are to the federal government of the Federative Republic of Brazil.

**Corporate Reorganization**

On February 27, 2012, TNL, Telemar, Coari and Brasil Telecom S.A., a subsidiary of Coari, undertook a corporate reorganization in which:

Telemar and Coari engaged in a split-off (*cisão*) and merger of shares (*incorporação de ações*) under Brazilian law in which (1) Telemar transferred the shares of Coari that it owned to Coari, (2) Coari assumed a portion of the liabilities of Telemar, (3) the common and preferred shares of Telemar were exchanged for newly issued common and preferred shares of Coari, and (4) Telemar became a wholly-owned subsidiary of Coari;

Coari and Brasil Telecom engaged in a merger (*incorporação*) under Brazilian law in which Coari merged with and into Brasil Telecom, which we refer to as the Coari merger;

TNL and Brasil Telecom engaged in a merger (*incorporação*) under Brazilian law in which TNL merged with and into Brasil Telecom, which we refer to as the TNL merger; and



the corporate name of Brasil Telecom was changed to Oi S.A., or Oi. We refer to these transactions collectively as the corporate reorganization.

The following chart sets forth the ownership structure of TNL, Telemar and Coari in Brasil Telecom immediately prior to the corporate reorganization. The percentages in bold italics represent the percentage of the voting capital owned by the parent company of each entity, and the percentages not in bold italics represent the percentage of the total share capital owned by the parent company of each entity.

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The following chart sets forth the structure of Brasil Telecom and Telemar immediately following the corporate reorganization.

As a result of the corporate reorganization, we have consolidated the results of TNL into our results as from February 28, 2012. We have accounted for the Coari merger and the TNL merger using the carry-over basis of our own assets and liabilities and of the assets and liabilities assumed of TNL, Telemar, and Coari as from the date of the reorganization. The carry-over basis of the assets and liabilities were determined at the lowest level entity in the group (i.e., the effects of the purchase accounting relating to Coari's acquisition of Brasil Telecom (now Oi) are not reflected in the assets and liabilities of Oi S.A. in its consolidated financial statements as a result of the TNL merger). Additionally, our historical financial statements have not been restated to reflect the impacts of the corporate reorganization on a retrospective basis. Our non-current intangible assets and property, plant and equipment are recorded on a different basis in our parent company's consolidated financial statements, reflecting the amortized purchase price allocated to these assets resulting from Coari's acquisition of our company on January 8, 2009. For more details regarding the corporate reorganization, see Item 4. Information on the Company Our Recent History and Development Corporate Reorganization of TNL, Telemar and Our Company.

Information regarding Oi in this annual report is presented giving effect to the corporate reorganization on February 27, 2012. However, financial and other data included in Item 3. Key Information Selected Financial Information in this annual report regarding Oi and its consolidated subsidiaries as of December 31, 2011 and earlier dates and for periods ended on December 31, 2011 and earlier dates is historical in nature and does not give pro forma effect to the corporate reorganization.

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**Oi Capital Increase and Acquisition of PT Portugal**

On October 1, 2013, we entered into a memorandum of understanding, or the Memorandum of Understanding, with PT SGPS, AG Telecom Participações S.A., or AG Telecom, LF Tel S.A., or LF Tel, PASA Participações S.A., or PASA, EDSP75 Participações S.A., or EDSP, Bratel Brasil S.A., or Bratel Brasil, Avistar, SGPS, S.A., or BES, and Nivalis Holding B.V., or Ongoing, in which we and they agreed to the principles governing a series of transactions, including a business combination involving three principal components:

A capital increase of our company that was concluded on May 5, 2014, which we refer to as the Oi capital increase, in which we issued 121,674,063 of our common shares and 280,483,641 of our preferred shares for an aggregate amount of R\$8,250 million in cash, and 104,580,393 of our common shares and 172,025,273 of our preferred shares to PT SGPS in exchange for the contribution by PT SGPS to our company of all of the shares of its subsidiary PT Portugal, SGPS, S.A., or PT Portugal. For more information about the assets and businesses of PT Portugal acquired in the Oi capital increase, see Item 4. Information on Our Company Operations in Portugal, and Item 4. Information on Our Company Operations in Africa.

a proposed merger of shares (*incorporação de ações*) under Brazilian law, a Brazilian transaction in which, subject to the approvals of the holders of voting shares of our company and TmarPart, (1) each issued and then outstanding common share of our company not owned by TmarPart was to be converted automatically into one TmarPart common share, (2) each issued and then outstanding preferred share of our company not owned by TmarPart was to be converted automatically into 0.9211 TmarPart common shares, and (3) we were to become a wholly-owned subsidiary of TmarPart; this proposed merger of shares was subsequently abandoned.

a proposed merger (*incorporação*) under Portuguese and Brazilian law of PT SGPS with and into TmarPart, with TmarPart as the surviving company in which the shareholders of PT SGPS were to receive an aggregate number of TmarPart shares equal to the number of TmarPart shares held by PT SGPS immediately prior to the merger; this proposed merger was subsequently abandoned.

**Rio Forte Defaults and PT Exchange**

Subsequent to the acquisition of PT Portugal on May 5, 2014, we discovered that (1) PT Portugal had subscribed to 200 million principal amount of commercial paper of Rio Forte Investments S.A., or Rio Forte, that matured in July 2014, and (2) Portugal Telecom International Finance B.V., or PTIF, which has been a wholly-owned subsidiary of PT Portugal at all times since May 5, 2014, had subscribed to 697 million principal amount of commercial paper of Rio Forte that matured in July 2014. As a result of our acquisition of PT Portugal as part of the Oi capital increase, we became the creditor under this commercial paper.

On July 15 and 17, 2014, Rio Forte defaulted on the commercial paper held by PT Portugal and PTIF. On September 8, 2014, we, TmarPart, PT SGPS, PT Portugal and PTIF entered into an Exchange Agreement, or the PT Exchange Agreement, and a stock option agreement, or the PT Option Agreement, which we refer to collectively as the Definitive Exchange Agreements. Under the PT Exchange Agreement, PT Portugal and PTIF agreed to transfer the defaulted Rio Forte commercial paper to PT SGPS and PT SGPS agreed to deliver to PT Portugal and PTIF an aggregate of 47,434,872 of our common shares and 94,869,744 of our preferred shares, representing 16.9% of our outstanding share capital, including 17.1% of our outstanding voting capital prior to giving effect to the exchange. We

refer to this transaction as the PT Exchange and the shares delivered to us as the Exchanged Shares.

On March 24, 2015, PT Portugal assigned its rights under the PT Exchange Agreement and the PT Option Agreement to PTIF. On March 27, 2015, PT Portugal assigned all of its rights and obligations under the Rio Forte commercial paper that it owned to PTIF. On March 30, 2015, the transactions contemplated by the Exchange Agreement were completed through the transfer of Rio Forte commercial paper in the aggregate amount of \$897 million to PT SGPS in exchange for 47,434,872 of our common shares and 94,869,744 of our preferred shares.

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Under the PT Option Agreement, PTIF has granted to PT SGPS an option, or the PT Option, to acquire 47,434,872 of our common shares and 94,869,744 of our preferred shares.

For more information about the PT Exchange and the Definitive Exchange Agreements, see Item 4. Information on the Company Our Recent History and Development Rio Forte Defaults and PT Exchange.

**Proposed Sale of PT Portugal**

Based on a reevaluation of our business strategy following these events, we determined that it was in the best interest of our company to dispose of PT Portugal and we commenced a sale process which led to the execution on December 9, 2014 of a Share Purchase Agreement among Oi, Altice Portugal S.A., or Altice Portugal, and Altice S.A., or Altice, with we refer to as the PTP Share Purchase Agreement. Under the PTP Share Purchase Agreement, we have agreed to sell all of the share capital of PT Portugal to Altice Portugal for a purchase price equal to the enterprise value of PT Portugal of 6,900 million, subject to adjustments based on the financial debt, cash and working capital of PT Portugal on the closing date, plus an additional earn-out amount of 500 million in the event that the consolidated revenues of PT Portugal and its subsidiaries (as of the closing date) for any single year between the year ending December 31, 2015 and the year ending December 31, 2019 is equal to or exceeds 2,750 million.

In connection with the proposed sale, we have committed to reorganize the assets of PT Portugal on or prior to June 9, 2015 in a manner that will result in our retaining:

100% of the share capital of PTIF;

100% of the share capital of PT Participações, SGPS, S.A., or PT Participações, which will hold the direct and indirect interests that we currently hold in (1) Africatel Holding B.V., which manages our investments in Africa, or Africatel, and (2) TPT Telecomunicações Públicas de Timor, S.A., which provided telecommunications, multimedia and IT services in Timor Leste, or TPT;

100% of the share capital of PT Investimentos, S.A., which provides business consulting and management services, prepares projects and economic studies and manages certain of our investments, or PTII;

100% of the share capital of CVTEL, B.V., which manages certain of our investments, or CVTEL; and

100% of the share capital of Carrigans Finance S.A.R.L., which manages certain of our investments, or Carrigans.

Although some of the conditions to the closing under the PTP Share Purchase Agreement are beyond our control, we expect that the closing of this sale will occur during the second quarter of 2015. For more information on the proposed sale of PT Portugal and the PTP Share Purchase Agreement, see Item 4. Information on the Company Our Recent History and Development Proposed Sale of PT Portugal.

**Proposed Corporate Ownership Simplification and Migration to Novo Mercado**

On March 31, 2015, the shareholders of TmarPart acting at a pre-meeting (*reunião prévia*) of the shareholders of TmarPart (1) unanimously approved the adoption of an alternative share structure, after analyzing options and taking into consideration the current obstacles to a registration of TmarPart shares with the SEC that would be necessary to allow the previously announced merger of shares of Oi and TmarPart, and (2) authorized the managements of TmarPart and Oi to begin taking the applicable steps to implement the alternative share structure.

The alternative share structure includes a voluntary exchange of our preferred shares for our common shares at the option of the preferred shareholder at an exchange rate of 0.9211 of our common shares for each of our preferred shares, which we refer to as the voluntary share exchange. The voluntary share exchange proposal requires that the holders of at least two-thirds of our preferred shares (excluding treasury shares) agree to exchange our preferred shares that they own for our common shares within a period of 30 days commencing after our General Shareholders Meeting at which the opening of the period for the exchange is deliberated.

Prior to the beginning of the period for the voluntary share exchange, we understand that the shareholders of TmarPart intend to cause:

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AG Telecom to merge with and into PASA;

LF Tel to merge with and into EDSP;

PASA and EDSP to merge with and into Bratel Brasil;

Valverde Participações S.A., a wholly-owned subsidiary of TmarPart and one of our shareholders, or Valverde, to merge with and into TmarPart;

Venus RJ Participações S.A., Sayed RJ Participações S.A. and PTB2 S.A. to merge with and into Bratel Brasil;

Bratel Brasil to merge with and into TmarPart; and

TmarPart to merge with and into Oi.

We refer to these transactions collectively as the corporate ownership simplification. In connection with the corporate ownership simplification, we expect the General Shareholders Agreement and the Control Group Shareholders Agreement described herein to be terminated.

In addition, we understand that the shareholders of TmarPart intend to cause (1) the adoption of new by-laws of our company, and (2) the election of new members of the board of directors of our company for terms expiring at the General Shareholders Meeting that approves our financial statements for the year ending December 31, 2017. The corporate ownership simplification, the adoption of new by-laws of our company and the election of new members of the board of directors of our company are expected to occur on the same date and are expected to be deliberated at shareholders meetings of the relevant entities during the third quarter of 2015, subject to the prior consent to the implementation of the corporate ownership simplification of the Brazilian federal telecommunications regulator (*Agência Nacional de Telecomunicações*), or ANATEL.

Following the completion of the corporate ownership simplification, the adoption of new by-laws of our company and the election of new members of the board of directors of our company, we will seek to list our common shares on the *Novo Mercado* segment of the Brazilian Securities, Commodities and Futures Exchange (*BM&FBOVESPA - Bolsa de Valores, Mercadorias e Futuros*), or BM&FBOVESPA. We have entered into an agreement with PT SGPS in which we have agreed that we will use our best efforts to cause the listing of our common shares (or securities backed by our common shares) on the regulated market of Euronext Lisbon - Sociedade Gestora de Mercados Regulamentados, or Euronext Lisbon, concurrently with the listing of our common shares on the *Novo Mercado* segment of the BM&FBOVESPA (or as promptly as practicable thereafter).

**Share Splits**

On August 15, 2012, we changed the ratio applicable to our Preferred ADS from three preferred shares per Preferred ADS to one preferred shares per Preferred ADS. All references to numbers of Preferred ADSs in this annual report have been adjusted to give effect to this change in ratio.

On November 18, 2014, our shareholders acting in an extraordinary general shareholders meeting authorized (1) the reverse split of all of our issued common shares into one common share for each 10 issued common shares, and (2) the reverse split of all of our issued preferred shares into one preferred share for each 10 issued preferred shares. This reverse share split became effective on December 22, 2014. There was no change in the ratio of our Common ADSs of Preferred ADSs in connection with this reverse share split; each Common ADS continues to represent one of our common shares and each Preferred ADS continues to represent one of our preferred shares. All references to numbers of shares of our company, dividend amounts of our company and earnings per share of our company in this annual report have been adjusted to give effect to the 10-for-one reverse share split.



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**Market Share and Other Information**

We make statements in this annual report about our market share and other information relating to the telecommunications industry in Brazil and Portugal. We have made these statements on the basis of information obtained from third-party sources and publicly available information that we believe are reliable, such as information and reports from ANATEL and the Portuguese National Communications Authority (*Autoridade Nacional de Comunicações*), or ANACOM, among others. Notwithstanding any investigation that we may have conducted with respect to the market share, market size or similar data provided by third parties or derived from industry or general publications, we assume no responsibility for the accuracy or completeness of any such information.

**Rounding**

We have made rounding adjustments to reach some of the figures included in this annual report. As a result, numerical figures shown as totals in some tables may not be arithmetic aggregations of the figures that precede them.

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**CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS**

This annual report contains forward-looking statements. Some of the matters discussed concerning our business operations and financial performance include forward-looking statements within the meaning of the U.S. Securities Act of 1933, as amended, or the Securities Act, or the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act.

Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as expects, anticipates, intends, plans, believes, estimates and similar expressions are forward-looking statements. Although we believe that these forward-looking statements are based upon reasonable assumptions, these statements are subject to several risks and uncertainties and are made in light of information currently available to us.

Many important factors could cause our actual results to differ substantially from those anticipated in our forward-looking statements, including, among other things:

the effects of intense competition in Brazil and the other countries in which we have operations and investments;

material adverse changes in economic conditions in Brazil or the other countries in which we have operations and investments;

our ability to consummate the proposed sale of PT Portugal;

the Brazilian government's telecommunications policies that affect the telecommunications industry and our business in Brazil in general, including issues relating to the remuneration for the use of our network in Brazil, and changes in or developments of ANATEL regulations applicable to us;

the cost and availability of financing;

the general level of demand for, and changes in the market prices of, our services;

our ability to implement our corporate strategies in order to expand our customer base and increase our average revenue per user;

political, regulatory and economic conditions in Brazil;

inflation in Brazil and fluctuations in exchange rates;

the outcomes of legal and administrative proceedings to which we are or become a party;

changes in telecommunications technology that could require substantial or unexpected investments in infrastructure or that could lead to changes in our customers' behavior;

other factors identified or discussed under Item 3. Key Information – Risk Factors.

Our forward-looking statements are not guarantees of future performance, and our actual results or other developments may differ materially from the expectations expressed in the forward-looking statements. As for forward-looking statements that relate to future financial results and other projections, actual results will be different due to the inherent uncertainty of estimates, forecasts and projections. Because of these uncertainties, potential investors should not rely on these forward-looking statements.

We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

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**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

**Selected Financial Information**

The following selected financial data should be read in conjunction with our consolidated financial statements (including the notes thereto), Item 5. Operating and Financial Review and Prospects and Presentation of Financial and Other Information.

The following selected financial data have been derived from our consolidated financial statements. The selected financial data as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012 have been derived from our audited consolidated financial statements included in this annual report. The selected financial data as of December 31, 2012, 2011 and 2010 and for the years ended December 31, 2011 and 2010 have been derived from our consolidated financial statements that are not included in this annual report.

Our consolidated financial statements are prepared in accordance with Brazilian GAAP, which differs in certain important respects from U.S. GAAP. Differences between Brazilian GAAP and U.S. GAAP where applicable to Oi are summarized in note 30 to our audited consolidated financial statements included in this annual report.

We have included information with respect to the dividends and/or interest attributable to shareholders' equity paid to holders of our common shares and preferred shares since January 1, 2010 in *reais* and in U.S. dollars translated from *reais* at the commercial market selling rate in effect as of the payment date under the caption Item 8. Financial Information Dividends and Dividend Policy Payment of Dividends.

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	As of and For the Year Ended December 31,					
	2014(1)	2014	2013	2012	2011	2010
	(in millions of US\$, except per share amounts)	(in millions of <i>reais</i> , except per share amounts and as otherwise indicated)				
<b>Income Statement Data:</b>						
<b>Brazilian GAAP:</b>						
Net operating revenue	US\$ 10,634	R\$ 28,247	R\$ 28,422	R\$ 25,161	R\$ 9,245	R\$ 10,263
Cost of sales and services	(5,734)	(15,230)	(15,259)	(12,670)	(4,587)	(4,732)
Gross profit	4,901	13,017	13,163	12,491	4,659	5,531
Operating expenses	(2,764)	(7,343)	(7,876)	(7,731)	(3,091)	(3,072)
Operating income (loss) before financial income (expenses) and taxes	2,136	5,674	5,287	4,760	1,567	2,459
Financial income	506	1,345	1,375	2,275	1,406	979
Financial expenses	(2,218)	(5,891)	(4,650)	(4,491)	(1,478)	(1,060)
Financial income (expenses), net	(1,711)	(4,546)	(3,275)	(2,216)	(72)	(80)
Income of continuing operations before taxes	425	1,128	2,012	2,544	1,495	2,379
Income tax and social contribution	(422)	(1,120)	(519)	(760)	(490)	(408)
Net income of continuing operations	3	8	1,493	1,785	1,006	1,971
Net loss of discontinued operations, net of taxes	(1,662)	(4,415)				
Net income (loss)	US\$ (1,659)	R\$ (4,406)	R\$ 1,493	R\$ 1,785	R\$ 1,006	R\$ 1,971
Net income (loss) attributable to controlling shareholders	US\$ (1,659)	R\$ (4,407)	R\$ 1,493	R\$ 1,785	R\$ 1,006	R\$ 1,971
Net income (loss) attributable to non-controlling shareholders		1				
Net income (loss) applicable to each class of shares:						
Common shares	(1,659)	(4,407)	469	560	316	619
Preferred shares			1,024	1,225	690	1,352

Net income (loss) per share(2):							
Common shares	basic	(3.00)	(7.15)	9.11	10.88	6.14	12.03
Common shares	diluted	(3.00)	(7.15)	9.11	10.88	6.14	12.03
Preferred shares and ADSs							
	basic	(3.00)	(7.15)	9.10	10.89	6.13	12.01
Preferred shares and ADSs							
	diluted	(3.00)	(7.15)	9.10	10.89	6.13	12.01
Net income (loss) per share from continuing operation:							
Common shares	basic		0.01	9.11	10.88	6.14	12.03
Common shares	diluted		0.01	9.11	10.88	6.14	12.03
Preferred shares and ADSs							
	basic		0.01	9.10	10.89	6.13	12.01
Preferred shares and ADSs							
	diluted		0.01	9.10	10.89	6.13	12.01
Net income (loss) per share from discontinued operation:							
Common shares	basic	(3.00)	(7.16)				
Common shares	diluted	(3.00)	(7.16)				
Preferred shares and ADSs							
	basic	(3.00)	(7.16)				
Preferred shares and ADSs							
	diluted	(3.00)	(7.16)				
Weighted average shares outstanding (in thousands):							
Common shares	basic		202,312	51,476	51,476	51,476	51,476
Common shares	diluted		202,312	51,476	51,476	51,476	51,476
Preferred shares	basic		414,200	112,527	112,527	112,527	112,527
Preferred shares	diluted		414,200	112,527	112,527	112,527	112,527

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- (1) Translated for convenience only using the selling rate as reported by the Central Bank of Brazil on December 31, 2014 for reais into U.S. dollars of R\$2.656=US\$1.00.
- (2) As required by CPC 41, we have adjusted retrospectively the calculation of basic and diluted earnings per share taking into consideration the shareholding structure resulting from our reverse share split. See Presentation of Financial and Other Information Corporate Reorganization for more information regarding our corporate reorganization.

	2014(1) (in millions of US\$, except per share amounts)	As of and For the Year Ended December 31,				
		2014	2013	2012	2011	2010
		(in millions of <i>reais</i> , except per share amounts and as otherwise indicated)				
<b>Income Statement Data:</b>						
<b>U.S. GAAP:</b>						
Net operating revenue	US\$ 10,634	R\$ 28,247	R\$ 28,422	R\$ 28,141	R\$ 27,907	R\$ 29,479
Cost of sales and services	(6,120)	(16,257)	(16,467)	(15,825)	(16,180)	(16,576)
Gross profit	4,514	11,990	11,955	12,316	11,727	12,903
Operating expenses	(2,777)	(7,377)	(7,972)	8,579	9,016	8,611
Operating income (loss) before financial income (expenses) and taxes	1,737	4,613	3,983	3,737	2,712	4,292
Financial income (expenses), net	(1,713)	(4,549)	(3,302)	(2,617)	(3,471)	(2,440)
Income (loss) before taxes	24	64	681	1,120	(759)	1,852
Income tax and social contribution	(285)	(758)	(77)	(254)	202	20
Net income (loss) of continuing operations	(261)	(694)	604	866	(557)	1,872
Net loss of discontinued operations	(1,539)	(4,086)				
Net income (loss)	(1,800)	(4,780)	604	866	(557)	1,872
Net income (loss) attributable to controlling shareholders	(1,800)	(4,782)	604	859	(296)	1,492
Net income (loss) attributable to non-controlling shareholders		1		7	(261)	381

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Other comprehensive income (loss)	(268)	(712)	34	(319)	(133)	(62)
Comprehensive income (loss)	US\$ (2,191)	R\$ (5,821)	R\$ 638	R\$ 547	R\$ (690)	R\$ 1,810
Net income (loss) applicable to each class of shares (2):						
Common shares basic	US\$ 591	R\$ (1,569)	190	289	(296)	613
Common shares diluted	591	(1,569)	190	289	(296)	620
Preferred shares and ADSs basic	1,210	(3,213)	414	570		878
Preferred shares and ADSs diluted	1,210	(3,213)	414	570		872
Net income (loss) per share:						
Common shares basic	(2.92)	(7.76)	3.69	5.73	(6.49)	17.90
Common shares diluted	(2.92)	(7.76)	3.69	5.73	(6.49)	17.60
Preferred shares and ADSs basic	(2.92)	(7.76)	3.69	5.73		17.90
Preferred shares and ADSs diluted	(2.92)	(7.76)	3.69	5.73		17.60
Net income (loss) per share from continuing operations:						
Common shares basic	(0.43)	(1.13)	3.69	5.73	(6.49)	17.90
Common shares diluted	(0.43)	(1.13)	3.69	5.73	(6.49)	17.60
Preferred shares and ADSs basic	(0.43)	(1.13)	3.69	5.73		17.90
Preferred shares and ADSs diluted	(0.43)	(1.13)	3.69	5.73		17.60
Net income (loss) per share from discontinued operations:						
Common shares basic	(2.50)	(6.63)				
Common shares diluted	(2.50)	(6.63)				
Preferred shares and ADSs basic	(2.50)	(6.63)				
Preferred shares and ADSs diluted	(2.50)	(6.63)				
Weighted average shares outstanding (in thousands):						



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	As of and For the Year Ended December 31,					
	2014(1)	2014	2013	2012	2011	2010
	(in millions of US\$, except per share amounts)	(in millions of <i>reais</i> , except per share amounts and as otherwise indicated)				
Common shares basic		202,312	51,476	50,499	45,615	34,292
Common shares diluted		202,312	51,476	50,499	46,560	35,228
Preferred shares and ADSs basic		414,200	112,527	99,488	53,693	49,120
Preferred shares and ADSs diluted		414,200	112,527	99,488	54,092	49,519

- (1) Translated for convenience only using the selling rate as reported by the Brazilian Central Bank on December 31, 2014 for *reais* into U.S. dollars of R\$2.656=US\$1.00.
- (2) In accordance with ASC 260, basic and diluted earnings per share have been calculated, for U.S. GAAP purposes, using the two class method. See note 30 to our audited consolidated financial statements which are included in this annual report.

	As of and For the Year Ended December 31,					
	2014(1)	2014	2013	2012	2011	2010
	(in millions of US\$, except per share amounts)	(in millions of <i>reais</i> , except per share amounts and as otherwise indicated)				
<b>Balance Sheet Data:</b>						
<b>Brazilian GAAP:</b>						
Cash and cash equivalents	US\$ 922	R\$ 2,449	R\$ 2,425	R\$ 4,408	R\$ 6,005	R\$ 3,217
Cash investments	65	171	493	2,426	1,084	832
Trade accounts receivable, net	2,805	7,450	7,097	7,018	2,010	2,070
Assets held for sale	12,773	33,927				
Total current assets	18,555	49,287	17,687	21,138	12,246	8,487
Property, plant and equipment, net	9,664	25,670	24,786	23,103	5,794	5,317
Court blocked and other deposits	4,616	12,260	11,051	9,723	4,955	4,266
Intangible assets, net	1,390	3,691	3,919	4,196	1,085	1,318
Total assets	38,698	102,789	70,096	69,150	31,664	26,886
Short-term loans and financings (including current portion of long-term debt)	1,681	4,464	4,159	3,114	1,144	1,044
Liabilities of assets held for sale(2)	10,232	27,178				
Total current liabilities	16,022	42,557	15,540	17,093	8,619	6,691
	11,816	31,386	31,695	30,232	6,962	3,321

Long-term loans and financings						
Share capital	8,071	21,438	7,471	7,309	3,731	3,731
Total equity	7,270	19,311	11,524	11,109	10,589	11,337
Shareholders' equity attributable to controlling shareholders	6,702	17,802	11,524	11,109	10,589	11,337
Shareholders' equity attributable to non-controlling shareholders	568	1,509				

- (1) Translated for convenience only using the selling rate as reported by the Brazilian Central Bank on December 31, 2014 for *reais* into U.S. dollars of R\$2.656=US\$1.00.
- (2) As of December 31, 2014, includes short-term loans and financings (including current portion of long-term debt) of R\$1,935 million and long-term loans and financings of R\$16,958 million that are expected to remain obligations of our company following the completion of our sale of PT Portugal.

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	2014(1) (in millions of US\$, except per share amounts)	As of and For the Year Ended December 31,					2010
		2014	2013	2012	2011		
		(in millions of <i>reais</i> , except per share amounts and as otherwise indicated)					
<b>Balance Sheet Data:</b>							
<b>U.S. GAAP:</b>							
Cash and cash equivalents	US\$ 922	R\$ 2,449	R\$ 2,425	R\$ 4,413	R\$ 11,025	R\$ 9,052	
Short-term investments	64	171	493	2,426	2,299	2,148	
Assets held for sale	12,897	34,255					
Property, plant and equipment, net	9,880	26,244	25,725	24,640	23,165	23,257	
Intangible assets	5,103	13,554	14,666	15,869	16,329	17,197	
Total assets	41,873	111,215	78,727	78,647	81,382	76,365	
Short-term loans, financing and debentures ( including current portion of long-term debt)	1,721	4,571	4,159	3,114	4,600	7,144	
Liabilities of assets held for sale(2)	10,232	27,178					
Long-term loans, financing and debentures	11,954	31,752	31,695	30,232	25,169	21,991	
Total liabilities	31,647	84,062	58,713	58,218	56,162	55,387	
Shareholders' equity	10,223	27,153	20,013	20,428	25,219	20,978	
Shareholders' equity attributable to controlling shareholders	9,655	25,644	20,013	20,428	13,826	11,793	
Shareholders' equity attributable to non-controlling shareholders	568	1,509			11,393	9,185	

- (1) Translated for convenience only using the selling rate as reported by the Brazilian Central Bank on December 31, 2014 for *reais* into U.S. dollars of R\$2.656=US\$1.00.
- (2) As of December 31, 2014, includes short-term loans and financings (including current portion of long-term debt) of R\$1,935 million and long-term loans and financings of R\$16,958 million that are expected to remain obligations of our company following the completion of our sale of PT Portugal.

**Table of Contents****Exchange Rates**

The Brazilian foreign exchange system allows the purchase and sale of foreign currency and the international transfer of *reais* by any person or legal entity, regardless of the amount, subject to certain regulatory procedures.

Since 1999, the Brazilian Central Bank has allowed the U.S. dollar-*real* exchange rate to float freely, and, since then, the U.S. dollar-*real* exchange rate has fluctuated considerably.

In the past, the Brazilian Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Brazilian Central Bank or the Brazilian government will continue to permit the *real* to float freely or will intervene in the exchange rate market through the return of a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar and/or the euro substantially. Furthermore, Brazilian law provides that, whenever there is a significant imbalance in Brazil's balance of payments or there are serious reasons to foresee a significant imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. We cannot assure you that such measures will not be taken by the Brazilian government in the future. See Risk Factors Risks Relating to Brazil Restrictions on the movement of capital out of Brazil may impair our ability to service certain debt obligations.

The following table shows the commercial selling rate or selling rate, as applicable, for U.S. dollars for the periods and dates indicated. The information in the Average column represents the average of the exchange rates on the last day of each month during the periods presented.

Year	Reais per U.S. Dollar			
	High	Low	Average	Period End
2010	1.881	1.655	1.759	1.666
2011	1.902	1.535	1.671	1.876
2012	2.112	1.702	1.959	2.044
2013	2.446	1.953	2.161	2.343
2014	2.740	2.197	2.354	2.656

Month	Reais per U.S. Dollar	
	High	Low
November 2014	R\$ 2.614	R\$ 2.484
December 2014	2.740	2.560
January 2015	2.710	2.575
February 2015	2.881	2.689
March 2015	3.268	2.866
April 2015	3.156	2.894
May 2015(1)	3.075	3.075

(1) Through May 4, 2015.

Source: Brazilian Central Bank



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**Risk Factors**

*You should consider the following risks as well as the other information set forth in this annual report when evaluating an investment in our company. In general, investing in the securities of issuers in emerging market countries, such as Brazil, involves a higher degree of risk than investing in the securities of issuers in the United States. Additional risks and uncertainties not currently known to us, or those that we currently deem to be immaterial, may also materially and adversely affect our business, results of operations, financial condition and prospects. Any of the following risks could materially affect us. In such case, you may lose all or part of your original investment.*

***General Risks Relating to the Telecommunications Industry***

*The telecommunications industry is subject to frequent changes in technology. Our ability to remain competitive depends on our ability to implement new technology, and it is difficult to predict how new technology will affect our business.*

Companies in the telecommunications industry must adapt to rapid and significant technological changes that are usually difficult to anticipate. The mobile telecommunications industry in particular has experienced rapid and significant technological development and frequent improvements in capacity, quality and data-transmission speed. Technological changes may render our equipment, services and technology obsolete or inefficient, which may adversely affect our competitiveness or require us to increase our capital expenditures in order to maintain our competitive position. For example, we have made significant investments in the last three years in connection with the implementation of our UMTS (Universal Mobile Telecommunications System), or 3G, services, and are making investments in the implementation of our LTE (Long Term Evolution), or 4G, services, and PT Portugal has made significant investments in recent years to develop its fiber to the home, or FTTH, network for residential and enterprise customers, to connect its mobile network base stations and to develop its 3G network for personal services customers. It is possible that alternative technologies may be developed that are more advanced than those we currently provide. We may not obtain the expected benefits of our investments if more advanced technologies are adopted by the market. Even if we adopt new technologies in a timely manner as they are developed, the cost of such technology may exceed the benefit to us, and we cannot assure you that we will be able to maintain our level of competitiveness.

*Our operations depend on our ability to maintain, upgrade and operate efficiently our accounting, billing, customer service, information technology and management information systems and to rely on the systems of other carriers under co-billing agreements.*

Sophisticated information and processing systems are vital to our growth and our ability to monitor costs, render monthly invoices for services, process customer orders, provide customer service and achieve operating efficiencies. We cannot assure you that we will be able to operate successfully and upgrade our accounting, information and processing systems or that these systems will continue to perform as expected. We have entered into co-billing agreements with each long-distance telecommunications service provider that is interconnected to our networks in Brazil to include in our invoices the long-distance services rendered by these providers, and these providers have agreed to include charges owed to us in their invoices. Any failure in our accounting, information and processing systems, or any problems with the execution of invoicing and collection services by other carriers with whom we have co-billing agreements, could impair our ability to collect payments from customers and respond satisfactorily to customer needs, which could adversely affect our business, financial condition and results of operations.

*Improper use of our networks could adversely affect our costs and results of operations.*

We may incur costs associated with the unauthorized and fraudulent use of our networks, including administrative and capital costs associated with detecting, monitoring and reducing the incidence of fraud. Fraud also affects interconnection costs and payments to other carriers for non-billable fraudulent roaming. Improper use of our network could also increase our selling expenses if we need to increase our provision for doubtful accounts to reflect amounts we do not believe we can collect for improperly made calls. Any increase in the improper use of our network in the future could materially adversely affect our costs and results of operations.

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*Our operations are dependent upon our networks. A system failure could cause delays or interruptions of service, which could cause us to suffer losses.*

Failure in our networks, or their backup mechanisms, may result in service delays or interruptions and limit our ability to provide customers with reliable service over our networks. Some of the risks to our networks and infrastructure include (1) physical damage to access lines and long-distance optical cables; (2) power surges or outages; (3) software defects; (4) disruptions beyond our control; (5) breaches of security; and (6) natural disasters. The occurrence of any such event could cause interruptions in service or reduce capacity for customers, either of which could reduce our net operating revenue or cause us to incur additional expenses. In addition, the occurrence of any such event may subject us to penalties and other sanctions imposed by ANATEL (in the case of our businesses in Brazil) and ANACOM (in the case of our businesses in Portugal), and may adversely affect our business and results of operations.

*The mobile telecommunications industry and participants in this industry, including us, may be harmed by reports suggesting that radio frequency emissions cause health problems and interfere with medical devices.*

Media and other entities frequently suggest that the electromagnetic emissions from mobile handsets and base stations may cause health problems. If consumers harbor health-related concerns, they may be discouraged from using mobile handsets. These concerns could have an adverse effect on the mobile telecommunications industry and, possibly, expose mobile services providers to litigation. We cannot assure you that further medical research and studies will refute a link between the electromagnetic emissions of mobile handsets and base stations, including on frequency ranges we use to provide mobile services, and these health concerns. Government authorities could increase regulation on electromagnetic emissions of mobile handsets and base stations, which could have an adverse effect on our business, financial condition and results of operations. The expansion of our network may be affected by these perceived risks if we experience problems in finding new sites, which in turn may delay the expansion and may affect the quality of our services.

In July 2002, ANATEL enacted regulations that limit emission and exposure for fields with frequencies between 9 kHz and 300 GHz. In January 2003, ANACOM issued a regulation requiring entities that are qualified to install and use radio communication stations for public broadcasting to submit to ANACOM for approval an annual plan that monitors and measures the intensity levels of the electromagnetic waves emitted from these radio communication stations, particularly stations located near the general population. In 2004, the Portuguese government adopted regulations that limit emission and exposure to electromagnetic fields with frequencies between 0 kHz and 300 GHz.

Although we believe these regulations have not had a material impact on the business of our company, the Brazilian or Portuguese governments, or ANATEL or ANACOM, may enact new laws or regulations regarding electromagnetic emissions and exposure that could have an adverse effect on our business.

***Risks Relating to Our Company***

*We have a substantial amount of debt, which could restrict our financing and operating flexibility and have other adverse consequences.*

As of December 31, 2014, we had R\$33,295 million aggregate principal amount of outstanding debt, excluding debt obligations of PT Portugal in the amount of R\$18,893 million that have been classified as liabilities of assets held for sale but are expected to remain obligations of our company following the completion of our sale of PT Portugal. We are subject to certain financial covenants under the instruments that govern some of our indebtedness that limit our ability to incur additional debt. The level of our consolidated indebtedness and the requirements and limitations imposed by these debt instruments could adversely affect our financial condition or results of operations. In particular,



the terms of some of these debt instruments restrict our ability, and the ability of our subsidiaries, to:

incur additional debt;

grant liens;

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pledge assets;

sell or dispose of assets; and

make certain acquisitions, mergers and consolidations.

Furthermore, some of our debt instruments include financial covenants that require us or certain of our subsidiaries to maintain certain specified financial ratios. Additionally, the instruments governing a substantial portion of our indebtedness contain cross-default or cross-acceleration clauses and the occurrence of an event of default under one of these instruments could trigger an event of default under other indebtedness or enable the creditors under other indebtedness to accelerate that indebtedness.

If we are unable to incur additional debt, we may be unable to invest in our business and make necessary or advisable capital expenditures, which could reduce future net operating revenue and adversely affect our profitability. In addition, the cash required to service our indebtedness reduces the amount available to us to make capital expenditures. If the growth in net operating revenue of our company slows or declines in a significant manner, for any reason, we may not be able to continue servicing our debt. If we are unable to meet our debt service obligations or comply with our debt covenants, we could be forced to renegotiate or refinance our indebtedness, seek additional equity capital or sell assets. In this circumstance, we may be unable to obtain financing or sell assets on satisfactory terms, or at all. For more information regarding the debt instruments of our company and our indebtedness as of December 31, 2014, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources.

*In order to expand our business, we may take advantage of the consolidation of the telecommunications industry through the acquisition of other telecommunications companies, which could adversely affect our business, results of operations and financial condition.*

We may acquire other companies in the telecommunications industry as part of our growth and convergence strategy. A growth strategy that involves acquisitions may present certain risks to our business, results of operations and financial condition, such as:

difficulties in capturing synergies in the integration process, causing the anticipated benefits of the acquisition to be more limited than originally expected;

costs associated with any unforeseen antitrust restrictions;

failure to identify contingencies during the due diligence process;

uncertainty in relation to regulatory approval; and

distractions from our core business to pursue these acquisitions and implement the integration of acquired businesses.

If acquisition transactions cause us to incur unforeseen costs due to the factors described above, we may have to dedicate more resources than we had originally planned and eventually face substantial losses that would adversely affect our business, results of operations and financial condition.

Even if we identify suitable acquisition targets, we may be unable to complete acquisitions or obtain necessary financing to do so on satisfactory terms. Paying for acquisitions could require us to incur or assume debt and/or contingent liabilities, amortize certain identifiable intangible assets and incur acquisition-related expenses. In addition, we may be unable to realize all or any of the anticipated benefits from acquisitions or expansion in other related businesses because of operational factors or difficulties in integrating the acquisitions or such other related businesses with our existing businesses, including disparate information technology systems, database systems and business processes.

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*Instability in the international financial system has affected, and may continue to affect, economic growth in Brazil and Portugal and demand for our services.*

Global economic instability and related instability in the international financial system have had, and may continue to have, a negative effect on economic growth in Brazil and Portugal. Although the United States, Europe and China have shown signs of recovery, the recovery of the global economy, which depends on a number of factors, including a return of job growth and investments in the private sector as well as the timing of the exit from government credit easing policies by central banks globally, is not certain. A prolonged slowdown in economic activity in Brazil could reduce demand for some of our services, which would adversely affect our results of operations.

The current economic recession in Portugal has had, and is likely to continue to have, an adverse effect on the demand for our services in Portugal and on the revenues and profitability of our Portuguese operations, contributing to a decline in revenues in 2012, 2013 and 2014 across most of the customer categories of PT Portugal. The financial condition, revenues and profitability of PT Portugal are closely linked to circumstances in the Portuguese economy.

*Financial market conditions may adversely affect our ability to obtain financing for our operations, significantly increase our cost of debt and negatively impact our business and financial condition.*

Global financial markets and economic conditions have been severely disrupted and volatile since 2008 and remain subject to significant vulnerabilities, such as the deterioration of fiscal balances and the rapid accumulation of public debt, continued deleveraging in the banking sector and limited supply of credit. At times during this period, credit markets and the debt and equity capital markets have been exceedingly distressed. Continued or worsening volatility in the global financial markets could reduce the availability of liquidity and credit to fund the continuation and expansion of industrial business operations worldwide.

As a result of the disruptions in the credit markets, many lenders have increased interest rates, enacted tighter lending standards, required more restrictive terms (including higher collateral ratios for advances, shorter maturities and smaller loan amounts) or refused to refinance existing debt at all or on terms similar to pre-crisis conditions.

As a result of instability in the international financial system, our ability to access the capital markets or the commercial bank lending markets may be severely restricted at a time when we would like, or need, to access such markets, which could have an impact on our flexibility to react to changing economic and business conditions. The instability in the international financial system or a prolonged slowdown in economic activity in Brazil could have an impact on the lenders under our existing Brazilian credit facilities, on our Brazilian customers or on the ability of our suppliers to meet scheduled deliveries in Brazil, causing them to fail to meet their obligations to us. If the instability in the international financial system continues, it could have an adverse effect on the demand for our services in Brazil and our ability to fund our planned growth in Brazil.

*Any downgrade in the ratings of our company or our debt securities would likely result in increased interest and other financial expenses related to our borrowings and debt securities and could reduce our liquidity.*

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., or Standard & Poor's, Moody's Investors Service, or Moody's, and Fitch, Inc., or Fitch, maintain ratings of our company and our debt securities. Currently, Standard & Poor's, Moody's and Fitch maintain ratings of our company on a local and a global basis. On a global basis, Standard & Poor's maintains a local currency rating for our company of brAAA+ and a foreign currency rating for our company of BB+, Moody's maintains a local currency rating for our company of Aa2 and foreign currency rating for our company of Ba1, and Fitch maintains a local currency rating for our company of AA(bra) and foreign currency rating for our company of BB+. Any decision by these agencies to downgrade the ratings of our

company or of our debt securities in the future would likely result in increased interest and other financial expenses relating to our borrowings and debt securities and the inclusion of financial covenants in the instruments governing new indebtedness, and could significantly reduce our ability to obtain such financing on satisfactory terms or in amounts required by us and our liquidity.

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*Some of our shareholders exercise control over the membership of our board of directors and other corporate actions that we may take through a voting agreement and their interests may not be aligned with your interests.*

PT SGPS, TmarPart, Caravelas Fundo de Investimentos em Ações, an investment vehicle managed through Banco BTG Pactual S.A., or Caravelas, Bratel Brasil, Andrade Gutierrez S.A. and Jereissati Telecom S.A. are parties to the Temporary Voting Agreement described under Item 7. Major Shareholders and Related Party Transactions Major Shareholders Agreements Among Our Shareholders. As of May 4, 2015, the parties to the Temporary Voting Agreement held, directly and indirectly, 46.5% of our outstanding voting shares. Under this agreement, these shareholders have agreed, among other things, (1) to take all necessary actions within their control to cause (a) the corporate ownership simplification, including the merger of TmarPart with and into our company, to be completed, (b) the adoption of our new by-laws, (c) the election of new members of the board of directors of our company, and (d) the voluntary share exchange to be completed, (2) to keep the members of our board of directors in their current positions until the implementation of the corporate ownership simplification, the adoption of our new by-laws and the election of new members of our board of directors, and (3) in case of vacancy or resignation of any member of our board of directors during the term of the Temporary Voting Agreement, to permit TmarPart to nominate the replacement member according to the rules provided in the General Shareholders Agreement described under Item 7. Major Shareholders and Related Party Transactions Major Shareholders Agreements Among Our Shareholders. TmarPart's shareholders are parties to four shareholders agreements governing their equity interests in TmarPart. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders Agreements Among Our Shareholders. Under these agreements, the shareholders of TmarPart, acting through pre-meetings (*reunião prévia*) of the shareholders party to each of these shareholders agreements, have the power to determine the decisions to be taken at meetings of our board of directors on matters of our management that require the prior authorization of our board of directors. The decisions of the shareholders of TmarPart on these matters may be contrary to the expectations or preferences of holders of our securities, including holders of our common shares, preferred shares and ADSs.

*We rely on strategic suppliers of equipment, materials and services necessary for our operations and expansion. If these suppliers fail to provide equipment, materials or services to us on a timely basis, we could experience disruptions, which could have an adverse effect on our revenues and results of operations.*

We rely on a few strategic suppliers of equipment, materials and services, including Nokia Solutions and Networks do Brasil Telecomunicações Ltda., or Nokia Solutions, Alcatel-Lucent Brasil S.A., or Alcatel-Lucent, Telemont Engenharia de Telecomunicações S.A., or Telemont, A.R.M. Engenharia Ltda., or A.R.M. Engenharia, and Huawei do Brasil Telecomunicações Ltda., or Huawei, to provide us with equipment, materials and services that we need in order to expand and to operate our business in Brazil, and Samsung Eletrônica Portuguesa, S.A., Nokia Solutions and Networks, S.A., Alcatel Lucent Portugal, S.A. and Apple Distribution International, to provide us with equipment, materials and services that we need in order to expand and to operate our business in Portugal. There are a limited number of suppliers with the capability of providing the mobile network equipment and fixed-line network platforms that our operations and expansion plans require or the services that we require to maintain our extensive and geographically widespread networks. In addition, because the supply of mobile network equipment and fixed-line network platforms requires detailed supply planning and this equipment is technologically complex, it would be difficult for our company to replace the suppliers of this equipment. Suppliers of cables that we need to extend and maintain our networks may suffer capacity constraints or difficulties in obtaining the raw materials required to manufacture these cables. As a result, we are exposed to risks associated with these suppliers, including restrictions of production capacity for equipment and materials, availability of equipment and materials, delays in delivery of equipment, materials or services, and price increases. If these suppliers or vendors fail to provide equipment, materials or service to us on a timely basis or otherwise in compliance with the terms of our contracts with these suppliers, we could experience disruptions or declines in the quality of our services, which could have an adverse effect on our revenues and results of operations, and we might be unable to satisfy the requirements contained in our concession

and authorization agreements.

*We are subject to numerous legal and administrative proceedings, which could adversely affect our business, results of operations and financial condition.*

We are subject to numerous legal and administrative proceedings. It is difficult to quantify the potential impact of these legal and administrative proceedings. We classify our risk of loss from legal and administrative proceedings

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as probable, possible or remote. We make provisions for probable losses but do not make provisions for possible and remote losses. As of December 31, 2014, we had provisioned R\$5,132 million for probable losses relating to various tax, labor and civil legal and administrative proceedings against us. As of December 31, 2014, we had claims against us of R\$21,059 million in tax proceedings, R\$1,082 million in labor proceedings and R\$1,147 million in civil proceedings with a risk of loss classified as possible for which we had made no provisions.

We are not required to disclose or record provisions for proceedings in which our management judges the risk of loss to be remote. However, the amounts involved in certain of the proceedings in which we believe our risk of loss is remote could be substantial. Consequently, our losses could be significantly higher than the amounts for which we have recorded provisions.

If we are subject to unfavorable decisions in any legal or administrative proceedings and the losses in those proceedings significantly exceed the amount for which we have provisioned or involve proceedings for which we have made no provision, our results of operations and financial condition may be materially adversely affected. Even for the amounts recorded as provisions for probable losses, a judgment against us would have an effect on our cash flow if we are required to pay those amounts. Unfavorable decisions in these legal proceedings may, therefore, reduce our liquidity and adversely affect our business, financial condition and results of operations. For a more detailed description of these proceedings, see Item 8. Financial Information Legal Proceedings.

*The minority shareholder of Africatel has asserted that our acquisition of PT Portugal triggered its right to require us to purchase its shares of Africatel under the Africatel shareholders' agreement. If we are required to purchase this interest in Africatel, it will divert resources that could otherwise be deployed to reduce indebtedness or make investments under our business plan. If any such purchase is funded through our incurrence of additional debt, there would be a material adverse effect on our consolidated leverage.*

We indirectly own 75% of the share capital of Africatel. Samba Luxco S.à.r.l., an affiliate of Helios Investors LP, or Samba Luxco, owns the remaining 25%. Africatel holds all of our interests in telecommunications companies in sub-Saharan Africa, including our interests in Unitel, Cabo Verde Telecom, S.A. in Cape Verde, Mobile Telecommunications Limited in Namibia, and CST Companhia Santomense de Telecomunicações S.A.R.L. in São Tomé and Príncipe, among others. PT SGPS, our subsidiaries Africatel GmbH & Co. KG, or Africatel GmbH, and PT Ventures, and Samba Luxco are parties to a shareholders' agreement, which we refer to as the Africatel shareholders agreement.

On September 16, 2014, our subsidiary, Africatel GmbH, which directly holds our interest in Africatel, received a letter from Samba Luxco in which Samba Luxco claimed that Oi's acquisition of PT Portugal was deemed a change of control of PT SGPS under the Africatel shareholders agreement, and that this change of control entitled Samba Luxco to exercise a put right under the Africatel shareholders' agreement at the fair market equity value of Samba Luxco's Africatel shares. In the letter, Samba Luxco purported to exercise the alleged put right and thereby require Africatel GmbH to acquire its shares in Africatel.

On September 26, 2014, Africatel GmbH responded to Samba Luxco stating that there had not been any action or event that would trigger the right to exercise the put option under the Africatel's shareholders' agreement and that Africatel GmbH intended to challenge Samba Luxco's purported exercise of the put option. On the same date, we issued a Material Fact disclosing Samba Luxco's purported exercise of the put option, our understanding that the exercise of the put option is not applicable, and that our board of directors had authorized our management to take the necessary actions to sell our interest in Africatel.



On November 12, 2014, the International Court of Arbitration of the International Chamber of Commerce notified Africatel GmbH that Samba Luxco had commenced arbitral proceedings against Africatel GmbH to enforce its purported put right or, in the alternative, certain other rights and claims allegedly arising out of Oi's acquisition of PT Portugal. Africatel GmbH presented its answer to Samba Luxco's request for arbitration on December 15, 2014. The arbitral tribunal was constituted on March 12, 2015. Africatel GmbH intends to vigorously defend these proceedings.

If we were to acquire the interest of Samba Luxco in Africatel as a result of the exercise of Samba Luxco's purported put right under the Africatel shareholders' agreement, our acquisition of this interest would reduce the

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resources that would be available to us to reduce our outstanding indebtedness or pursue other investment opportunities. If any such purchase were to be funded through our incurrence of additional debt, the consolidated leverage of our company could increase materially, which could have a material adverse effect on our financial condition and results of operations.

*We are subject to potential liabilities relating to our third-party service providers, which could have a material adverse effect on our business, financial condition and results of operations.*

We are subject to potential liabilities relating to our third-party service providers in Brazil. Such potential liabilities may involve claims by employees of third-party service providers in Brazil directly against us as if we were the direct employer of such employees, as well as claims against us for secondary liability for, among other things, occupational hazards, wage parity or overtime pay, in the event that such third-party service providers fail to meet their obligations to their employees. We have not recorded any provisions for such claims, and significant judgments against us could have a material adverse effect on our business, financial condition and results of operations.

*We are subject to delinquencies of our accounts receivables. If we are unable to limit payment delinquencies by our customers, or if delinquent payments by our customers increase, our financial condition and results of operations could be adversely affected.*

Our business significantly depends on our customers' ability to pay their bills and comply with their obligations to us. During 2014, we recorded provisions for doubtful accounts in the amount of R\$649 million, or 2.3% of our net operating revenue, primarily due to subscribers' delinquencies. As of December 31, 2014, our provision for doubtful accounts was R\$514 million.

ANATEL regulations prevent us from implementing certain policies that could have the effect of reducing delinquency of our customers in Brazil, such as service restrictions or limitations on the types of services provided based on a subscriber's credit record. If we are unable to successfully implement policies to limit delinquencies of our Brazilian subscribers or otherwise select our customers based on their credit records, persistent subscriber delinquencies and bad debt will continue to adversely affect our operating and financial results.

In addition, if the Brazilian or Portuguese economies declines due to, among other factors, a reduction in the level of economic activity, an increase in inflation or an increase in domestic interest rates, a greater portion of our customers may not be able to pay their bills on a timely basis, which would increase our provision for doubtful accounts and adversely affect our financial condition and results of operations.

*Our commitment to meet the obligations of our Brazilian employees' pension plans, managed by Fundação Sistel de Seguridade Social and Fundação Atlântico de Seguridade Social may be higher than what is currently anticipated, and therefore, we may be required to make additional contributions of resources to these pension plans or to record liabilities or expenses that are higher than currently recorded.*

As sponsors of certain private employee pension plans in Brazil, which are managed by Fundação Sistel de Seguridade Social, or Sistel, and Fundação Atlântico de Seguridade Social, or FATL, our subsidiaries cover the actuarial deficits of these pension benefit plans, which provide guaranteed benefits to our retirees in Brazil and guaranteed future benefits to our current Brazilian employees at the time of their retirement. As of December 31, 2014, our Brazilian pension benefit plans had an aggregate deficit of R\$476.5 million. Our commitment to meet these deficit obligations may be higher than we currently anticipate, and we may be required to make additional contributions or record liabilities or expenses that are higher than we currently record, which may adversely affect our financial results. For a more detailed description of our Brazilian pension plans, see Item 6. Directors, Senior



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*Unfunded post-retirement benefits obligations may put our Portuguese businesses at a disadvantage to its competitors and could adversely affect our financial performance.*

Our Portuguese businesses have unfunded post-retirement benefits obligations that may limit our future use and availability of capital and adversely affect our financial and operating results. Although in December 2010, PT Comunicações transferred to the Portuguese government the post-retirement benefits obligations relating to regulated pensions of Caixa Geral de Aposentações and Marconi, PT Comunicações retained, and as a result of our acquisition of PT Portugal, we have assumed, all other obligations, including (1) salaries to suspended and pre-retired employees amounting to 762 million as of December 31, 2014, which we must pay monthly directly to the beneficiaries until their retirement age, and (2) 525 million in obligations related to pension supplements and healthcare as of December 31, 2014, which are backed by plan assets with a market value of 251 million as of December 31, 2014, resulting in unfunded obligations of 1,035 million (802 million after taxes) as of December 31, 2014.

Any decrease in the market value of the plan assets of our Portuguese businesses relating to our pension supplements and healthcare obligations could increase our unfunded position. Although there is in place an investment policy with capital preservation targets, in the current economic and financial crisis, in particular, the market value of the plan assets of our Portuguese businesses is volatile and poses a risk. In addition, our obligations to pay salaries to suspended and pre-retired employees of our Portuguese businesses are unfunded. The value of the obligations referred to above may also fluctuate, depending on demographic, financial, legal or regulatory factors that are beyond our control. Any significant increase in the unfunded obligations of our Portuguese businesses could adversely affect our ability to raise capital, require us to use cash flows that we would otherwise use for capital investments, implementing our strategy or other purposes and adversely affect perceptions of our overall financial strength.

***Risks Relating to Our Brazilian Operations***

*Our fixed-line telecommunications services in Brazil face strong competition from mobile services providers, other fixed-line service providers and cable television service providers, which may adversely affect our revenues and margins.*

Our fixed-line telecommunications services in Brazil face strong competition from mobile services as the prices for mobile services have declined and approach those of fixed-line services. Based on information available from ANATEL, from December 31, 2011 to December 31, 2014, the number of fixed lines in service in our Brazilian service areas (all of Brazil other than the state of São Paulo) increased from 26.9 million to 28.2 million. We expect (1) the number of fixed lines in service in our Brazilian service areas to experience slow growth, as some of our customers eliminate their fixed-line services in favor of mobile services, and (2) the use of existing fixed lines for making voice calls to decline as customers substitute calls on mobile phones in place of fixed-line calls as a result of promotional mobile rates (such as free calls within a mobile provider's network). The rate at which the number of fixed lines in service in our Brazilian service areas may decline depends on many factors beyond our control, such as economic, social, technological and other developments in Brazil. In addition, new fixed lines that we install in Brazil are expected to be less profitable than existing ones because new fixed-line customers generally have lower average incomes than our existing customers, subscribe to our lower cost service plans and generate fewer chargeable minutes of usage. Because we derive a significant portion of our net operating revenue from our traditional local fixed-line telecommunications services in Brazil, the reduction in the number of our fixed-lines in service in Brazil has negatively affected and is likely to continue to negatively affect our net operating revenue and margins.

We also compete in the Brazilian market for local fixed-line services with other fixed-line service providers, primarily with Empresa Brasileira de Telecomunicações – Embratel, or Embratel, and GVT S.A., or GVT. In addition to direct competition for corporate customers, Embratel competes with Oi for residential customers in our Brazilian service

areas with services that it provides using the cable infrastructure of its subsidiary, Net Serviços de Comunicação S.A., or Net. Net is a cable television company that is our primary competitor in the broadband services market in Brazil. Embratel is a subsidiary of América Móvil S.A.B. de C.V., or América Móvil, one of the leading telecommunications service providers in Latin America. Net offers integrated voice, broadband and pay television services to the Brazilian residential market through a single network infrastructure. In addition, we compete in our Brazilian service area with smaller companies that have been authorized by ANATEL to provide

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local fixed-line services. Embratel and GVT are each controlled by multinational companies that may have more significant financial and marketing resources, and greater abilities to access capital on a timely basis and on more favorable terms, than our company. Our loss of a significant number of fixed-line customers would adversely affect our net operating revenue and may adversely affect our results of operations. For a detailed description of our competition in the local fixed-line services market in Brazil, see Item 4: Information on the Company Competition Local Fixed-Line Services.

*Our mobile services in Brazil face strong competition from other mobile services providers, which may adversely affect our revenues.*

The mobile services market in Brazil is extremely competitive. We face competition from large competitors such as TIM Participações S.A., or TIM, Telefônica Brasil S.A., or Telefônica Brasil, which markets its mobile services under the brand name Vivo, and Claro S.A., or Claro. As of December 31, 2014, based on information regarding the total number of subscribers as of that date available from ANATEL, we had a market share of 18.1% of the total number of mobile subscribers in Brazil, ranking behind Telefônica Brasil with 28.5%, TIM with 27.0% and Claro with 25.3%. During the year ended December 31, 2014, we captured 7.3% of all net additions of mobile subscribers in Brazil (calculated based on the number of mobile subscribers at the end of a period less the number of mobile subscribers at the beginning of that period). Telefônica Brasil, TIM and Claro are each controlled by multinational companies that may have more significant financial and marketing resources, and greater abilities to access capital on a timely basis and on more favorable terms, than our company.

Our ability to generate revenues from our Brazilian mobile services business depends on our ability to increase and retain our customer base. Each additional customer subscribing to our Brazilian service entails costs, including sales commissions and marketing costs. Recovering these costs depends on our ability to retain such customers. Therefore, high rates of customer churn could have a material adverse effect on the profitability of our Brazilian mobile services business. During the year ended December 31, 2014, our average customer churn rate in the Brazilian mobile services segment, representing the number of subscribers whose service was disconnected during each month, whether voluntarily or involuntarily, divided by the number of subscribers at the beginning of such month, was 5.7%.

We have experienced increased pressure to reduce our mobile rates in Brazil in response to pricing competition. This pricing competition often takes the form of special promotional packages, which may include, among other things, mobile handset subsidies, traffic usage promotions and incentives for calls made within a mobile services provider's own network. Competing with the service plans and promotions offered by our competitors in Brazil may cause an increase in our marketing expenses and customer-acquisition costs, which has adversely affected our result of operations during some periods in the past and could continue to adversely affect our results of operations. Our inability to compete effectively with these packages could result in our loss of market share and adversely affect our net operating revenue and profitability. For a detailed description of our competition in the Brazilian mobile services market, see Item 4: Information on the Company Competition Mobile Services.

*Our long-distance services in Brazil face significant competition, which may adversely affect our revenues.*

In Brazil, unlike in the United States and elsewhere, a caller chooses its preferred long-distance carrier for each long-distance call, whether originated from a fixed-line telephone or a mobile handset, by dialing such carrier's long-distance carrier selection code (*Código de Seleção de Prestadora*). The long-distance services market in Brazil is highly competitive. Our principal competitors for long-distance services in Brazil are TIM and Embratel, which offer long-distance services throughout Brazil at rates that are charged on a per call or per day basis, rather than a per minute basis. We also compete with Telefônica Brasil, which is the incumbent fixed-line service provider in the States of São Paulo. Increased competition from long-distance service providers has resulted in pressure on our long-distance

rates in Brazil and adversely affected our revenue from these services. In addition, the proliferation of new types of service plans, such as same network subscription plans that offer unlimited long distance calls and data combination plans, is impacting the long-distance services market in Brazil. Competition in the Brazilian long-distance market may require us to increase our marketing expenses and/or provide services at lower rates than those we currently expect to charge for such services. Competition in the Brazilian long-distance market has had and could continue to have a material adverse effect on our revenues and margins. For a detailed description of our

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competition in the Brazilian long-distance services market, see Item 4: Information on the Company Competition Long-Distance Services.

*Data transmission services in Brazil are not subject to significant regulatory restrictions and, as a result, we face an increasing amount of competition in this business.*

Competition in data transmission services in Brazil is not subject to significant regulatory restrictions and, therefore, the market is open to a large number of competitors. Some competitors, such as cable operators, offer telephone and broadband services, which do not require them to use our fixed-line network, thereby allowing them to reach our customers without paying interconnection fees to us. Increasing competition in the Brazilian data transmission services market may lead to rate reductions in this segment, adversely affecting the net operating revenue that we generate from this business. Additionally, increased competition for data transmission customers may require us to increase our marketing expenses and our capital expenditures and may lead to the loss of broadband customers, in each case leading to a decrease in our profitability. For a detailed description of our competition in the Brazilian data transmission services market, see Item 4: Information on the Company Competition Data Transmission Services.

*The Brazilian telecommunications industry is highly regulated. Changes in laws and regulations may adversely impact our business.*

The Brazilian telecommunications industry is highly regulated by ANATEL. ANATEL regulates, among other things, rates, quality of service and universal service goals, as well as competition among telecommunications service providers. Changes in laws and regulations, grants of new concessions, authorizations or licenses or the imposition of additional universal service obligations, among other factors, may adversely affect our business, financial condition and results of operations.

For example, in July 2014 ANATEL approved rules under which interconnection rates charged by our company for the use of our fixed-line and mobile networks would be reduced over a period of years until they were set at rates based on a long-run incremental cost methodology. These regulations will have adverse effects on our revenues, although as a result of reductions in our costs and expenses for these services that we acquire from other telecommunications providers, we cannot predict with certainty the effects that these regulations will have on our results of operations.

We cannot predict whether ANATEL, the Brazilian Ministry of Communications (*Ministério das Comunicações*) or the Brazilian government will adopt other telecommunications sector policies in the future or the consequences of such policies on our business or the business of our competitors.

*Our local fixed-line and domestic long-distance concession agreements in Brazil are subject to periodic modifications by ANATEL and expire on December 31, 2025. Our bids for new concessions upon the expiration of our existing concessions may not be successful.*

We provide fixed-line telecommunications services in our Brazilian service areas pursuant to concession agreements with the Brazilian government. These concession agreements expire on December 31, 2025, and may be amended by the parties every five years prior to the expiration date. In connection with each five-year amendment, ANATEL has the right, following public consultations, to impose new terms and conditions in response to changes in technology, competition in the marketplace and domestic and international economic conditions.

Our obligations under our concession agreements may be subject to revision in connection with each future amendment. On June 27, 2014, ANATEL opened a public comment period for the revision of the terms of our



concession agreements. The comment period, which ended on December 26, 2014, was opened for comments on certain topics such as service universalization, rates and fees and quality of services, among others. We submitted our comments on time and according to the established rules. Depending on the evaluation made by ANATEL of the contributions and ANATEL's final decision regarding the terms of our concession agreements, it may impose universal service goals, with values that we are not able to predict.

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We cannot assure you that any future amendments, including the amendments expected to be made in 2015, will not impose requirements on our company that will require us to undertake significant capital expenditures or will not modify the rate-setting procedures applicable to us in a manner that will significantly reduce the net operating revenue that we generate from our Brazilian fixed-line businesses. If the amendments to our Brazilian concession agreements have these effects, our business, financial condition and results of operations could be materially adversely affected.

Our concession agreements will expire on December 31, 2025. We expect the Brazilian government to offer new concessions in competitive auctions prior to the expiration of our existing concession agreements. We may participate in such auctions, but our existing fixed-line and domestic long-distance concession agreements will not entitle us to preferential treatment in these auctions. If we do not secure concessions for our existing service areas in any future auctions, or if such concessions are on less favorable terms than our current concessions, our business, financial condition and results of operations would be materially adversely affected.

*Our local fixed-line and domestic long-distance concession agreements in Brazil, as well as our authorizations to provide personal mobile services in Brazil, contain certain obligations, and our failure to comply with these obligations may result in various fines and penalties being imposed on us by ANATEL.*

Our local fixed-line and domestic long-distance concession agreements in Brazil contain terms reflecting the General Plan on Universal Service Goals (*Plano Geral de Metas de Universalização*), the General Plan on Quality Goals (*Plano Geral de Metas de Qualidade*) and other regulations adopted by ANATEL, the terms of which could affect our financial condition and results of operations. Our local fixed-line concession agreements in Brazil also require us to meet certain network expansion, quality of service and modernization obligations in each of the Brazilian states in our service areas. In the event of noncompliance with ANATEL targets in any one of these states, ANATEL can establish a deadline for achieving the targeted level of such service, impose penalties and, in extreme situations, terminate the applicable concession agreement for noncompliance with our quality and universal service obligations. See Item 4: Information on the Company Regulation of the Brazilian Telecommunications Industry Regulation of Fixed-Line Services.

On an almost weekly basis, we receive inquiries from ANATEL requiring information from us on our compliance with the various service obligations imposed on us by our concession agreements. If we are unable to respond satisfactorily to those inquiries or comply with our service obligations under our concession agreements, ANATEL may commence administrative proceedings in connection with such noncompliance. We have received numerous notices of the commencement of administrative proceedings from ANATEL, mostly due to our inability to achieve certain targets established in the General Plan on Quality Goals and the General Plan on Universal Service Goals, among others. As of December 31, 2014, we had recorded provisions in the amount of R\$1,104 million in connection with fines sought to be imposed by ANATEL. Additional fines from ANATEL or fines in excess of the provisioned amount could adversely impact our financial condition and results of operations. See Item 4. Information on the Company Regulation of the Brazilian Telecommunications Industry and Item 8. Financial Information Legal Proceedings Civil Claims Relating to Oi S.A. and Our Brazilian Operations Administrative Proceedings.

In addition, our authorizations to provide personal mobile services contain certain obligations requiring us to meet network scope and quality of service targets. If we fail to meet these obligations, we may be fined by ANATEL until we are in full compliance with our obligations and, in extreme circumstances, our authorizations could be revoked by ANATEL. For example, on July 23, 2012, ANATEL temporarily suspended our ability to accept new customers for our mobile services in the States of Amazonas, Amapá, Mato Grosso do Sul, Roraima and Rio Grande do Sul due to ANATEL's perception of our failure to meet capital investment and quality of service commitments in those states. This suspension lasted for approximately two weeks until we were able to propose new quality of service goals to ANATEL. See Item 4. Information on the Company Regulation of the Brazilian Telecommunications

Industry Regulation of Mobile Services Obligations of Personal Mobile Services Providers.

*We may be unable to implement our plans to expand and enhance our existing networks in Brazil in a timely manner or without unanticipated costs, which could hinder or prevent the successful implementation of our business plan and result in revenues and net income being less than expected.*

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Our ability to achieve our strategic objectives depends in large part on the successful, timely and cost-effective implementation of our plans to expand and enhance our networks in Brazil. Factors that could affect this implementation include:

our ability to generate cash flow or to obtain future financing necessary to implement our projects;

delays in the delivery of telecommunications equipment by our vendors;

the failure of the telecommunications equipment supplied by our vendors to comply with the expected capabilities; and

delays resulting from the failure of third-party suppliers or contractors to meet their obligations in a timely and cost-effective manner.

Although we believe that our cost estimates and implementation schedule are reasonable, we cannot assure you that the actual costs or time required to complete the implementation of these projects will not substantially exceed our current estimates. Any significant cost overrun or delay could hinder or prevent the successful implementation of our business plan and result in revenues and net income being less than expected.

### ***Risks Relating to Our Portuguese Operations***

*Increased competition among providers of bundled telecommunications services in Portugal may result in a decrease in the revenues of our Portuguese operations.*

In 2008, PT Portugal launched a nationwide Pay-TV service under the *Meo* brand, primarily using its fixed network (IP TV over ADSL2+ and FTTH and DTH satellite technology). This service required it to make significant investments in its network in order to increase the bandwidth and offer a better service quality than its competitors. In January 2013, PT Portugal announced the rebranding of *Meo* and the launch of a quadruple-play service, *OM* offering Pay-TV, broadband internet, fixed telephone and mobile telephone services. This launch required additional marketing expenditures and will entail ongoing investments in infrastructure to remain competitive with service offerings of other market participants.

PT Portugal experienced, and we may continue to experience, pressure from competitors to reduce monthly subscription fees. Our efforts to build scale in our Portuguese mobile business to enable us to negotiate better programming costs with content suppliers, especially costs for certain premium content owned by one of our competitors, may not prove successful.

The competitive landscape has changed significantly in Portugal as a result of the merger in August 2013 of ZON Multimédia Serviços de Telecomunicações e Multimédia, SGPS, S.A., or ZON, the largest cable operator in Portugal, and Optimus SGPS, S.A., or Optimus, the third-largest mobile operator in Portugal, to create NOS, SGPS, S.A. (formerly known as ZON Optimus, SGPS, S.A.), or NOS, a new integrated telecommunications operator in Portugal. The emergence of NOS has further increased the focus in the Portuguese market on bundled offers and the evolution from triple-play to quadruple-play services as NOS has leveraged its position as an integrated telecommunications operator. Our other main competitors in the Portuguese market are Cabovisão (which acquired ONITELECOM in

2013) and Vodafone.

Our revenues from residential services in Portugal and our financial position could be significantly affected if we are not successful in competing to provide these bundled services, particularly as our Pay-TV services have become increasingly important as a retention tool of our fixed line and broadband internet customers.

*Competition in Portugal from other mobile and fixed line operators has reduced revenues from our Portuguese operations and could adversely affect our revenues.*

As a result of the trend toward the use of mobile services instead of fixed telephone services, combined with the increase in competition from other operators, PT Portugal experienced, and we may continue to experience,

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erosion of market share in Portugal of both access lines and outgoing domestic and international traffic. Additionally, all mobile telecommunications services providers have launched fixed telephony services based on their mobile networks, which are directly competing for fixed-line customers. Mobile operators in Portugal can bypass our international wireline network by interconnecting directly with fixed line and mobile networks either in our domestic Portuguese network or abroad. Competition is also forcing down the prices of our Portuguese fixed line voice services for long-distance and international calls, as operators have been offering unlimited voice communications for all national and several international fixed destinations. Lowering its international call prices caused a decline in PT Portugal's revenues from international fixed line voice services. We expect competition from operators with services based on Voice over Internet Protocol, or VoIP, also to place increasing price pressure on voice tariffs. The decrease in fixed line voice traffic and lower tariffs resulting from competition significantly affected PT Portugal's overall revenues, and we expect these factors to continue to negatively affect our revenues.

*The broadband market in Portugal is highly competitive and may become more competitive in the future.*

We believe that competition in internet broadband access in Portugal is intensifying, and with the development of existing technologies such as broadband wireless access, mobile broadband through 3G and 4G technology, as well as high speed broadband supported by the deployment of a fiber optic network, we may face additional pricing pressure on our services in Portugal, which could result in the loss of revenues from both residential and enterprise customers.

*Increased competition in the Portuguese mobile markets may result in decreased revenues.*

We believe that our existing mobile competitors in Portugal, Vodafone and NOS, will continue to market their services aggressively, resulting in similarly priced offers for all major mobile telecommunications services providers in the market. These aggressive pricing strategies have boosted voice and data usage at the expense of eroding retail revenues. A clear example was the launch, in 2008, of the so-called "tribal plans." Although initially designed to provide special calling and texting advantages for restricted user groups, their widespread success soon resulted in a significant pressure on revenues. We believe that our success against competitors in the Portuguese market will depend on our ability to differentiate our products based on services offered, quality, simplicity and targeting of pricing plans, and we may not be successful in doing so. We also believe quadruple-play plans will play a major role in the mobile Portuguese market. Although in January 2013 PT Portugal was the first operator to launch a quadruple-play offer in Portugal, it will be increasingly difficult for us to sustain this competitive advantage.

*Burdensome regulation in an open market may put us at a disadvantage to our competitors and could adversely affect our Portuguese telecommunications business.*

The Portuguese electronic communications sector is fully open to competition. However, many regulatory restrictions and obligations are still imposed on our Portuguese operations. In the first round of market analysis initiated by ANACOM in 2004, PT Portugal was found by ANACOM to have significant market power in all but one of the 19 Portuguese markets analyzed and, consequently, was subjected to regulatory restrictions and obligations. Not all of these obligations and restrictions have been imposed on other operators and service providers in the Portuguese telecommunications sector. Pursuant to revised EC Recommendation on Relevant Markets published in 2007 and 2014, the number of markets subject to regulation was significantly reduced. ANACOM periodically re-analyzes markets subject to regulation to identify which markets are still relevant for regulatory intervention and which electronic communications operators and service providers, if any, it considers to have significant market power in those markets. Additionally, ANACOM determines the regulatory remedies that should be imposed on those operators and service providers.

ANACOM has re-analyzed some of the markets included in the 2007 European Relevant Market Recommendation and 2014 European Relevant Market Recommendation and has issued findings that PT Portugal has significant market power in all of the markets included in the 2014 European Relevant Market Recommendation, other than portions of Market 3b (the market for wholesale central access provided at a fixed location for mass-market products) located in geographic areas designated as competitive by ANACOM. In addition, ANACOM has found that PT Portugal has significant market power in two markets no longer included in the European Relevant Market Recommendation, but which ANACOM continues to regulate: (1) the wholesale

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market for call origination on the fixed telephone network provided at a fixed location (Market 2 under the 2007 EC Recommendation on Relevant Markets), or Market 2/2007, and (2) the wholesale market for leased lines trunk segments (Market 13 under the 2003 EC Recommendation on Relevant Markets), or Market 13/2003.

In certain cases, such as Market 3b, ANACOM has segmented the markets into C (competitive) and NC (non-competitive) segments and issued a finding that PT Portugal had significant market power in the non-competitive segments. ANACOM has the power to impose remedies to increase competition in those markets.

In February 2012, ANACOM approved a draft decision related to the definition of Market 3a (the market for wholesale local access provided at a fixed location) and Market 3b, the evaluation of significant market power, and the imposition, maintenance, modification or suppression of regulatory obligations. ANACOM proposed to maintain the national scope of Market 3a and the geographic segmentation in Market 3b, which is divided into unregulated C areas and regulated NC areas, and to include high-speed broadband networks (e.g., FTTH networks) in Market 3b in order to require operators with significant market power to provide access to these networks. Under this draft decision, PT Portugal would continue to be considered to have significant market power in Market 3a and Market 3b in non-competitive areas.

Under the February 2012 draft ANACOM decision concerning access obligations in Market 3a, in addition to the obligation of granting unbundled access to copper loops and subloops and to ducts and poles at the national level, ANACOM intended to impose a geographically differentiated obligation to provide wholesale customers with virtual access to optical fiber networks (advanced bitstream). This obligation would not be imposed in 17 municipalities that were considered to have conditions that permit other network operators to invest in optical fiber networks. The draft decision required PT Portugal to demonstrate to ANACOM that the difference between PT Portugal's retail prices and the prices of the offers made available to other operators in Market 3a would not result in a margin squeeze. This review was not concluded, due to (1) the changes that took place in the Portuguese market during 2013 (e.g., the merger between ZON and Optimus and investments initiated by Vodafone and Altice to expand their optical fiber and cable networks), and (2) the publication in September 2013 of the recommendation of the European Commission, or EC, on NGA non-discrimination and costing methodologies.

In December 2014, ANACOM commenced a public consultation on the re-analysis of Market 4 (the market for wholesale high-quality access provided at a fixed location). As a result of this re-analysis, PT Portugal may be subjected to significant price reductions in its wholesale leased lines business on its Continente Açores Madeira routes. As of the date of this annual report, a final decision ANACOM with respect to this re-analysis is pending.

Remedies imposed by ANACOM may require us to provide services in certain markets or geographic regions that we would otherwise not choose to provide or to make investments that we would otherwise not choose to make. In addition, PT Portugal has incurred, and we may still be required to incur, expenses to adapt our Portuguese operations to changing regulatory requirements and to ensure regulatory compliance. The resources we may be required to commit to fulfill our regulatory obligations in Portugal could adversely affect our ability to compete.

*Reduced interconnection rates have negatively affected revenues of our Portuguese telecommunications business and will continue to do so in 2015.*

In recent years, ANACOM has imposed price controls on interconnection rates for the termination of calls on mobile networks. These price controls have had a significant impact on interconnection revenues of our subsidiary MEO Serviços de Comunicações e Multimédia, S.A. MEO. (merged into former PT Comunicações S.A.), or MEO, and, consequently, on its earnings.



ANACOM has issued successive decisions that have reduced mobile termination rates over time. Most recently, in April 2012, ANACOM issued a final decision reducing mobile termination rates progressively to 0.0127 per minute by December 2012. The reductions in mobile termination rates had a negative effect on PT Portugal's cash flows and revenues and will continue to have a negative effect on our cash flows and revenues.

ANACOM has proposed a further decrease of the maximum termination rate to 0.0083 in 2015. A draft decision regarding mobile termination rates is currently pending, and comments may be submitted until mid-May 2015.

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The Portuguese Competition Authority (*Autoridade da Concorrência*) has also completed an analysis of mobile rates for originating calls to non-geographic numbers (such as toll-free numbers and leased lines) in January 2012, finding origination rates to be excessive and issued a recommendation that mobile operators reduce their rates to a level reflecting their costs or face the possibility of being sanctioned. As of the date of this annual report, the Portuguese Competition Authority has not begun any investigations.

In March 2013, ANACOM published a draft decision regarding Market 1 proposing to set an average symmetrical fixed termination rate, or FTR, of 0.001091 per minute from October 1, 2013 to July 1, 2014, corresponding to the average FTR of the countries that had already defined their call termination rates at a fixed location based on the pure Bottom Up Long-Run Average Incremental Cost, or BU-LRIC, cost models recommended by the EC.

In August 2013, after the European Commission expressed serious concerns in respect of ANACOM's draft decision, ANACOM decided to withdraw its decision and instead to impose provisional and urgent measures. Under its revised measures, ANACOM determined that the maximum average prices to be applied by operators designated as having significant market power in Market 1 should be 0.001114 per minute as of October 1, 2013 and that as of July 1, 2014, the price would be set using a pure LRIC cost model. As of the date of this annual report, the pure LRIC cost model has not been finalized.

In July 2014, ANACOM commenced a consultation to review Market 1 that includes a symmetric obligation to ensure IP interconnection, and on the implementation of the pure LRIC model, proposing to set a fixed symmetric termination rate of 0.00068. As of the date of this annual report, ANACOM's decision following this consultation is pending.

In addition, the lower interconnection rates have slightly reduced revenues for our Portuguese wholesale business, which records revenues from international incoming calls transiting through our Portuguese network that terminate on the networks of other mobile and fixed-line operators. The prices we charge to international operators (and hence our revenues) also have depended on the interconnection fees charged by mobile and fixed-line operators for international incoming calls terminating on their networks, and these fees have been decreasing. We expect that lower interconnection rates will continue to have a negative impact on the wholesale revenues of our Portuguese telecommunications business.

*The European Commission's review of roaming charges may continue to lead to a reduction in revenues from personal services in Portugal.*

The EC regulates the roaming charges that may be charged in the wholesale market and the retail market in Europe. These regulations extend to data and Short Messaging Services, or SMS, or text messaging. On July 1, 2012, the previous roaming regulations were replaced by a new version, known as Roaming III, which will expire on June 30, 2022. In addition to setting maximum voice roaming rates (subject to a glide path) that may be charged with respect to the wholesale and retail market for voice, data and SMS services, Roaming III also features (1) extended transparency and consumer-protection measures ( bill-shock ) that go beyond the EU territory, (2) the introduction of an obligation for mobile operators in the wholesale market to provide reasonable network access in order to allow roaming services, and (3) the decoupling of roaming services from other services, while enabling a consumer to use the same number. The Roaming III regulations have had and are expected to continue to have an adverse effect on the revenues and the results of operations of our Portuguese mobile business and on the results of operations of that mobile business.

*The European Commission's proposed Single Telecom Market legislation could adversely affect our Portuguese telecommunications business.*

The EC, the European Parliament and the European Council are finalizing the plans for regulation implementing a single telecommunications market formerly called the Connected Continent legislation in order to stimulate the provision of cross-border European services.

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The draft legislation, in its initial wording, addressed such diverse matters as a single European authorization and convergence of regulatory remedies, a standard EU wholesale broadband access product, the harmonization of spectrum authorization procedures, net neutrality and transparency, international mobile roaming and international calls, and consumer protection. Of these matters, only net neutrality and roaming are still under consideration, and the current proposals depart considerably from the initial proposals.

In its latest formulation, the legislative package advanced by the Latvian Presidency and discussed with the EC and the European Parliament on April 15, 2015 provides, among other things:

net neutrality.

the phasing out of retail roaming surcharges, based on the introduction of a basic roaming allowance, or BRA, under which providers may not levy any surcharge in comparison to the domestic retail prices for regulated mobile communications. Under this proposal:

the BRA must be available for at least seven days per year and include a minimum daily consumption of five minutes calls made, five minutes calls received, five SMS sent and 10 Mb of data.

surcharges for traffic outside the BRA shall not exceed the maximum wholesale charges for regulated roaming calls made, regulated SMS and regulated data.

The proposal also moves up the deadline for the EC to complete a review of the EU wholesale roaming market to the end of 2017, which was previously set for mid-2018, and adds a provision stressing that the latest regulation is an interim step towards ending roaming surcharges entirely. As of the date of this annual report, the negotiation of this legislative package has not concluded.

If approved, this legislation is expected to have an adverse effect on our Portuguese telecommunications business due to anticipated price decreases, higher operational costs and increased competition.

*The Portuguese government could terminate or fail to renew the fixed line license and licenses and authorizations for data and mobile services of our Portuguese telecommunications business.*

We provide a significant number of services in Portugal under licenses and authorizations granted by ANACOM to our subsidiary MEO.

The Portuguese government can terminate MEO's mobile licenses in Portugal under certain circumstances. Through MEO, we hold a renewable license to provide GSM (Global System for Mobile Communications), or 2G, mobile telephone services throughout Portugal until 2016, and a renewable license to provide 3G mobile telephone services throughout Portugal until 2022. In January 2012, MEO was allocated the right to use frequencies to provide mobile telephone services throughout Portugal using 4G among other technologies, and in March 2012, ANACOM issued a renewable license to MEO with respect to the use of these frequencies until 2027. This license also consolidates the previous 2G and 3G licenses issued to MEO. If the Portuguese government were to terminate the license of our mobile business in Portugal, we would not be able to conduct the activities authorized by this license. This loss would eliminate an important source of revenues of our company.

*Regulatory investigations and litigation may lead to fines or other penalties.*

ANACOM, the EC and the Portuguese Competition Authority regularly make inquiries and have conducted investigations concerning the compliance of our Portuguese telecommunications business with applicable laws and regulations. For example, the Portuguese Competition Authority conducted an inquiry in 2013 relating to alleged anti-competitive practices in the terrestrial television and mobile services markets following a complaint by another mobile operator. If, after such an administrative proceeding, the Portuguese Competition Authority decides that there is a reasonable likelihood that sanctions will

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be imposed, a more formal proceeding will follow. After the conclusion of a proceeding for breach of competition law, the Portuguese Competition Authority can impose fines of up to 10% of the revenues of our Portuguese telecommunications business during the year immediately preceding the final decision.

In January 2011, the EC opened an investigation into an agreement between Telefónica and PT SGPS allegedly not to compete in the Iberian telecommunications markets. PT SGPS had developed various strategic partnerships with Telefónica in recent years and its relationship with Telefónica was investigated. In January 2013, the EC adopted a decision finding that PT SGPS and Telefónica had infringed Article 101 of the Treaty on the Functioning of the EU with reference to the July 28, 2010 agreement between PT SGPS and Telefónica concerning the acquisition by Telefónica of PT SGPS' stake in Brazilian operator Vivo. In accordance with this decision, PT SGPS was fined an amount of 12.29 million. On April 9, 2013, PT SGPS brought an action for annulment before the Court of Justice of the EU and will continue to vigorously defend the matter. The matter is now waiting to be tried before the EU Court of Justice.

If PT SGPS or our company is found to have been in violation of applicable laws and regulations in these or other regulatory inquiries, investigations, or litigation proceedings that are currently pending against PT SGPS or entities that are part of our Portuguese telecommunications business, or that may be brought against our company in the future, we may become subject to penalties, fines, damages or other sanctions. Any adverse outcome could have a material adverse effect on our operating results or cash flows.

***Risks Relating to Our African and Asian Operations***

*We may be unable to dispose of our interest in Africatel for a consideration that exceeds its carrying value in our financial statements or at all. Any impairment of the fair market value of at which we record our indirect investment in Unitel in our financial statements would have a material adverse effect on our financial condition and results of operations.*

On September 17, 2014, our board of directors authorized our management to take the necessary measures to market our shares in Africatel, representing 75% of the share capital of Africatel. As a result, as of December 31, 2014, we have recorded our interest in Africatel as discontinued operations. We have engaged a financial advisor to assist us with marketing and selling our interest in Africatel.

As of December 31, 2014, we recorded in our consolidated financial statements as assets held for sale R\$7,643 million relating to our interest in Africatel, including R\$1,261 of accrued dividends owed to our company by Unitel and R\$4,164 representing the fair market value of Africatel's 25% interest in Unitel at the time of the Oi capital increase, and recorded as liabilities directly associated with assets held for sale of R\$851 million relating to our interest in Africatel.

We may not be able to sell our interest in Africatel for consideration that exceeds the book value of our interest in Africatel, or at all. The book value of our indirect investment in Unitel is subjected to testing for impairment when events or changes in circumstances indicate that the value of our indirect investment in Unitel may be lower than the fair market value at which we carry this investment. Any impairment of our indirect investment in Unitel may result in a material adverse effect on our financial condition and operating results.

*We cannot assure you as to when PT Ventures will realize the accounts receivable recorded with respect to the declared and unpaid dividends owed to PT Ventures by Unitel or when PT Ventures will receive dividends that may have been declared with respect to 2013 or may be declared with respect to succeeding fiscal years.*

Since November 2012, PT Ventures has not received any payments for outstanding amounts owed to it by Unitel with respect to dividends declared by Unitel for the fiscal years ended December 31, 2012, 2011 and 2010. Based on the dividends declared by Unitel for those fiscal years, PT Ventures is entitled to receive the total amounts of US\$190.0 million (R\$504 million) with respect to fiscal year 2012, US\$190.0 million (R\$504 million ) with respect to fiscal year 2011, and US\$157.5 million (R\$418 million ) with respect to fiscal year 2010. As of the

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date of this annual report, PT Ventures has only received US\$63.7 million (R\$169 million ) of its share of the dividends declared by Unitel with respect to fiscal year 2010, and has not received any amount in respect of dividends declared by Unitel with respect to fiscal years 2011 and 2012.

At a general meeting of the shareholders of Unitel held on November 4, 2013, the other shareholders discussed the financial statements as well as the payment of dividends with respect to the fiscal year of 2013. PT Ventures was unable to attend that meeting because the financial statements and the other relevant information about the meeting were not included in the prior notice for the meeting, nor were they made available to PT Ventures. PT Ventures has not received the minutes of this meeting nor has it been informed about the decisions taken.

On March 25, 2014, Unitel issued a statement claiming that PT Ventures is not listed on the shareholders' register of Unitel, and that the board of directors of Unitel had notified PT SGPS about the existence of an irregularity, which purportedly resulted in Unitel being unable to distribute dividends to PT Ventures until the resolution of this irregularity. In June 2014, PT Ventures (formerly known as Portugal Telecom Internacional, SGPS, S.A.) resolved the alleged irregularity with the Angolan Foreign Investment Institute. On June 3, 2014, PT Ventures was issued a Foreign Investment Certificate endorsing its current name.

On several occasions, PT Ventures has requested an explanation from Unitel about its failure to pay to PT Ventures its share of the declared dividends. As of the date of this annual report, PT Ventures has not received a satisfactory explanation regarding this failure to pay, nor has PT Ventures received reliable indications as to the expected timing of the payment of the accrued dividends. We cannot assure you as to the timing of the payment of the accrued dividends to our company or whether we will be able to receive dividends that may be declared by Unitel in the future. Our inability to receive these dividends could have a material adverse impact on the fair value of our investment in Unitel, our financial position and our results of operations.

*The other shareholders of Unitel have indicated to PT Ventures that they believe that PT SGPS' sale of a minority interest in Africatel did not comply with the Unitel shareholders' agreement.*

The Unitel shareholders' agreement provides a right of first refusal to the other shareholders of Unitel if any shareholder desires to transfer any or all of its shares of Unitel, other than transfers to certain affiliated companies. This agreement also provides that if any shareholder breaches a material obligation under the Unitel shareholders' agreement, the other shareholders will have a right to purchase the breaching shareholder's stake in Unitel at its net asset value.

The other shareholders of Unitel have asserted to PT Ventures that they believe that PT SGPS' sale of a minority interest in Africatel to Samba Luxco during 2007 was in breach of the Unitel shareholders' agreement. PT Ventures disputes this interpretation of the relevant provisions of the Unitel shareholders' agreement, and we believe that the relevant provisions of the Unitel shareholders' agreement apply only to a transfer of Unitel shares by PT Ventures itself.

As of the date of this annual report, we have not been notified of any proceedings initiated with respect to PT SGPS' sale of a minority interest in Africatel to Samba Luxco. If the other shareholders of Unitel were to assert that this sale was in breach of the Unitel shareholders' agreement, and if a binding decision by an appropriate forum to this effect were to be rendered in favor of those shareholders, PT Ventures could be required to sell its interest in Unitel for a value significantly lower than the amount that we record in our financial statements with respect to our indirect investment in Unitel. The sale of PT Ventures' interest in Unitel in these circumstances could have a material adverse impact on our financial condition and results of operations.



*The other shareholders of Unitel may claim that, as a result of PT SGPS' failure to offer its indirect interest in Unitel to such shareholders prior to our acquisition of PT Portugal, these shareholders have the right to acquire the shares of Unitel held by PT Ventures at their net asset value.*

On March 25, 2014, Unitel issued a public statement in which Unitel implied that its shareholders had a right of first refusal related to PT SGPS' then-pending sale of its indirect interest in Unitel to our company. On September 16, 2014, the other shareholders of Unitel delivered a notice to PT SGPS in which they claimed that our

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indirect acquisition of PT Ventures' interest in Unitel as part of the Oi capital increase would trigger this right. We do not agree with the interpretation proposed by the other Unitel shareholders, and instead believe that the relevant provisions of the Unitel shareholders' agreement would apply only to a transfer of Unitel shares by PT Ventures itself.

As of the date of this annual report, we have not been notified of any proceedings initiated with respect to PT SGPS's failure to offer its indirect interest in Unitel to the other shareholders of Unitel prior to our acquisition of PT Portugal. If the other shareholders of Unitel were to claim that PT SGPS' failure to offer its indirect interest in Unitel to those shareholders resulted in a breach of the Unitel shareholders' agreement, and if a binding decision by an appropriate forum to this effect were to be rendered in favor of those shareholders, PT Ventures could be required to sell its interest in Unitel for its net asset value, which is significantly lower than the amount that we record in our financial statements with respect to our indirect investment in Unitel. The sale of PT Ventures' interest in Unitel in these circumstances would have a material adverse impact on our financial condition and results of operations.

*The other shareholders of Unitel have prevented PT Ventures from exercising its rights to appoint the chief executive officer and a majority of the board of directors of Unitel.*

Under the Unitel shareholders' agreement, PT Ventures is entitled to appoint three of the five members of Unitel's board of directors and its chief executive officer. Under the Unitel shareholders' agreement, the appointment of the chief executive officer of Unitel is subject to the approval of the holders of 75% of Unitel's shares. However, the other shareholders of Unitel have failed to vote to elect the directors nominated by PT Ventures at Unitel's shareholders meetings, and as a result, PT Ventures' representation on Unitel's board of directors was reduced to a single director in June 2006, and the chief executive officer of Unitel has not been PT Ventures' appointee since June 2006.

On July 22, 2014, the only member of Unitel's board of directors that had been appointed by PT Ventures resigned from his position, and the other shareholders of Unitel have not permitted PT Ventures to appoint a replacement. In November 2014, the other shareholders of Unitel stated to PT Ventures that its rights as a shareholder of Unitel had been purportedly suspended in October 2012, although these other shareholders have not indicated any legal basis for this alleged suspension. At a general shareholders meeting of Unitel held on December 15, 2014, an election of members of the board of directors of Unitel was held. At this meeting, Unitel's other shareholders claimed that PT Ventures was not entitled to vote as a result of the alleged suspension of its rights as a shareholder of Unitel in October 2012, and they refused to elect the member nominated by PT Ventures to Unitel's board of directors.

PT Ventures has filed a suit in Angolan court to annul the results of the election of members of the Unitel board of directors on December 15, 2014. As of the date of this annual report, no nominee of PT Ventures serves on the Unitel board of directors.

*Unitel has granted loans to a related party and entered into a management contract with a third-party without the approval of PT Ventures.*

Under the Unitel shareholders' agreement, the shareholders of Unitel and their affiliates are not permitted to enter into any contracts with Unitel unless the contracts are approved by a resolution of Unitel's board of directors adopted by at least four members of its board of directors. As a result of the inability of PT Ventures to appoint members of the Unitel board of directors, PT Ventures is unable to effectively exercise its implied veto right over related party transactions of Unitel.

Between May and October 2012, Unitel made disbursements to Unitel International Holdings B.V. of 178.9 million (R\$576 million) and US\$35.0 million (R\$93 million) under a Facility Agreement entered into between Unitel and Unitel International Holdings B.V., or Unitel Holdings, an entity that competes with Africatel in Cabo Verde and in

São Tomé and Príncipe. Unitel Holdings is controlled by Mrs. Isabel dos Santos, an indirect shareholder of Unitel and a member of the board of directors of Unitel. PT Ventures representative on the Unitel board of directors voted against these transactions at the time of their proposed execution by Unitel, and PT

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Ventures abstained when the consolidated financial statements of Unitel that included these transactions were approved by the other Unitel shareholders at a shareholders meeting.

Despite requests, PT Ventures has been unable to obtain documents and other information concerning the transactions with Unitel International Holdings B.V., including as to the possibility that Unitel has entered into other transactions in addition to those described above from 2012.

We cannot assure you that we will be able to prevent Unitel from taking actions that should require the approval of the members of the Unitel board of directors nominated by PT Ventures, including approving related party transactions with the other shareholders of Unitel that we believe are detrimental to the financial condition and results of operations of Unitel. The use of the resources of Unitel in this manner could have a material adverse impact on the financial position and results of operations of Unitel and therefore the value of our investment in Unitel.

*The other shareholders of Unitel have attempted to dilute our indirect ownership of Unitel through a capital increase in which we could be technically unable to participate, and have called meetings at which they have indicated the desire to unilaterally amend the by-laws of Unitel and the Unitel shareholders' agreement.*

At a general shareholders meeting of Unitel held on December 15, 2014, the other shareholders of Unitel voted to increase Unitel's share capital and alter the nominal value of its shares. The details of this capital increase are obscure to us as they were not included in the prior notice for this meeting nor were they discussed in detail during this meeting. Additional details of this capital increase have been included in draft minutes of this meeting provided to PT Ventures and it appears that, although PT Ventures has determined to subscribe to its *pro rata* share of this capital increase to avoid dilution of its interest in Unitel, payment of the subscription price may be proposed under conditions that would not permit PT Ventures to obtain the necessary foreign exchange approvals prior to the date on which payment would be due. PT Ventures has filed a suit in Angolan court to annul the approval of the Unitel capital increase at this shareholders meeting.

The agenda of this general shareholders meeting of Unitel included amendments to Unitel's by-laws and purported amendments to Unitel shareholders' agreement, in addition to other matters that may have been raised at the shareholders' meeting itself, which included investments by Unitel in Zimbabwe and a study in order to implement a corporate reorganization of Unitel. We have not been provided of the details of the proposed by-law amendments nor of any purported amendments to the Unitel shareholders' agreement. The December 15, 2014 meeting was suspended without any action taken on these items and has been scheduled to reconvene on May 13, 2015. PT Ventures has filed a suit in Angolan court to annul the approval of investments by Unitel in Zimbabwe and a study in order to implement a corporate reorganization of Unitel.

We cannot assess the impact to Unitel or our company of the matters considered at the December 15, 2014 general shareholders meeting of Unitel or the proposed amendments to Unitel's by-laws and purported amendments to the Unitel shareholders' agreement as we have not been provided with sufficient details to appropriately analyze these matters. In addition, we note that there appears to be no legal authority for the other shareholders of Unitel to amend the Unitel shareholders' agreement through actions taken at a general meeting of Unitel's shareholders, as this agreement is an agreement among the parties thereto. Should the other shareholders approve actions detrimental to Unitel or our investment in Unitel, these actions could have a material adverse impact on the financial position and results of operations of Unitel and therefore the value of our investment in Unitel.

*Unitel's concession to operate in Angola has expired and has not yet been renewed.*

Unitel's concession to provide mobile telecommunications services in Angola expired in April 2012. We cannot provide you with any assurances regarding the terms under which the Angolan National Institute of Telecommunications (*Instituto Angolano das Comunicações*), or INACOM, would grant a renewal of this concession, if at all. A failure of Unitel to obtain a renewal of this concession could have a material adverse effect on the ability of Unitel to continue to provide mobile telecommunications services in Angola, which would have a material adverse effect on Unitel's financial position and results of operations and the value of our investment in Unitel.

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*Adverse political, economic and legal conditions in the African and Asian countries in which we have acquired investments may hinder our ability to receive dividends from our African and Asian subsidiaries and investments.*

The governments of many of the African and Asian countries in which we have investments have historically exercised, and continue to exercise, significant influence over their respective economies and legal systems. Countries in which we have investments may enact legal or regulatory measures that restrict the ability of our subsidiaries and investees to make dividend payments to us. Similarly, adverse political or economic conditions in these countries may hinder our ability to receive dividends from our subsidiaries and investees. Historically, PT SGPS has received dividends from the African and Asian subsidiaries and investees that we have acquired, however, a limitation on our ability to receive a material portion of those dividends could adversely affect our cash flows and liquidity.

In addition, our investments in these regions are exposed to political and economic risks that include, but are not limited to, exchange rate and interest rate fluctuations, inflation and restrictive economic policies and regulatory risks that include, but are not limited to, the process for the renewal of licenses and the evolution of regulated retail and wholesale tariffs. In addition, our ventures in African and Asian markets face risks associated with increasing competition, including due to the entrance of new competitors and the rapid development of new technologies.

The development of partnerships in these markets raises risks related to the ability of the partners to jointly operate the assets. Any inability of our company and our partners to operate these assets may have a negative impact on our strategy and all of these risks may have material effects on our results of operations.

*Our acquisition of PT Portugal may have triggered claims of our other joint venture partners or may otherwise lead to an unwinding of those joint ventures.*

Some of the agreements governing our joint ventures in Africa and Asia, other than Unitel, contain provisions that may confer certain rights, including call and put rights, on our joint venture parties in the event of a change of control or merger of PT Portugal. If these rights were triggered by our acquisition of PT Portugal, we could be forced to exit one or more profitable joint ventures and sell our shares to our joint venture partners at a price significantly lower than the fair market value of our interests in those joint ventures. Alternatively, we could be required to use cash to purchase the joint venture interests of our partners in one or more joint ventures. Any such event could have a material adverse effect on our investment strategy for Africa and Asia, our growth prospects and/or our liquidity and cash flow.

Even if no contractual provision was triggered by our acquisition of PT Portugal, our relationship with these joint venture partners could change or worsen as a result of by our acquisition of PT Portugal for political, commercial or other reasons. We do not own a controlling stake in most of these joint ventures, and any challenges that arise with our joint venture partners as a result of our acquisition of PT Portugal or otherwise could lead to costly and time-consuming negotiations, arbitration or litigation or potentially to the unwinding of our investment in those ventures at a price significantly lower than the fair market value of our investment.

*We are a party to joint ventures and partnerships that may not be successful and may expose our company to future costs.*

We are a partner in joint ventures and partnerships in Africa and Asia. Our partnering arrangements may fail to perform as expected for various reasons, including an incorrect assessment of our needs or the capabilities or financial stability of our strategic partners. Our share of any losses from or commitments to contribute additional capital to such partnerships may also adversely affect our results of operations or financial position.

Our ability to work with these partners or develop new products and solutions may become constrained, which could harm our competitive position in the markets served by these joint ventures and partnerships. We may have disputes with our partners in these joint ventures, and we may have difficulty agreeing with our partners on actions that we believe would be beneficial to those joint ventures and partnerships. In addition, the joint ventures and partnerships in African and Asian countries are typically governed by the laws of those countries, and our partners are often established participants in those markets and may have greater influence in those economies than we will.

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To the extent we experience difficulties with our joint venture partners, we may encounter difficulties in protecting our investments in those countries.

Any of these factors could cause these joint ventures and partnerships not to be profitable and could cause us to lose all or part of the value of our investments in those ventures.

***Risks Relating to Brazil***

*The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. This involvement, as well as Brazilian political and economic conditions, could adversely impact our business, results of operations and financial condition.*

We are a Brazilian corporation and a majority of our operations and customers are located in Brazil. Accordingly, our financial condition and results of operations are substantially dependent on Brazil's economy. The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes significant changes in policy and regulations. The Brazilian government's actions to control inflation and implement macroeconomic policies have often involved increases in interest rates, wage and price controls, currency devaluations, blocking access to bank accounts, imposing capital controls and limits on imports, among other things. We do not have any control over, and are unable to predict, which measures or policies the Brazilian government may adopt in the future. Our business, results of operations and financial condition may be adversely affected by changes in policies or regulations, or by other factors such as:

political instability;

devaluations and other currency fluctuations;

inflation;

price instability;

interest rates;

liquidity of domestic capital and lending markets;

energy shortages;

exchange controls;



changes to the regulatory framework governing our industry;

monetary policy;

tax policy; and

other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether possible changes in policies or rules affecting these or other factors may contribute to economic uncertainties in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad by Brazilian issuers. The President of Brazil has considerable power to determine governmental policies and actions that relate to the Brazilian economy and, consequently, affect the operations and financial performance of businesses such as our company. We can offer no assurances that the policies that may be implemented by the Brazilian federal or state governments will not adversely affect our business, results of operations and financial condition.

*Depreciation of the real may lead to substantial losses on our liabilities denominated in or indexed to foreign currencies.*

During the four decades prior to 1999, the Brazilian Central Bank periodically devalued the Brazilian currency. Throughout this period, the Brazilian government implemented various economic plans and used various exchange rate policies, including sudden devaluations (such as daily and monthly adjustments), exchange controls, dual exchange rate markets and a floating exchange rate system. Since 1999, exchange rates have been set by the market. The exchange rate between the *real* and the U.S. dollar has varied significantly in recent years. For example, the *real*/U.S. dollar exchange rate increased from R\$1.9554 per U.S. dollar on December 31, 2000 to R\$3.5333 on December 31, 2002. The *real* appreciated against the U.S. dollar by 4.3% during 2010, and has depreciated by 12.6% against the U.S. dollar during 2011, by 8.9% during 2012, by 14.6% during 2013 and by 13.4% during 2014.

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In addition, the *real* appreciated against the Euro by 10.4% during 2010, and has depreciated by 9.3% against the Euro during 2011, by 10.7% during 2012, and by 19.7% during 2013, and was substantially unchanged during 2014.

A significant amount of our financial liabilities are denominated in or indexed to foreign currencies, primarily U.S. dollars and Euros. As of December 31, 2014, R\$15,333 million of our consolidated financial indebtedness was denominated in currencies other than the *real*, excluding debt obligations of PT Portugal that have been classified as liabilities of assets held for sale but are expected to remain obligations of our company following the completion of our sale of PT Portugal. When the *real* depreciates against foreign currencies, we incur losses on our liabilities denominated in or indexed to foreign currencies, such as our U.S. dollar-denominated and Euro-denominated long-term debt and foreign currency loans, and we incur gains on our monetary assets denominated in or indexed to foreign currencies, as the liabilities and assets are translated into *reais*. If significant depreciation of the *real* were to occur when the value of such liabilities significantly exceeds the value of such assets, including any financial instruments entered into for hedging purposes, we could incur significant losses, even if the value of those assets and liabilities has not changed in their original currency. In addition, a significant depreciation in the *real* could adversely affect our ability to meet certain of our payment obligations. A failure to meet certain of our payment obligations could trigger a default under certain financial covenants in our debt instruments, which could have a material adverse effect on our business and results of operations. Additionally, we currently have currency swaps and non-deliverable forwards in place for most of our foreign currency debt. If the cost of currency swap instruments increases substantially, we may be unable to maintain our hedge positions, resulting in an increased foreign currency exposure that could in turn lead to substantial foreign exchange losses.

A portion of our capital expenditures and operating leases require us to acquire assets or use third-party assets at prices denominated in or linked to foreign currencies, some of which are financed by liabilities denominated in foreign currencies, principally the U.S. dollar and the Euro. We generally do not hedge against risks related to movements of the *real* against foreign currencies. To the extent that the value of the *real* decreases relative to the U.S. dollar or the Euro, it becomes more costly for us to purchase these assets or services, which could adversely affect our business and financial performance.

Depreciation of the *real* relative to the U.S. dollar could create additional inflationary pressures in Brazil by increasing the price of imported products and requiring recessionary government policies, including tighter monetary policy. On the other hand, appreciation of the *real* against the U.S. dollar may lead to a deterioration of the country's current account and balance of payments, as well as to a dampening of export-driven growth.

*If Brazil experiences substantial inflation in the future, our margins and our ability to access foreign financial markets may be reduced. Government measures to curb inflation may have adverse effects on the Brazilian economy, the Brazilian securities market and our business and results of operations.*

Brazil has, in the past, experienced extremely high rates of inflation, with annual rates of inflation reaching as high as 2,708% in 1993 and 1,093% in 1994. Inflation and some of the Brazilian government's measures taken in an attempt to curb inflation have had significant negative effects on the Brazilian economy.

Since the introduction of the *real* in 1994, Brazil's inflation rate has been substantially lower than in previous periods. However, actions taken in an effort to control inflation, coupled with speculation about possible future governmental actions, have contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market. More recently, Brazil's rates of inflation, as measured by the General Market Price Index – Internal Availability (*Índice Geral de Preços – Disponibilidade Interna*), or IGP-DI, published by Fundação Getúlio Vargas, or FGV, were 11.3% in 2010, 5.0% in 2011, 8.1% in 2012, 5.5% in 2013 and 3.8% in 2014. According to the Broad Consumer Price Index (*Índice Nacional de Preços ao Consumidor Ampliado*), or IPCA, published by the Brazilian Institute for

Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or IBGE, the Brazilian consumer price inflation rates were 5.9% in 2010, 6.5% in 2011, 5.8% in 2012, 5.9% in 2013 and 6.4% in 2014.

If Brazil experiences substantial inflation in the future, our costs may increase and our operating and net margins may decrease. Although ANATEL regulations provide for annual price increases for most of our services in Brazil, such increases are linked to inflation indices, discounted by increases in our productivity. During periods of rapid increases in inflation, the price increases for our services may not be sufficient to cover our additional costs

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and we may be adversely affected by the lag in time between the incurrence of increased costs and the receipt of revenues resulting from the annual price increases. Inflationary pressures may also curtail our ability to access foreign financial markets and may lead to further government intervention in the economy, including the introduction of government policies that may adversely affect the overall performance of the Brazilian economy.

*Fluctuations in interest rates could increase the cost of servicing our debt and negatively affect our overall financial performance.*

Our financial expenses are affected by changes in the interest rates that apply to our floating rate debt. As of December 31, 2014, we had, among other consolidated debt obligations, R\$9,862 million of loans and financings and debentures that were subject to the Interbank Certificate of Deposit (*Certificado de Depósito Interbancário*), or CDI, rate, an interbank rate, R\$5,154 million of loans and financings and debentures that were subject to the Long-Term Interest Rate (*Taxa de Juros de Longo Prazo*), or TJLP, a long-term interest rate, R\$4,039 million of loans and financings that were subject to the IPCA, and R\$2,860 million of loans and financings that were subject to the London Interbank Offered Rate, or LIBOR. In addition, the debt obligations of PT Portugal that have been classified as liabilities of assets held for sale but are expected to remain obligations of our company following the completion of our sale of PT Portugal included R\$1,512 million ( 468.5 million) of loans and financings that were subject to the Euro Interbank Offer Rate.

The TJLP includes an inflation factor and is determined quarterly by the National Monetary Council (*Conselho Monetário Nacional*). In particular, the TJLP and the CDI rate have fluctuated significantly in the past in response to the expansion or contraction of the Brazilian economy, inflation, Brazilian government policies and other factors. For example, the CDI declined from 10.87% per annum as of December 31, 2011 to 6.90% per annum as of December 31, 2012, increased to 9.77% per annum as of December 31, 2013, and increased to 11.57% per annum as of December 31, 2014. A significant increase in any of these interest rates, particularly the CDI rate, could adversely affect our financial expenses and negatively affect our overall financial performance.

*The market value of securities issued by Brazilian companies is influenced by the perception of risk in Brazil and other countries, which may have a negative effect on the trading price of our common shares, preferred shares and ADSs and may restrict our access to international capital markets.*

Economic and market conditions in other countries and regions, including the United States, the European Union and emerging market countries, may affect to varying degrees the market value of securities of Brazilian issuers. Although economic conditions in these countries and regions may differ significantly from economic conditions in Brazil, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers, the availability of credit in Brazil and the amount of foreign investment in Brazil. Crises in the European Union, the United States and emerging market countries have at times resulted in significant outflows of funds from Brazil and may diminish investor interest in securities of Brazilian issuers, including our company. This could materially and adversely affect the market price of our securities, and could also make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all.

*Restrictions on the movement of capital out of Brazil may impair our ability to service certain debt obligations.*

Brazilian law provides that whenever there exists, or there is a serious risk of, a material imbalance in Brazil's balance of payments, the Brazilian government may impose restrictions for a limited period of time on the remittance to foreign investors of the proceeds of their investments in Brazil as well as on the conversion of the *real* into foreign currencies. The Brazilian government imposed such a restriction on remittances for approximately six months in 1989 and early 1990. The Brazilian government may in the future restrict companies from paying amounts denominated in

foreign currency or require that any such payment be made in *reais*. Many factors could affect the likelihood of the Brazilian government imposing such exchange control restrictions, including the extent of Brazil's foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the size of Brazil's debt service burden relative to the economy as a whole, and political constraints to which Brazil may be subject. There can be no certainty that the Brazilian government will not take such measures in the future.

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A more restrictive policy could increase the cost of servicing, and thereby reduce our ability to pay, our foreign currency-denominated debt obligations and other liabilities. As of December 31, 2014, our foreign-currency denominated debt was R\$15,133 million and represented 41.7% of our consolidated indebtedness. In addition, PT Portugal had foreign-currency denominated debt of R\$18,893 million that have been classified as liabilities of assets held for sale but are expected to remain obligations of our company following the completion of our sale of PT Portugal. If we fail to make payments under any of these obligations, we will be in default under those obligations, which could reduce our liquidity as well as the market price of our common shares, preferred shares and ADSs.

In addition, a more restrictive policy could hinder or prevent the Brazilian custodian of the common shares and preferred shares underlying our ADSs or holders who have exchanged our ADSs for the underlying common shares or preferred shares from converting dividends, distributions or the proceeds from any sale of such shares into U.S. dollars and remitting such U.S. dollars abroad. In such an event, the Brazilian custodian for our common shares and preferred shares will hold the *reais* that it cannot convert for the account of holders of our ADSs who have not been paid. Neither the custodian nor The Bank of New York Mellon, as depository of our ADS programs, which we refer to as the depository, will be required to invest the *reais* or be liable for any interest.

***Risks Relating to Our Common Shares, Preferred Shares and ADSs***

*Holders of our common shares, preferred shares or ADSs may not receive any dividends or interest on shareholders equity.*

According to our by-laws and the Brazilian Corporation Law, we must generally pay our shareholders at least 25% of our annual net income as dividends or interest on shareholders' equity, as calculated and adjusted under Brazilian GAAP. This adjusted net income may be capitalized, used to absorb losses or otherwise retained as allowed under Brazilian GAAP and may not be available to be paid as dividends or interest on shareholders' equity. Holders of our common shares or Common ADSs, may not receive any dividends or interest on shareholders' equity in any given year due to the dividend preference of our preferred shares. Additionally, the Brazilian Corporation Law allows a publicly traded company like ours to suspend the mandatory distribution of dividends in any particular year if our board of directors informs our shareholders that such distributions would be inadvisable in view of our financial condition or cash availability. Holders of our preferred shares or Preferred ADSs may not receive any dividends or interest on shareholders' equity in any given year if our board of directors makes such a determination or if our operations fail to generate net income.

*Our preferred shares and Preferred ADSs have limited voting rights and are not entitled to vote to approve corporate transactions, including mergers or consolidations of our company with other companies, or the declaration of dividends.*

Under the Brazilian Corporation Law and our by-laws, holders of our preferred shares and, consequently, our Preferred ADSs, are not entitled to vote at meetings of our shareholders, except in very limited circumstances. These limited circumstances directly relate to key rights of the holders of preferred shares, such as modifying basic terms of our preferred shares or creating a new class of preferred shares with superior rights. Holders of preferred shares without voting rights are entitled to elect one member and his or her respective alternate to our board of directors and our fiscal council. Holders of our preferred shares and Preferred ADSs are not entitled to vote to approve corporate transactions, including mergers or consolidations of our company with other companies, or the declaration of dividends. See Item 10. Additional Information Description of Our Company's By-laws Voting Rights.

*Holders of our ADSs may find it difficult to exercise their voting rights at our shareholders' meetings.*

Under Brazilian law, only shareholders registered as such in our corporate books may attend our shareholders meetings. All common shares and preferred shares underlying our ADSs are registered in the name of the depositary. ADS holders may exercise the voting rights with respect to our common shares and the limited voting rights with respect to our preferred shares represented by our ADSs only in accordance with the deposit agreements relating to our ADSs. There are practical limitations upon the ability of the ADS holders to exercise their voting rights due to the additional steps involved in communicating with ADS holders. For example, we are required to publish a notice of our shareholders meetings in certain newspapers in Brazil. To the extent that holders of our common shares or preferred shares are entitled to vote at a shareholders meeting, they will be able to exercise their

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voting rights by attending the meeting in person or voting by proxy. By contrast, holders of the ADSs may receive notice of a shareholders' meeting by mail from the depositary if we notify the depositary of the shareholders' meeting and request the depositary to inform ADS holders of the shareholders' meeting. To exercise their voting rights, ADS holders must instruct the depositary on a timely basis. This noticed voting process will take longer for ADS holders than for holders of our common shares or preferred shares. If the depositary fails to receive timely voting instructions for all or part of our ADSs, the depositary will assume that the holders of those ADSs are instructing it to give a discretionary proxy to a person designated by us to vote their ADSs, except in limited circumstances.

In the circumstances in which holders of our ADSs have voting rights, they may not receive the voting materials in time to instruct the depositary to vote our common shares or preferred shares underlying their ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions of the holders of our ADSs or for the manner of carrying out those voting instructions. Accordingly, holders of our ADSs may not be able to exercise voting rights, and they will have no recourse if the common shares or preferred shares underlying their ADSs are not voted as requested.

*Holders of our common shares, preferred shares or ADSs in the United States may not be entitled to the same preemptive rights as Brazilian shareholders have, pursuant to Brazilian legislation, in the subscription of shares resulting from capital increases made by us.*

Under Brazilian law, if we issue new shares in exchange for cash or assets as part of a capital increase, subject to certain exceptions, we must grant our shareholders preemptive rights at the time of the subscription of shares, corresponding to their respective interest in our share capital, allowing them to maintain their existing shareholding percentage. We may not legally be permitted to allow holders of our common shares, preferred shares or ADSs in the United States to exercise any preemptive rights in any future capital increase unless (1) we file a registration statement for an offering of shares resulting from the capital increase with the U.S. Securities and Exchange Commission, or SEC, or (2) the offering of shares resulting from the capital increase qualifies for an exemption from the registration requirements of the Securities Act. At the time of any future capital increase, we will evaluate the costs and potential liabilities associated with filing a registration statement for an offering of shares with the SEC and any other factors that we consider important in determining whether to file such a registration statement. We cannot assure the holders of our common shares, preferred shares or ADSs in the United States that we will file a registration statement with the SEC to allow them to participate in any of our capital increases. As a result, the equity interest of such holders in our company may be diluted.

*If holders of our ADSs exchange them for common shares or preferred shares, they may risk temporarily losing, or being limited in, the ability to remit foreign currency abroad and certain Brazilian tax advantages.*

The Brazilian custodian for the common shares and preferred shares underlying our ADSs must obtain an electronic registration number with the Brazilian Central Bank to allow the depositary to remit U.S. dollars abroad. ADS holders benefit from the electronic certificate of foreign capital registration from the Brazilian Central Bank obtained by the custodian for the depositary, which permits it to convert dividends and other distributions with respect to the common shares or preferred shares into U.S. dollars and remit the proceeds of such conversion abroad. If holders of our ADSs decide to exchange them for the underlying common shares or preferred shares, they will only be entitled to rely on the custodian's certificate of registration with the Brazilian Central Bank for five business days after the date of the exchange. Thereafter, they will be unable to remit U.S. dollars abroad unless they obtain a new electronic certificate of foreign capital registration in connection with the common shares or preferred shares, which may result in expenses and may cause delays in receiving distributions. See Item 10. Additional Information Exchange Controls.



Also, if holders of our ADSs that exchange our ADSs for our common shares or preferred shares do not qualify under the foreign investment regulations, they will generally be subject to less favorable tax treatment of dividends and distribution on, and the proceeds from any sale of, our common shares or preferred shares. See Item 10. Additional information Exchange Controls and Item 10. Additional Information Taxation Brazilian Tax Considerations.

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*Holders of our ADSs may face difficulties in protecting their interests because, as a Brazilian company, we are subject to different corporate rules and regulations and our shareholders may have fewer and less well-defined rights.*

Holders of our ADSs are not direct shareholders of our company and are unable to enforce the rights of shareholders under our by-laws and the Brazilian Corporation Law.

Our corporate affairs are governed by our by-laws and the Brazilian Corporation Law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States, such as the State of Delaware or New York, or elsewhere outside Brazil. Even if a holder of our ADSs surrenders its ADSs and becomes a direct shareholder, its rights as a holder of our common shares or preferred shares under the Brazilian Corporation Law to protect its interests relative to actions by our board of directors may be fewer and less well-defined than under the laws of those other jurisdictions.

Although insider trading and price manipulation are crimes under Brazilian law, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or the markets in some other jurisdictions. In addition, rules and policies against self-dealing or for preserving shareholder interests may be less well-defined and enforced in Brazil than in the United States and certain other countries, which may put holders of our common shares, preferred shares and ADSs at a potential disadvantage. Corporate disclosures also may be less complete or informative than those of a public company in the United States or in certain other countries.

*We are exempt from some of the corporate governance requirements of the New York Stock Exchange.*

We are a foreign private issuer, as defined by the SEC for purposes of the Exchange Act. As a result, for so long as we remain a foreign private issuer, we will be exempt from, and you will not be provided with the benefits of, some of the corporate governance requirements of The New York Stock Exchange, or the NYSE. We are permitted to follow practice in Brazil in lieu of the provisions of the NYSE's corporate governance rules, except that:

we are required to have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act;

we are required to disclose any significant ways in which our corporate governance practices differ from those followed by domestic companies under NYSE listing standards;

our chief executive officer is obligated to promptly notify the NYSE in writing after any of our executive officers becomes aware of any non-compliance with any applicable provisions of the NYSE corporate governance rules; and

we must submit an executed written affirmation annually to the NYSE. In addition, we must submit an interim written affirmation as and when required by the interim written affirmation form specified by the NYSE.

The standards applicable to us are considerably different than the standards applied to U.S. domestic issuers. Although Rule 10A-3 under the Exchange Act generally requires that a listed company have an audit committee of its board of directors composed solely of independent directors, as a foreign private issuer, we are relying on a general exemption

from this requirement that is available to us as a result of the features of Brazilian law applicable to our fiscal council. In addition, we are not required to, among other things:

have a majority of independent members of our board of directors;

have a compensation committee or a nominating or corporate governance committee of our board of directors;

have regularly scheduled executive sessions with only non-management directors; or

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have at least one executive session of solely independent directors each year. We intend to rely on some or all of these exemptions. As a result, you will not be provided with the benefits of certain corporate governance requirements of the NYSE.

*Holders of our ADSs may face difficulties in serving process on or enforcing judgments against us and other persons.*

We are organized under the laws of Brazil, and all of the members of our board of directors, our executive officers and our independent registered public accountants reside or are based in Brazil. The vast majority of our assets and those of these other persons are located in Brazil. As a result, it may not be possible for holders of our ADSs to effect service of process upon us or these other persons within the United States or other jurisdictions outside Brazil or to enforce against us or these other persons judgments obtained in the United States or other jurisdictions outside Brazil. In addition, because substantially all of our assets and all of our directors and officers reside outside the United States, any judgment obtained in the United States against us or any of our directors or officers may not be collectible within the United States. Because judgments of U.S. courts for civil liabilities based upon the U.S. federal securities laws may only be enforced in Brazil if certain conditions are met, holders may face greater difficulties in protecting their interests in the case of actions by us or our board of directors or executive officers than would shareholders of a U.S. corporation.

*Brazilian tax laws may have an adverse impact on the taxes applicable to the disposition of our common shares, preferred shares and ADSs.*

According to Law No. 10,833, enacted on December 29, 2003, if a nonresident of Brazil disposes of assets located in Brazil, the transaction will be subject to taxation in Brazil, even if such disposition occurs outside Brazil or if such disposition is made to another nonresident. A disposition of our ADSs between nonresidents, however, involves the disposal of a non-Brazilian asset and in principle is currently not subject to taxation in Brazil. Nevertheless, in the event that the concept of disposition of assets is interpreted to include the disposition by nonresidents of assets located outside Brazil, this tax law could result in the imposition of withholding taxes in the event of a disposition of our ADSs made between nonresidents of Brazil. Due to the fact that as of the date of this annual report Law No. 10,833/2003 has no judicial guidance as to its application, we are unable to predict whether an interpretation applying such tax laws to dispositions of our ADSs between nonresidents could ultimately prevail in Brazilian courts. See Item 10. Additional Information Taxation Brazilian Tax Considerations.

*Depending upon the value and the nature of our assets and the amount and nature of our income over time, we could be classified as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes.*

We will be classified as a PFIC in any taxable year if either: (1) 50% or more of the fair market value of our gross assets (determined on the basis of a quarterly average) for the taxable year produce passive income or are held for the production of passive income, or (2) 75% or more of our gross income for the taxable year is passive income. As a publicly traded foreign corporation we intend for this purpose to treat the aggregate fair market value of our gross assets as being equal to the aggregate value of our outstanding stock plus the total amount of our liabilities ( market capitalization ) and to treat the excess of the fair market value of our assets over their book value as a nonpassive asset to the extent attributable to our nonpassive income. Because we currently hold, and expect to continue to hold and potentially to increase our holdings of, a substantial amount of cash and cash equivalents and other passive assets used in our business, and because the value of our gross assets is likely to be determined in large part by reference to our market capitalization securities, we would likely become a PFIC for a given taxable year if the market price of our common shares or preferred shares were to decrease significantly. The application of the PFIC rules is subject to uncertainty in several respects, and we must make a separate determination after the close of each taxable year as to whether we were a PFIC for such year. If we are a PFIC for any taxable year during which a U.S. investor held our

common shares, preferred shares or ADSs, the U.S. investor might be subject to increased U.S. federal income tax liability and to additional reporting obligations. We do not intend to provide the information necessary for the U.S. investor to make a qualified electing fund election with respect to our common shares, preferred shares or ADSs. See Item 10. Additional Information Taxation U.S. Federal Income Tax Considerations Passive Foreign Investment Company Rules.

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*The relative volatility and illiquidity of the Brazilian securities markets may adversely affect holders of our common shares, preferred shares and ADSs.*

The Brazilian securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. The BM&FBOVESPA, which is the principal Brazilian stock exchange, had a market capitalization of R\$2.2 trillion (US\$845 billion) as of December 31, 2014 and an average daily trading volume of R\$7.3 billion (US\$3.1 billion) for 2014. In comparison, aggregate market capitalization of the companies (including U.S. and non-U.S. companies) listed on the NYSE was US\$19.4 trillion as of December 31, 2014 and the NYSE recorded an average daily trading volume of US\$63.0 billion for 2014. There is also significantly greater concentration in the Brazilian securities markets. The ten largest companies in terms of market capitalization represented approximately 51% of the aggregate market capitalization of the BM&FBOVESPA as of December 31, 2014. The ten most widely traded stocks in terms of trading volume accounted for approximately 40% of all shares traded on the BM&FBOVESPA in 2014. These market characteristics may substantially limit the ability of holders of our ADSs to sell the preferred shares underlying our ADSs at a price and at a time when they wish to do so and, as a result, could negatively impact the market price of our ADSs themselves.

*The imposition of IOF taxes may indirectly influence the price and volatility of our common shares, preferred shares and ADSs.*

Brazilian law imposes the Tax on Foreign Exchange Transactions, or the IOF/Exchange Tax, on the conversion of *reais* into foreign currency and on the conversion of foreign currency into *reais*. Brazilian law also imposes the Tax on Transactions Involving Bonds and Securities, or the IOF/Securities Tax, due on transactions involving bonds and securities, including those carried out on a Brazilian stock exchange.

In October 2009, the Brazilian government imposed the IOF/Exchange Tax at a rate of 2.0% in connection with inflows of funds related to investments carried out by non-Brazilian investors in the Brazilian financial and capital markets with the objective of slowing the pace of speculative inflows of foreign capital into the Brazilian market and the appreciation of the *real* against the U.S. dollar. The rate of the IOF/Exchange Tax generally applicable to foreign investments in the Brazilian financial and capital markets was later increased to 6.0%. In December 2011, the rate of the IOF/Exchange Tax applicable to several types of investments was reduced back to zero percent. As of the date of this annual report, all investments in the Brazilian financial and capital markets are subject to the IOF/Exchange Tax at zero percent for a period longer than 180 days and 6.0% for a period shorter than 180 days.

In November 2009, the Brazilian government also established that the rate of the IOF/Securities Tax would apply to the transfer of shares with the specific purpose of enabling the issuance of ADSs. In December 2013, the rate of the IOF/Securities Tax applicable to transactions involving the issuance of ADSs was reduced to zero percent.

The imposition of these taxes may discourage foreign investment in shares of Brazilian companies, including our company, due to higher transaction costs, and may negatively impact the price and volatility of our ADSs and common shares on the NYSE and the BM&FBOVESPA.

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**ITEM 4. INFORMATION ON THE COMPANY**

**Overview**

We are an integrated telecommunications service provider, with operations in Brazil, Portugal, Africa and Asia. In May 2014, we acquired all of the operating assets then held by PT SGPS, except interests held directly or indirectly in TmarPart and our company, and all of PT SGPS liabilities as of the date of the acquisition. As a result, we hold significant interests in telecommunications companies in Portugal as well as Angola, Cape Verde, Namibia, São Tomé and Príncipe in Africa and Timor Lest in Asia.

On December 9, 2014, we entered into the PTP Share Purchase Agreement under which we have agreed to sell all of the share capital of PT Portugal to Altice Portugal. As a result, we record our operations in Portugal as discontinued operations in our financial statements. We expect to complete the sale of these operations during the second quarter of 2015.

In connection with the proposed sale, we have committed to reorganize the assets of PT Portugal on or prior to June 9, 2015 in a manner that will result in our retaining:

100% of the share capital of PTIF;

100% of the share capital of PT Participações, which will hold the direct and indirect interests that we currently hold in Africatel and TPT;

100% of the share capital of PTII;

100% of the share capital of CVTEL; and

100% of the share capital of Carrigans.

For more information regarding our sale of PT Portugal, see [Our Recent History and Development Proposed Sale of PT Portugal](#).

On September 17, 2014, our board of directors authorized our management to take the necessary measures to market our shares in Africatel, representing 75% of the share capital of Africatel. As a result, as of December 31, 2014, we have recorded our interest in Africatel as discontinued operations. Due to the many risks involved in the ownership of these interests, particularly our interest in Unitel, we cannot predict when a sale of these assets may be completed.

**Operations in Brazil**

We are one of the principal integrated telecommunications service providers in Brazil with approximately 74.5 million revenue generating units, or RGUs, as of December 31, 2014. We operate throughout Brazil and offer a range of integrated telecommunications services that include fixed-line and mobile telecommunication services, network usage (interconnection), data transmission services (including broadband access services), Pay-TV (including as part of double-play, triple-play and quadruple-play packages), internet services and other telecommunications services for

residential customers, small, medium and large companies and governmental agencies. We own approximately 347,000 kilometers of installed fiber optic cable, distributed throughout Brazil. Our mobile network covers areas in which approximately 93.0% of the Brazilian population lives and works. According to ANATEL, as of December 31, 2014, we had an 18.1% market share of the Brazilian mobile telecommunications market and, as of December 31, 2014, we had a 36.5% market share of the Brazilian fixed-line market. As part of our convergence strategy, we offer more than one million Wi-Fi hotspots in public places, such as airports and shopping malls.

Our traditional fixed-line telecommunications business in Brazil includes local and long-distance services, network usage services (interconnection) and public telephones, in accordance with the concessions and authorizations granted to us by ANATEL. We are one of the largest fixed-line telecommunications companies in Brazil in terms of total number of lines in service as of December 31, 2014. We are the principal fixed-line telecommunications services provider in our service areas, comprising the entire territory of Brazil other than the



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State of São Paulo, based on our 16.3 million fixed lines in service as of December 31, 2014, with a market share of 57.8% of the total fixed lines in service in our service areas as of December 31, 2014.

We offer a variety of high-speed data transmission services in our fixed-line service areas, including services offered by our subsidiaries BrT Serviços de Internet S.A., or BrTI, and Brasil Telecom Comunicação Multimídia Ltda. Our broadband services, primarily utilizing Asymmetric Digital Subscriber Line, or ADSL, technology, are marketed under the brand name *Oi Velox*. As of December 31, 2014, we had 5.9 million ADSL subscribers, representing 43.1% of our fixed lines in service as of that date. Additionally, we provide voice and data services to corporate clients throughout Brazil.

We offer mobile telecommunications services throughout Brazil. Based on our 48.4 million mobile subscribers as of December 31, 2014, we believe that we are one of the principal mobile telecommunications service providers in Brazil. Based on information available from ANATEL, as of December 31, 2014 our market share was 18.1% of the total number of mobile subscribers in Brazil.

We offer subscription television services under our *Oi TV* brand. We deliver subscription television services throughout our fixed-line service areas using direct-to-home, or DTH, satellite technology. In Belo Horizonte, Poços de Caldas, Uberlândia and Barbacena in the State of Minas Gerais, we use a hybrid network of fiber optic and bidirectional coaxial cable. In December 2012 and January 2013, we introduced delivery of *Oi TV* through our fixed-line network in Rio de Janeiro and Belo Horizonte, respectively.

We also operate a call center business for the sole purpose of providing services to our company and our subsidiaries.

## **Operations in Portugal**

As a result of our acquisition of PT Portugal as part of the Oi capital increase, as of the date of this annual report, we provide telecommunications services in Portugal in the following customer categories:

*Residential services*, which include integrated networks inside the customer's home, enabling the simultaneous connection of multiple devices, including fixed line telephone, TV (including internet protocol television, or IP TV, and DTH satellite Pay-TV services), game consoles, PCs, laptops, tablets and smartphones. We provide these services through subsidiaries of PT Portugal, in particular PT Comunicações S.A., or PT Comunicações.

*Personal services*, which are mobile telecommunications services, such as voice, data and Internet-related multimedia services provided to personal (*i.e.*, individual) customers through PT Portugal's subsidiary MEO.

*Enterprise services*, which provide our corporate and medium and small business customers with integrated data and business solutions, as well as Information Technology/Information Systems, or IT/IS, and business process outsourcing, or BPO, services, including.

*Corporate services*, which target large companies and provide data, internet, video and voice communications, services, fixed-mobile convergence solutions and selected information technology

services, network managing and outsourcing;

*SME/SoHo services*, which target (1) small and medium enterprises, or SMEs, providing vertical data and business solutions that are similar to PT Portugal's corporate services and (2) small office/home office, or SoHo, customers and provide cost-effective data and business solutions for those working in small businesses or at home; and

*Wholesale and other services*, which primarily include wholesale telecommunications services, public pay telephones, the production and distribution of telephone directories and other services in Portugal.

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As described below under **Our Recent History and Development Proposed Sale of PT Portugal**, we have entered into the PTP Share Purchase Agreement under which we have agreed to sell all of the share capital of PT Portugal to Altice Portugal. As a result, we record our operations in Portugal as discontinued operations in our financial statements. We expect to complete the sale of these operations during the second quarter of 2015.

### **Operations in Africa and Asia**

As a result of our acquisition of PT Portugal as part of the Oi capital increase, as of the date of this annual report, we have significant interests in telecommunications companies in Angola, Cape Verde, Namibia, and São Tomé and Príncipe in Africa and Timor-Leste in Asia. Our interests in telecommunications companies in Africa are held through Africatel, in which we own a 75% interest. On September 17, 2014, our board of directors authorized our management to take the necessary measures to market our shares in Africatel, representing 75% of the share capital of Africatel. As a result, as of December 31, 2014, we have recorded our interest in Africatel as discontinued operations. Due to the many risks involved in the ownership of these interests, particularly our interest in Unitel, we cannot predict when a sale of these assets may be completed.

Our principal executive office is located at Rua Humberto de Campos No. 425, 6 1/2th floor Leblon, 22430-190 Rio de Janeiro, RJ, Brazil, and our telephone number at this address is (55-21) 3131-2918.

## **Our Recent History and Development**

### **Corporate Reorganization of TNL, Telemar and Our Company**

On February 27, 2012, the shareholders of TNL, Telemar, Coari and Brasil Telecom approved a series of transactions, which we refer to as the corporate reorganization, including:

a split-off (*cisão*) and merger of shares (*incorporação de ações*) under Brazilian law in which:

Telemar transferred its shares of Coari to Coari;

Coari assumed a portion of the liabilities of Telemar, which became joint and several liabilities of Telemar and Coari or obligations of Coari guaranteed by Telemar;

Coari issued one common share and/or one preferred share to the holders of Telemar common and preferred shares (other than the shares of holders who exercised their withdrawal rights with respect to such shares) in exchange for each of their common and preferred shares of Telemar, respectively; and

Coari retained the Telemar shares exchanged for Coari shares and as a result, Telemar became a wholly-owned subsidiary of Coari;

a merger (*incorporação*) under Brazilian law of Coari with and into our company, with our company as the surviving company, in which:

each issued and then outstanding share of Brasil Telecom held by Coari and all Coari shares held in treasury were cancelled;

each issued and then outstanding common share of Coari was converted automatically into 51.149 common shares of Brasil Telecom;

each issued and then outstanding preferred share of Coari was converted automatically into 3.904 common shares of Brasil Telecom and 40.034 preferred shares of Brasil Telecom;

Coari ceased to exist; and

Telemar became a wholly-owned subsidiary of Brasil Telecom; and

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a merger (*incorporação*) under Brazilian law of TNL with and into our company, with our company as the surviving company, in which:

each TNL share held in treasury prior to the TNL merger was cancelled, and each issued and then outstanding share of Brasil Telecom held by TNL was cancelled, other than 2,464,787 common shares of Brasil Telecom, which were transferred to the treasury of Brasil Telecom;

each issued and then outstanding common share of TNL (other than common shares held by shareholders who exercised their withdrawal rights with respect to such common shares) was converted automatically into 23.122 common shares of Brasil Telecom;

each issued and then outstanding preferred share of TNL was converted automatically into 1.879 common shares of Brasil Telecom and 19.262 preferred shares of Brasil Telecom; and

TNL ceased to exist.

As a result of these transactions, TmarPart became our direct controlling shareholder. For additional information about TmarPart, see Item 7. Major Shareholders and Related Party Transactions Major Shareholders.

In addition, on February 27, 2012, our shareholders approved:

the issuance and distribution of (1) one Class B redeemable preferred share of our company to the holder of each of our common shares, and (2) one Class C redeemable preferred share of our company to the holder of each of our preferred shares;

the redemption of each Class B redeemable preferred share and Class C redeemable preferred share at a redemption price equal to R\$2.543282 per share, or an aggregate of R\$1,502 million; and

the change of our corporate name to Oi S.A.

We have accounted for the Coari merger and the TNL merger using the carry-over basis of our own assets and liabilities and of the assets and liabilities assumed of TNL, Telemar, and Coari as from the date of the reorganization. The carry-over basis of the assets and liabilities were determined at the lowest level entity in the group (i.e., the effects of the purchase accounting relating to Coari's acquisition of Brasil Telecom (now Oi S.A.) will not be reflected in the assets and liabilities of Oi S.A. in its consolidated financial statements as a result of the TNL merger). Additionally, our historical financial statements have not been restated to reflect the impacts of the corporate reorganization on a retrospective basis. Our non-current intangible assets and property, plant and equipment are recorded on a different basis in our parent company's consolidated financial statements, reflecting the amortized purchase price allocated to these assets resulting from Coari's acquisition of our company on January 8, 2009.

Holders of Telemar common shares, class A preferred shares and class B preferred shares and holder of TNL preferred shares as of the close of trading on May 23, 2011, the date prior to the publication of the Relevant Fact that

first announced the split-off and share exchange and the TNL merger were entitled to withdrawal rights in connection with the split-off and share exchange and the TNL merger. Shareholders who exercised these withdrawal rights with respect to the Telemar shares were entitled to receive R\$74.37 per share and shareholders who exercised these withdrawal rights with respect to the TNL preferred shares were entitled to receive R\$28.93 per share. As of March 29, 2012, the expiration of the period for the exercise of these withdrawal rights, holders of 1,020,215 Telemar common shares, 17,856,585 Telemar class A preferred shares, 47,714 Telemar class B preferred shares and 20,446,097 TNL preferred shares had validly exercised their withdrawal rights for an aggregate cost to our company of R\$1,999 million.

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### **Acquisition of Shares of PT SGPS**

As a result of the corporate reorganization, we became the indirect owner of 64,557,566 shares of PT SGPS, representing 7.2% of its outstanding shares that were owned by Telemar. Between April 4, 2012 and May 25, 2012, we acquired 25,093,639 additional shares of PT SGPS and now hold 89,651,205 common shares of PT SGPS, representing 10.0% of its outstanding shares.

### **Divestment of Non-Strategic Assets**

Beginning in the fourth quarter of 2012, we have entered into various transactions to divest non-strategic assets. The objective of these transactions is to create value for our shareholders by monetizing assets that are not essential to our operations, in order to increase our financial flexibility and obtain savings by entering into agreements with the purchasers to provide us the related services on favorable terms.

These transactions have resulted in a reduction of capital expenditure and maintenance costs related to these assets, while increasing our leasing costs. We believe that the net costs of using these assets following our disposal of these assets is less than our implied cost of retaining these assets, calculated based on our average funding costs applied to the value of the assets sold.

#### *Sale of Mobile Communications Towers*

In December 2012, we sold Sumbe Participações S.A., or Sumbe, our wholly-owned subsidiary, to São Paulo SPE Locação de Torres Ltda. for R\$516 million. Sumbe owned approximately 1,200 communications towers and rooftop antennae used in our mobile services business. Contemporaneously with the sale of Sumbe, we entered into an operating lease agreement with a term of 15 years with Sumbe permitting us to continue to use space on these communications towers and rooftop antennae for our mobile services business.

In March 2014, we sold all of our equity interests in Caryopoceae SP Participações S.A., or Caryopoceae, our wholly-owned subsidiary, to SBA Torres Brasil, Ltda. for R\$1,525 million. Caryopoceae owned 2,007 mobile telecommunications towers and rooftop antennae used in our mobile services business. In December 2013, we entered into an operating lease with a 15-year term (renewable for another five years) with Caryopoceae permitting us to continue to use space on these communications towers for our mobile services business.

In December 2014, we sold all of our equity interests in Tupã Torres S.A., or Tupã Torres, our wholly-owned subsidiary, to SBA Torres Brasil, Ltda. for R\$1,172 million. Tupã Torres owned 1,641 mobile telecommunications towers and rooftop antennae used in our mobile services business. Contemporaneously with the sale of Tupã Torres, we entered into an operating lease with a 15-year term (renewable for another five years) with Tupã Torres permitting us to continue to use space on these communications towers for our mobile services business.

#### *Assignment and Lease of Fixed-Line Communications Towers*

In August 2013, we completed the assignment of the right to use 4,226 fixed-line communications towers that formed part of our infrastructure for commercial operations by companies whose core operations consist of providing transmission tower and radiofrequency management and maintenance services. Upon the completion of these assignments, we received proceeds of approximately R\$1,087 million. We have entered into agreements to lease the communications towers from the assignees for 20-year terms (renewable for another 20 years), effective upon completion of the assignments.

In November 2013, we completed the assignment of the right to use 2,113 fixed-line communications towers that formed part of our infrastructure for commercial operations by companies whose core operations consist of providing transmission tower and radiofrequency management and maintenance services. Upon the completion of these assignments, we received proceeds of approximately R\$687 million. We have entered into agreements to lease the communications towers from the assignees for 20-year terms (renewable for another 20 years), effective upon completion of the assignments.



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### *Sale of GlobeNet*

In July 2013, we and our subsidiary BrTI entered into an agreement with BTG Pactual YS Empreendimentos e Participações, or BTG Pactual YS, under which we agreed to sell to BTG Pactual YS all of our equity interests in Brasil Telecom Cabos Submarinos Ltda. and its subsidiaries, collectively known as GlobeNet.

In December 2013, we sold all of our equity interests in GlobeNet (other than our interest in Brasil Telecom de Venezuela S.A.) to BTG Pactual YS. On January 17, 2014, the sale was concluded for an aggregate amount of R\$1,779 million (based on the U.S. dollar-*real* exchange rate on January 15, 2014) resulting in a gain of approximately R\$1,497 million, after deducting the book value of the assets and related costs.

In May 2014, following the receipt of all required approvals of the applicable Venezuelan authorities, we sold all of our equity interests in Brasil Telecom de Venezuela S.A. to GlobeNet's subsidiary in Bermuda for R\$26 million (based on the U.S. dollar-*real* exchange rate on May 6, 2014).

GlobeNet's principal assets consist of 22,500 kilometers of fiber optic submarine cables, composed of two rings of protected submarine cables, linking connection points between the United States, Bermuda, Venezuela, Colombia and Brazil. As part of this transaction, GlobeNet will supply guaranteed submarine cable capacity to us and our subsidiaries at a fixed price for a term of 13 years.

### **Merger of TNL PCS into Oi Mobile**

On February 1, 2014, TNL PCS S.A., the mobile services provider owned by our subsidiary Telemar, or TNL PCS, merged into Oi Móvel S.A., which we refer to as Oi Mobile. As a result of this merger, Oi Mobile became our sole mobile services provider and mobile data and subscription television provider.

### **Oi Capital Increase and Acquisition of PT Portugal**

On October 1, 2013, we entered into a memorandum of understanding with PT SGPS, AG Telecom, LF Tel, PASA, EDSP, Bratel Brasil, BES and Ongoing, in which we and they agreed to the principles governing a series of transactions, including a business combination involving three principal components:

A capital increase of our company that was concluded on May 5, 2014 in which we issued 121,674,063 of our common shares and 280,483,641 of our preferred shares for an aggregate amount of R\$8,250 million in cash, and 104,580,393 of our common shares and 172,025,273 of our preferred shares to PT SGPS in exchange for the contribution by PT SGPS to our company of all of the shares of its subsidiary PT Portugal.

A proposed merger of shares under Brazilian law, a Brazilian transaction in which, subject to the approvals of the holders of voting shares of our company and TmarPart, (1) each issued and then outstanding common share of our company not owned by TmarPart was to be converted automatically into one TmarPart common share, (2) each issued and then outstanding preferred share of our company not owned by TmarPart was to be converted automatically into 0.9211 TmarPart common shares, and (3) we were to become a wholly-owned subsidiary of TmarPart; this proposed merger of shares was subsequently abandoned.

A proposed merger (*incorporação*) under Portuguese and Brazilian law of PT SGPS with and into TmarPart, with TmarPart as the surviving company in which the shareholders of PT SGPS were to receive an aggregate number of TmarPart shares equal to the number of TmarPart shares held by PT SGPS immediately prior to the merger; this proposed merger was subsequently abandoned.

In May 2014, we completed the Oi capital increase in which we issued:

121,674,063 of our common shares and 280,483,641 of our preferred shares for an aggregate of R\$8,250 million; and

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104,580,393 of our common shares and 172,025,273 of our preferred shares to PT SGPS in exchange for the contribution by PT SGPS to us of all of the outstanding shares of PT Portugal.

As part of the Oi capital increase, Caravelas subscribed for 17,136,248 common shares and 35,917,151 preferred shares in the cash portion of the Oi capital increase at the public offering price under a subscription agreement (*contrato de subscrição de ações de emissão da Oi S.A.*) that we entered into with Caravelas on February 19, 2014.

Our acquisition of the shares of PT Portugal was completed under the terms of a subscription agreement (*contrato de subscrição de ações de emissão da Oi S.A.*) that we entered into with PT SGPS on February 19, 2014, or the Portugal Telecom Subscription Agreement. Under the Portugal Telecom Subscription Agreement, PT SGPS agreed to subscribe for our common and preferred shares as part of the Oi capital increase by contributing all of the share capital of PT Portugal to our company. The price per share paid by PT SGPS was equivalent to the price per share paid in the cash portion of the Oi capital increase, and the number of our shares to which Portugal Telecom subscribed was based on an amount equivalent to the economic value of shares of PT Portugal, as determined in the valuation report prepared by Banco Santander (Brasil) S.A., or Santander Brasil, on the shares of PT Portugal that we acquired in the Oi capital increase, which we refer to as the PT Assets Valuation Report. According to the PT Assets Valuation Report, the shares of PT Portugal were valued at an amount between 1,623.3 million and 1,794.1 million. For purposes of PT SGPS subscription in the Oi capital increase, our board of directors has determined a value for the shares of PT Portugal of 1,750 million (R\$5,709.9 million, based on the Euro-*real* exchange rate on February 20, 2014, the day before the first publication of the notice for the extraordinary general meeting of our shareholders), in accordance with the PT Subscription Agreement. In addition, we agreed to succeed to the rights and obligations of PT SGPS under certain contracts and these contracts were assigned to PT Portugal after the shares of PT Portugal were transferred to our company.

Our acquisition of all of the shares of PT Portugal in exchange for our common shares and preferred shares in the Oi capital increase has been accounted for under the purchase method of accounting as a result of which we have recorded the assets and liabilities of PT Portugal on our balance sheet at their fair values. We have prepared a preliminary purchase price allocation under which we recognized certain intangible assets. For more information about the businesses acquired from PT SGPS, see [Operations in Portugal](#) and [Operations in Africa](#).

### **Rio Forte Defaults and PT Exchange**

Prior to the Oi capital increase, PT SGPS then wholly-owned subsidiaries PTIF and PT Portugal subscribed to an aggregate of 897 million principal amount of commercial paper of Rio Forte that matured in July 2014. As a result of our acquisition of PT Portugal as part of the Oi capital increase, we became the creditor under this commercial paper.

Rio Forte is a wholly-owned subsidiary of Espírito Santo International, S.A. and is an indirect holder of 49% of Espírito Santo Financial Group S.A., which in turn owned 27.3% of the capital stock of Banco Espírito Santo, S.A.

On June 30, 2014, PT SGPS publicly disclosed the investments made by PTIF and PT Portugal in the commercial paper of Rio Forte. On that date, Otávio Marques de Azevedo, the chairman of our board of directors, and Fernando Magalhães Portella, our chief executive officer and a member of our board of directors, resigned as non-executive member of PT SGPS board of directors.

On July 15 and 17, 2014, Rio Forte defaulted on the commercial paper held by PTIF and PT Portugal. On July 22, 2014, Rio Forte filed a petition for controlled management with the courts of Luxembourg after concluding that it was not in a position to fulfill the obligations resulting from certain debts that had matured in July 2014. Rio Forte's request was rejected on October 17, 2014. The Luxembourg Commercial Court denied Rio Forte's request for controlled management on October 17, 2014 and declared Rio Forte bankrupt on December 8, 2014.

On September 8, 2014, we, TmarPart, PT SGPS and our subsidiaries PT Portugal and PTIF, entered into the PT Exchange Agreement and the PT Option Agreement. On the same date, we, PT SGPS and TmarPart executed a terms of commitment agreement, which we refer to as the Terms of Commitment Agreement.

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On March 24, 2015, PT Portugal assigned its rights under the PT Exchange Agreement and the PT Option Agreement to PTIF. On March 27, 2015, PT Portugal assigned all of its rights and obligations under the Rio Forte commercial paper that it owned to PTIF.

***PT Exchange Agreement***

Under the PT Exchange Agreement, we agreed to transfer the defaulted Rio Forte commercial paper to PT SGPS and PT SGPS agreed to deliver to us an aggregate of 47,434,872 of our common shares and 94,869,744 of our preferred shares, representing 16.9% of our outstanding share capital, including 17.1% of our outstanding voting capital prior to giving effect to the PT Exchange.

On March 30, 2015, the transactions contemplated by the Exchange Agreement were completed through the transfer of Rio Forte commercial paper in the aggregate amount of 897 million to PT SGPS in exchange for 47,434,872 of our common shares and 94,869,744 of our preferred shares.

***PT Option Agreement***

Under the PT Option Agreement, PTIF has granted to PT SGPS an option to acquire 47,434,872 of our common shares and 94,869,744 of our preferred shares. PT SGPS is entitled to exercise the PT Option in whole or in part, at any time prior to March 31, 2021. The number of shares subject to the PT Option will be reduced on each March 31 such that:

90% of the shares originally subject to the option will be available between March 31, 2016 and March 31, 2017;

72% will be available between March 31, 2017 and March 31, 2018;

54% will be available between March 31, 2018 and March 31, 2019;

36% will be available between March 31, 2019 and March 31, 2020; and

18% will be available between March 31, 2020 and March 31, 2021, in each case, less the number of shares with respect to the PT Option has been previously exercised. The exercise prices under the PT Option will be R\$20.104 per common share and R\$18.529 per preferred share, in each case as adjusted by the CDI rate *plus* 1.5% per annum, calculated *pro rata temporis*, from March 31, 2015 to the date of the effective payment of the exercise price.

We are not required to maintain the Exchanged Shares in treasury. In the event that, at the time of exercise of the PT Option, PTIF and/or any of our other subsidiaries do not hold, in treasury, the number of shares with respect to which PT SGPS exercises the PT Option, the PT Option may be financially settled through payment by PTIF of the amount corresponding to the difference between the market price of the shares and the exercise price corresponding to these shares.

We may terminate the PT Option if (1) the by-laws of PT SGPS are amended to remove or amend the provision of those by-laws that limits the voting right to 10% of all votes corresponding to the capital stock of PT SGPS, except if this removal or amendment is required by law or by order of a competent governmental authority; (2) PT SGPS directly or indirectly engages in activities that compete with the activities of our company or our subsidiaries in the countries in which we or they operate; or (3) PT SGPS violates certain obligations under the PT Option Agreement.

Prior to the earlier of the expiration or full exercise of the PT Option, PT SGPS may not purchase shares of our company or TmarPart, directly or indirectly, in any manner other than by exercising the PT Option. If the PT Option is exercised, PT SGPS will undertake its best efforts to integrate the shareholder bases of PT SGPS and Oi in the shortest time possible.

PT SGPS may not directly or indirectly transfer or assign the PT Option, in whole or in part, nor grant any rights under the PT Option, including any security interest in the PT Option or the shares underlying the PT Option, without the consent of our company. If PT SGPS issues, directly or indirectly, any derivative instrument that is

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backed by or references our shares, it shall immediately use all proceeds derived directly or indirectly from such derivative instrument to acquire shares pursuant to the exercise of the PT Option.

On March 31, 2015, we, PT SGPS and PTIF entered into an amendment to the PT Option Agreement. Under this amendment, (1) PT SGPS will be permitted to assign the PT Option to a third party provided that such assignment involves at least one-quarter of our shares subject to the PT Option, and (2) PT SGPS has granted our company a right of first refusal exercisable prior to any such assignment. This amendment does not affect the agreement of PT SGPS not to grant any rights under the PT Option, including any security interest in the PT Option or the shares underlying the PT Option, without the consent of our company, or the requirement that PT SGPS use all proceeds derived directly or indirectly from the issuance of any derivative instrument that is backed by or references our shares to acquire shares pursuant to the exercise of the PT Option.

The effectiveness of the amendment to the PT Option Agreement is subject to (1) the authorization of the amended terms by the CVM, and (2) the approval of the amendment to the PT Option Agreement by a general meeting of our shareholders at which both our common and preferred shareholders will be entitled to vote. We have agreed to issue a call notice for this general meeting of our shareholders on or before August 31, 2015 and to hold this meeting on or before September 30, 2015.

***Terms of Commitment Agreement***

On March 31, 2015, we, PT SGPS and TmarPart entered into an amendment to the Terms of Commitment Agreement. The Terms of Commitment Agreement, as amended, will remain in effect until the integration of the shareholder bases of Oi and PT SGPS pursuant to a legally permissible structure, which we refer to as the Integration Transaction, has been fully completed, including in respect of any shares of our company that may be acquired by PT SGPS during the term of the PT Option.

Under the Terms of Commitment Agreement, we, TmarPart and PT SGPS each agreed:

to use their respective best efforts and to take all reasonable measures to also implement the listing of our shares (or securities backed by our shares or our successor in case of a corporate reorganization) on the regulated market of Euronext Lisbon concurrently with the migration of our company to the Novo Mercado segment of the BM&FBOVESPA, which we refer to as the migration, provided that in the event that it is not possible for any reason beyond the control of the parties for these listings to occur prior to or concurrently with the approval of the migration, they will use their best efforts and to take all reasonable measures to implement these listings as soon as possible following the migration.

to perform all acts, provide any required information, prepare all necessary documentation and to present and duly file all necessary filings before all appropriate governmental bodies and authorities so as to implement the listing on the regulated market of Euronext Lisbon and Integration Transaction as soon as possible.

to undertake to perform all necessary acts to implement the Integration Transaction relating to all shares of our company held by PT SGPS as of March 31, 2015 or that PT SGPS shall come to hold for so long as the Terms of Commitment Agreement is in force, including, but not limited to:

preparing and filing any prospectuses, including for admission to trading, registration statements or other documents with the CVM, the CMVM, Euronext Lisbon and the SEC by PT SGPS and/or our company (or our successor in case of a corporate reorganization), as the case may be, including the preparation of audited and unaudited financial statements required by the rules of such government authorities, and

engaging independent auditors, independent financial institutions or other experts to prepare financial statements, valuation reports and/or other necessary reports or documents and to use best efforts to cause such experts to consent to the inclusion their reports or other documents in the prospectuses,



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registration statements or other documents to be filed with CVM, CMVM, Euronext Lisbon and the SEC.

In addition, under the Terms of Commitment Agreement we agreed to attend any general meetings of the shareholders of PT SGPS convened for the purposes of deliberating on the acts and authorizations required for the Integration Transaction, whether through a reduction of the share capital of PT SGPS, pursuant to the alternative structure under analysis described in the Information Statement issued by PT SGPS, dated August 13, 2014, or through another legally permissible alternative structure, and to vote in favor of approval of the approval of these acts and authorizations, to the extent our legitimate interests are preserved.

The obligations assumed by our company, TmarPart and PT SGPS described above apply equally in the event the Integration Transaction continues in respect of any of our shares that PT SGPS may receive upon exercise of the PT Option.

**Proposed Sale of PT Portugal**

Based on a reevaluation of our business strategy following the events described above, we determined that it was in the best interest of our company to dispose of PT Portugal and we commenced a sale process which led to the execution on December 9, 2014 of a Share Purchase Agreement among Oi, Altice Portugal and Altice. Under the PTP Share Purchase Agreement, we have agreed to sell all of the share capital of PT Portugal to Altice Portugal for a purchase price equal to the enterprise value of PT Portugal of 6,900 million, subject to adjustments based on the financial debt, cash and working capital of PT Portugal on the closing date, plus an additional earn-out amount of 500 million in the event that the consolidated revenues of PT Portugal and its subsidiaries (as of the closing date) for any single year between the year ending December 31, 2015 and the year ending December 31, 2019 is equal to or exceeds 2,750 million.

The closing under the PTP Share Purchase Agreement is conditioned on, among other things:

The completion of a reorganization of the assets of PT Portugal, which we refer to as the PT Portugal reorganization, in a manner that will result in our retaining:

100% of the share capital of PTIF;

100% of the share capital of PT Participações, which will hold the direct and indirect interests that we currently hold in Africatel and TPT;

100% of the share capital of PTII;

100% of the share capital of CVTEL; and

100% of the share capital of Carrigans.

The release of PT Portugal from its obligations under a variety of debt instruments to which it is a party. Altice has informed us that on April 20, 2015, the European Commission declared the purchase and sale of PT Portugal was cleared on the condition that Altice sells its interest in Cabovisão and Oni Telecom. The European Commission also rejected the request previously made by the Portuguese Competition Authority (*Autoridade da Concorrência*) to analyse and review the transaction. On the same date, the Portuguese Insurance and Pension Funds Supervisory Authority (*Autoridade de Supervisão de Seguros e Fundos de Pensões*) also issued a decision of non-opposition to the indirect acquisition by Altice Portugal of a qualifying holding in PT Portugal's subsidiary Previsão – Sociedade Gestora de Fundos de Pensões, S.A.

Under the terms of the PTP Share Purchase Agreement, if the PT Portugal reorganization has not been completed on or prior to June 9, 2015, the PTP Share Purchase Agreement will terminate. In addition, if the closing does not occur and the PTP Share Purchase Agreement is terminated because (1) the PT Portugal reorganization is not completed in accordance with the terms of the PTP Share Purchase Agreement, or (2) all of the conditions precedent to the closing are satisfied or deemed to be satisfied and we do not consummate the sale of PT Portugal on the closing date, we will be required to pay to Altice a break-up fee of 500 million. If the closing does not occur and the PTP Share Purchase Agreement is terminated because all of the conditions precedent to the closing are

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satisfied or deemed to be satisfied and Altice does not consummate the purchase of PT Portugal sale on the closing date, Altice will be required to pay us a break-up fee of 500 million.

Although some of the conditions to the closing under the PTP Share Purchase Agreement are beyond our control, we expect that the closing of this sale will occur during the second quarter of 2015.

**Proposed Corporate Ownership Simplification and Migration to Novo Mercado**

On March 31, 2015, the shareholders of TmarPart acting at a pre-meeting (*reunião prévia*) of the shareholders of TmarPart (1) unanimously approved the adoption of an alternative share structure, after analyzing options and taking into consideration the current obstacles to a registration of TmarPart shares with the SEC that would be necessary to allow the previously announced merger of shares of Oi and TmarPart, and (2) authorized the managements of TmarPart and Oi to begin taking the applicable steps to implement the alternative share structure.

The alternative share structure includes a voluntary exchange of our preferred shares for our common shares at the option of the preferred shareholder at an exchange rate of 0.9211 of our common shares for each of our preferred shares. The voluntary share exchange proposal requires that the holders of at least two-thirds of our preferred shares (excluding treasury shares) agree to exchange our preferred shares that they own for our common shares within a period of 30 days commencing after the General Shareholders Meeting of Oi at which the opening of the period for the exchange is deliberated.

Prior to the beginning of the period for the voluntary share exchange, we understand that the shareholders of TmarPart intend to cause:

AG Telecom to merge with and into PASA;

LF Tel to merge with and into EDSP;

PASA and EDSP to merge with and into Bratel Brasil;

Valverde to merge with and into TmarPart;

Venus RJ Participações S.A., Sayed RJ Participações S.A. and PTB2 S.A. to merge with and into Bratel Brasil;

Bratel Brasil to merge with and into TmarPart; and

TmarPart to merge with and into Oi.

In addition, we understand that the shareholders of TmarPart intend to cause (1) the adoption of new by-laws of our company, and (2) the election of new members of the board of directors of our company for terms expiring at the

General Shareholders Meeting that approves our financial statements for the year ending December 31, 2017. The corporate ownership simplification, the adoption of new by-laws of our company and the election of new members of the board of directors of our company are expected to occur on the same date and are expected to be deliberated at shareholders meetings of the relevant entities during the third quarter of 2015, subject to the prior consent to the implementation of the corporate ownership simplification of ANATEL.

Following the completion of the corporate ownership simplification, the adoption of new by-laws of our company and the election of new members of the board of directors of our company, we will seek to list our common shares on the *Novo Mercado* segment of the BM&FBOVESPA.

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**Corporate Structure**

The following chart presents our corporate structure and principal operating subsidiaries as of May 4, 2015. The percentages in bold italics represent the percentage of the voting capital owned directly and indirectly by the parent company of each entity, and the percentages not in bold italics represent the percentage of the total share capital owned directly and indirectly by the parent company of each entity.

- (1) The remaining shares are held by Paggo Empreendimentos S.A.
- (2) The remaining shares are held by our company.
- (3) The remaining shares are held by Oi Internet S.A.

**Brazilian Operations**

Our concessions and authorizations from the Brazilian government allow us to provide:

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fixed-line telecommunications services in Regions I and II of Brazil;

long-distance telecommunications services throughout Brazil;

mobile telecommunications services in Regions I, II and III of Brazil;

data transmission services throughout Brazil; and

direct to home (DTH) satellite television services throughout Brazil.

In addition, we have authorizations to provide fixed-line local telecommunications services in Region III.

Region I consists of 16 Brazilian states located in the northeastern and part of the northern and southeastern regions. Region I covers an area of approximately 5.4 million square kilometers, which represents approximately 64% of the country's total land area and accounted for 40.3% of Brazil's GDP in 2011. The population of Region I was 105.3 million as of 2011, which represented 54.7% of the total population of Brazil as of that date. In 2011, per capita income in Region I was approximately R\$15,869, varying from R\$7,836 in the State of Piauí to R\$28,696 in the State of Rio de Janeiro.

Region II consists of the Federal District and nine Brazilian states located in the western, central and southern regions. Region II covers an area of approximately 2.9 million square kilometers, which represents approximately 33.5% of the country's total land area and accounted for approximately 27.1% of Brazil's GDP in 2011. The population of Region II was 45.5 million as of 2011, which represented 23.7% of the total population of Brazil as of that date. In 2011, per capita income in Region II was approximately R\$24,668, varying from R\$11,782 in the State of Acre to R\$63,020 in the Federal District.

Region III consists of the State of São Paulo. Region III covers an area of approximately 248,000 square kilometers, which represents approximately 2.9% of the country's total land area and accounted for approximately 32.6% of Brazil's GDP in 2011. The population of Region III was 41.6 million as of 2011, which represented 21.6% of the total population of Brazil as of that date. In 2011, per capita income in Region III was approximately R\$32,449.

The following table sets forth key economic data, compiled by IBGE, for the Federal District and each of the Brazilian states.

<b>State</b>	<b>Population (in millions) (2011)</b>	<b>Population per Square Kilometer (2011)</b>	<b>% of GDP (2011)</b>	<b>GDP per Capita (in <i>reais</i>) (2011)</b>
<b>Region I:</b>				
Rio de Janeiro	16.1	368.7	11.2	28,696
Minas Gerais	19.7	33.6	9.3	19,573
Bahia	14.1	25.0	3.9	11,340

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Pernambuco	8.9	90.2	2.5	11,776
Espírito Santo	3.5	77.0	2.4	27,542
Pará	7.7	6.2	2.1	11,494
Ceará	8.5	57.3	2.1	10,314
Amazonas	3.5	2.3	1.6	18,244
Maranhão	6.6	20.0	1.3	7,853
Rio Grande do Norte	3.2	60.6	0.9	11,287
Paraíba	3.8	67.2	0.9	9,349
Alagoas	3.1	113.2	0.7	9,079
Sergipe	2.1	95.4	0.6	12,536
Piauí	3.1	12.5	0.6	7,836
Amapá	0.7	4.8	0.2	13,105

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<b>State</b>	<b>Population (in millions) (2011)</b>	<b>Population per Square Kilometer (2011)</b>	<b>% of GDP (2011)</b>	<b>GDP per Capita (in <i>reais</i>) (2011)</b>
Roraima	0.5	2.1	0.2	15,105
Subtotal	105.3		40.3	
<b>Region II:</b>				
Rio Grande do Sul	10.7	38.1	6.4	24,563
Paraná	10.5	52.7	5.8	22,770
Santa Catarina	6.3	66.3	4.1	26,761
Goiás	6.1	17.9	2.7	18,299
Mato Grosso	3.1	3.4	1.7	23,218
Federal District	2.6	448.3	4.0	63,020
Mato Grosso do Sul	2.5	6.9	1.2	19,875
Rondônia	1.6	6.6	0.7	17,659
Tocantins	1.4	5.0	0.4	12,891
Acre	0.7	4.5	0.2	11,782
Subtotal	45.5		27.1	
<b>Region III (State of São Paulo)</b>	41.6	167.5	32.6	32,449
<b>Total</b>	192.4		100.0	

Source: IBGE.

Set forth below is a map of Brazil showing the areas in Region I, Region II and Region III.



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Our business, financial condition, results of operations and prospects depend in part on the performance of the Brazilian economy. See Item 3. Key Information Risk Factors Risks Relating to Brazil.

**Our Services**

We provide a variety of telecommunications services to the residential market, the personal mobility market and the business and corporate markets throughout Brazil.

***Residential Services***

Our primary services to the residential market are fixed-line voice services, broadband services from fixed-line devices, subscription television services. We offer these services on an a la carte basis and as bundles, including bundles with other services including our mobile voice services and our mobile data communications services.

***Fixed-Line Voice Services***

As of December 31, 2014, we had approximately 13.6 million local fixed-line customers in our fixed-line service areas. Local fixed-line services include installation, monthly subscription, metered services, collect calls and supplemental local services. Metered services include local calls that originate and terminate within a single local

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area and calls between separate local areas within specified metropolitan regions which, under ANATEL regulations, are charged as local calls. ANATEL has divided our fixed-line service areas into 4,692 local areas

Under our concession agreements, we are required to offer two local fixed-line plans to users: the Basic Plan per Minute (*Plano Básico de Minutos*) and the Mandatory Alternative Service Plan (*Plano Alternativo de Serviços de Oferta Obrigatória*), each of which includes installation charges, monthly subscription charges, and charges for local minutes. As of December 31, 2014, 15.5% of our fixed-line customers subscribed to the Basic Plan per Minute or the Mandatory Alternative Service Plan.

Calls within Brazil that are not classified as local calls are classified as domestic long-distance calls. We provide domestic long-distance services for calls originating from fixed-line devices in Region I and Region II through our network facilities in São Paulo, Rio de Janeiro and Belo Horizonte and through interconnection agreements with other telecommunications providers, both fixed-line and mobile, that permit us to interconnect directly with their networks. We provide international long-distance services originating from fixed-line devices in our fixed-line service areas through agreements to interconnect our network with those of the main telecommunications service providers worldwide.

In addition to the Basic Plan per Minute and the Mandatory Alternative Service Plan, we offer a variety of alternative fixed-line plans that are designed to meet our customers' usage profiles. As of December 31, 2014, 84.5% of our fixed-line customers subscribed to alternative plans, including our bundled plans.

We offer a variety of voice only plans, including:

Our unlimited plans, such as our *Oi Fixo Ilimitado* plan which permits a subscriber to make unlimited local calls from a fixed-line device to fixed-line customers of any carrier and local calls to our mobile customers at the rates established for calls to fixed lines. Subscribers to our *Oi Fixo Ilimitado* plan have the option of upgrading this plan for an additional monthly fee to permit unlimited long distance calls to fixed-line customers of any carrier using our carrier selection codes.

Our controlled plans, such as our *Oi Fixo a Vontade* plan which permits a subscriber to make unlimited local calls from a fixed-line device to fixed-line customers of any carrier and purchase a minutes for long-distance calls and calls to mobile devices.

Our *Orelhão Gratis* plan which we introduced in Rio de Janeiro State introduced in November 2012 and which, in addition to the features of our *Oi Fixo Ilimitado* plan, permits a subscriber to make unlimited local calls from a public telephone to our fixed-line customers.

We also own and operate public telephones throughout our fixed-line service regions. As of December 31, 2014, we had approximately 653,000 public telephones in service, all of which are operated by pre-paid cards.

We continually monitor market trends and the usage profile of our customer to assist us in designing new plans and promotions in order to retain our existing customers and attract new customers to our fixed-line voice services.

*Broadband Services*

We provide high-speed internet access services using ADSL technology, which we refer to as broadband services, to residential customers in the primary cities in Region I and Region II under the brand name *Oi Velox*. As of December 31, 2014, we offered broadband services in 4,658 municipalities in our fixed-line service areas. As of December 31, 2014, we had 5.2 million residential ADSL customers in our fixed-line service areas.

We offer ADSL services through ADSL modems installed using our customers' conventional lines which permit customers to use the telephone line simultaneously with the internet. Customers pay a fixed monthly subscription fee, irrespective of their actual connection time to the internet.

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We offer broadband subscriptions to customers that do not subscribe to our bundled services plans at speeds ranging from 300 kbps to 15 Mbps. To attract customers to this service, we offer new subscribers complementary anti-virus software and backup services. We offer a free wireless router with subscriptions at speeds of 5 Mbps or more. We offer bundles of voice and broadband services to our fixed-line subscribers at rates that are lower than the combined rate for separate comparable voice and broadband subscriptions. We are engaged in capital expenditure programs to upgrade the broadband speeds that we are able to offer and periodically offer promotions designed to encourage our existing broadband customers to migrate to plans offering higher speeds and to attract new customers to our broadband services.

*Subscription Television Services*

We offer subscription television services under our *Oi TV* brand. We deliver subscription television services throughout our fixed-line service areas using our DTH satellite network. In Belo Horizonte, Poços de Caldas, Uberlândia and Barbacena in the State of Minas Gerais, we use a hybrid network of fiber optic and bidirectional coaxial cable. In December 2012 and January 2013, we began to deliver *Oi TV* through our fiber optic network using an internet protocol, or IP TV, in the Rio de Janeiro and Belo Horizonte, respectively. We are engaged in capital expenditure programs to expand our fiber-to-the-home, or FTTH, network to permit us to offer IP TV to a broader range of potential subscribers. As of December 31, 2014, we had approximately 1.1 million subscribers to our DTH subscription television services in our fixed-line service areas, approximately 20,000 subscribers to our cable network in the State of Minas Gerais and approximately 4,000 subscribers to our IP TV subscription television services.

In December 2013, we offered three packages of subscription television services: (1) *Oi TV Start HD* with 119 channels, including 20 high-definition, or HD, channels, (2) *Oi TV Mix HD* with 159 channels, including 42 HD channels, and (3) *Oi TV Total HD* with 185 channels, including 52 HD channels. Subscribers to each of these packages have the option to customize the package through the purchase of additional channels featuring films offered by HBO/MAX and Telecine. Although these packages are available for a la carte purchase, we promote these packages and approximately 65% of our subscribers for these packages purchase these packages as part of a bundle with our *Oi Velox* service or fixed-line services.

*Bundled Services*

In addition to our combined internet and voice services, we offer our *Oi Conta Total* plan, which provide fixed-line voice services, fixed-line devices broadband services and mobile voice services, mobile data and unlimited text messages to subscribers of any provider. In addition, the *Oi Conta Total* plan provides unlimited long-distance calls to our fixed-line and mobile subscribers (except for the low-cost version of this plan, *Conta Total Light*). Subscribers to these plans have the option to subscribe to our *Oi TV* service.

Our *Oi Conta Total* plan permits subscribers to make unlimited local calls to any of our fixed-line or mobile customers and includes an allowance of minutes selected by the customer for use to make long-distance calls and local calls to customers of other service providers. Subscribers also elect the speed of their fixed-line broadband service, which is available under this plan at speeds ranging from 2 Mbps to 15 Mbps. Subscribers to this plan are entitled to access our Oi Wi-Fi hotspots and subscribers who elect speeds of 5 Mbps or greater are provided with a complimentary wireless router. Subscribers can elect add-on features for this plan, including mobile data plans, unlimited text messages to subscribers of any provider and unlimited long-distance calls to our fixed line or mobile customers.

We also offer our *Oi Conta Total Smartphone* plan which has the same structure as our *Oi Conta Total* plan, with the addition of our *Oi Smartphone* data plan and unlimited text messages. We provide a smartphone, mini-modem or tablet at a subsidized price and access to our network of Oi Wi-Fi hotspots to our *Oi Conta Total Smartphone* subscribers.

Subscribers to our IP TV service may subscribe to our *Oi TV Mais HD* package, together with a broadband subscription at 100 Mbps, or our *Oi TV Mega HD* package, together with a broadband subscription at 200 Mbps. Subscriptions to our IP TV packages are only available in areas in which we have implemented our FTTH network.

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We also launched a bundled plan combining fixed-line voice service with pre-paid mobile service under the brand *Fixo Ilimitado + Pré Ilimitado* in March 2012. This plan is available in most Brazilian states and, in addition to the features of the *Oi Fixo Ilimitado* plan, permits a subscriber to make unlimited local calls to our fixed-line and mobile customers from a mobile device.

### ***Personal Mobility Services***

Our personal mobility services are comprised of post-paid and pre-paid mobile voice services and post-paid and pre-paid mobile data communications services. As of December 31, 2014, we had an aggregate of approximately 50.9 million subscribers for our mobile services, including subscribers to our bundled plans. As of December 31, 2014, 82.2% of our mobile voice customers subscribed to pre-paid plans and 17.8% subscribed to post-paid plans.

#### ***Post-Paid Voice Services***

Post-paid customers pay a monthly subscription fee and are billed on a monthly basis for services provided during the previous month. Post-paid plans include voice mail, caller ID, conference calling, call forwarding, calls on hold and special services.

Our *Oi Conta Conectado* plans permit a subscriber to make unlimited local calls to our fixed-line and mobile subscribers, includes an allowance of minutes selected by the customer for use to make calls to customers of other service providers and provides for unlimited text messages to our mobile subscribers. This plan also includes mobile data (except for the low-cost version of this plan, *Oi Conta 100* ). It also includes an allowance of minutes selected by the customer for use to make long-distance calls to our fixed-line or mobile customers (except for the low-cost version of this plan, *Oi Conta* ). Customers can share the plan with users of as many as five separate mobile devices by paying a monthly fee per line. Subscribers can buy unlimited add-on features for this plan, including other mobile data plans and unlimited long-distance calls to our fixed line or mobile customers.

We also offer hybrid plans under the brand name *Oi Controle* for customers who wish to combine the cost savings of our post-paid plans with the self-imposed limits of our pre-paid plans. *Oi Controle* subscribers are permitted to make unlimited local and long-distance calls to our mobile and fixed-line subscribers and purchase credits that can be used for calls to customers of other providers and other add-on services. *Oi Controle* is composed of five plans. One of the plans, *Oi Controle Voz*, offers a credit of R\$10.90 for customer use for a pay-as-you go plan in addition to the above benefits. The other four plans include mobile data, unlimited text messages to our mobile customers and limited voice and text message plans to other providers and Wi-Fi.

Credits can be bought through point of sale machines in retail stores, ATMs or mobile applications such as *Minha Oi* and *Recarga Oi*.

#### ***Pre-Paid Voice Services***

Pre-paid customers activate their cellular numbers through the purchase and installation of a SIM card in their mobile handsets. Our pre-paid customers are able to add credits to their accounts through point-of-sale machines, ATMs, Apple and Android applications installed on their mobile devices such as *Minha Oi* and *Recarga Oi* using a credit card, our toll-free number or the purchase of pre-paid cards at a variety of prices. These credits are valid for a fixed period of time following activation and can be extended when additional credits are purchased.

We regularly launch various plans and promotions designed to incentivize the purchase and use of credits by our pre-paid customers. In November 2014, we launched a new version of our pre-paid promotion called *Tudo Por Dia*.

*Tudo Por Dia* subscribers pay R\$0.50 per day for 300 minutes of local and long-distance calls to our mobile and fixed-line customers and R\$0.99 per day for 5MB of data, access to Oi Wi-Fi hotspots and 500 text messages. A subscription to this promotion has minimum recharge requirements and a monthly promotion maintenance fee.

In November 2014, we also launched a new version of our *Oi Galera* plan aimed at young customers. This plan offers voice, text messaging, music, 10MB of data with free access to Facebook, Twitter and Oi Wi-Fi hotspots

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for R\$0.99 per day. *Oi Galera* subscribers also have special discounts on selected retail stores, restaurants and theaters.

Our customers may also exchange the credits that they purchase for additional services, such as:

*Bônus Extra* which permits our customers to purchase additional minutes for use for local or long-distance calls to our fixed-line or mobile subscribers at discounted rates;

*Pacote de Dados* which permits our customers to purchase a specified data allowance for use on their handsets; and

*Pacote de SMS* which permits our customers to purchase the ability to send specified number of text messages.

*Mobile Internet Services*

We offer post-paid and pre-paid mobile data communication services to customers that seek to access the internet through our network, using mobile devices, including smartphones or tablets and laptop computers with the aid of a mini-modem. As with our post-paid voice plans, our post-paid mobile internet customers pay a monthly subscription fee and are billed on a monthly basis for services provided during the previous month. We also offer internet access for a daily fee to customers who do not subscribe to a monthly plan.

We offer a variety of post-paid plans that provide data allowances from 300 MB to 5 GB for smartphones and from 300 MB to 10 GB for tablets and laptop computers and provide data transmission at speeds of 1 Mbps (3G network) or 5 Mbps (4G network). In addition to data traffic, our post-paid mobile internet plans for use with mobile devices include allowances for text messages. Our post-paid mobile internet plans for smartphones are available to our *Oi Conta* customers. Our post-paid mobile internet plans for tablets and laptop computers are sold on a stand-alone basis or, in some cases, through our *Oi Contal Total* voice and data bundle. Subscribers to our access to our post-paid mobile internet plans for smartphones, tablets and laptop computers also receive free access to our network of WiFi hotspots. In addition to these post-paid plans, subscribers can purchase anti-virus software and backup data storage services.

We offer two pre-paid mobile internet services: through mobile devices and through the purchase and installation of a SIM card in a mini-modem or tablet. Our pre-paid customers are able to add credits to their accounts through the purchase of pre-paid credits at prices that vary based on the data allowance purchased (from 5MB to 500MB) and duration (daily, weekly and monthly).

*Mobile Long-Distance*

Each mobile subscriber in Brazil is registered in a geographic area (identified by the corresponding area codes, such as 11 (São Paulo) and 21 (Rio de Janeiro)), which we refer to as the subscriber's home registration area. A call originated by a mobile subscriber registered in one home registration area to a mobile subscriber registered in another home registration area, is classified as a mobile long-distance call.



We provide mobile long-distance services originating from Region I and Region II through network facilities and through interconnection agreements with Telefônica Brasil in Region III and each of the other principal mobile services providers operating in Brazil that permit us to interconnect directly with their local fixed-line and mobile networks. We provide international long-distance services originating or terminating on our customer's mobile handsets through agreements to interconnect our network with those of the main telecommunications service providers worldwide.

*Value-Added Services*

The value-added services we provide include voice, text and data applications, including voicemail, caller ID, and other services, such as personalization (video downloads, games, ring tones and wallpaper), text messaging

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subscription services (horoscope, soccer teams and love match), chat, mobile television, location-based services and applications (mobile banking, mobile search, email and instant messaging).

### ***Business and Corporate Services***

In the business and corporate services market, we serve small and medium-sized enterprise, or SMEs, and large enterprises, or corporate customers. We market a variety of services to SMEs, including our core fixed-line and mobile services, as well as our higher-value added services, such as broadband services, voice, text and data applications, advanced voice services and commercial data transmission services. We also market these services to corporate customers, combining these service offerings with information technology services.

#### *Services for SMEs*

We offer SMEs services similar to those offered to our residential and personal mobility customers, including fixed-line and mobile voice services, and fixed-line and mobile broadband services. We also recently launched FTTH plans for SMEs. In addition, we offer SMEs:

digital trunk services, which optimize and increase the speed of the customer's telephone system;

advanced voice services, primarily 0800 (toll free) services, as well as voice portals where customers can participate in real-time chats and other interactive voice services;

dedicated Line Services (*Serviços de Linhas Dedicadas*), or SLD, under which we lease dedicated digital and analog lines to customers for use in private networks; and

value-added services, such as help desk support that provides assistance for technical support issues, web services with hosting, e-mail tools and website builder and security applications.

We offer a variety of mobile plans to SMEs, including our *Oi Equipe Flat* plan for groups of employees, our *Oi Empresa Especial* plan for individual users in an SME and our *Oi Controle* plan which, similarly to our residential fixed-line plan, is designed to permit a SME to control usage of mobile minutes. In general, our sales team works with an SME customer to determine their telecommunications needs and negotiates a package of services and pricing structure that is tailored to the needs of that SME. We also offer multi-product packages including fixed-line, broadband and mobile service bundles designed for the SME segment.

#### *Services for Corporate Customers*

We offer corporate customers all of the services offered to our SME customers. In addition, we provide a variety of customized, high-speed data transmission services through various technologies and means of access to corporate customers. Our data transmission services include interconnection between local area networks at data transmission speeds of 34 Mbps, 155 Mbps and 10 Gbps, videoconferencing, video/image transmission and multimedia applications. Our principal commercial data transmission services are:

SLD, under which we lease dedicated lines to corporate customers for use in private networks that link different corporate websites; and

IP services which consist of dedicated private lines which we provide to most of the leading ISPs in Brazil, as well as Virtual Private Network, or VPN, services that enable our customers to operate private intranet and extranet networks.

In 2012, we have broadened the scope of services that we offer to our corporate clients to include information technology infrastructure services, seeking to offer our customers end-to-end solutions through which we are able to provide and manage their connectivity and information technology needs. In February 2012 we launched *Oi Smartcloud*, a suite of data processing and data storage services that we perform through our five cyber data centers located in Brasília, São Paulo, Curitiba and Porto Alegre. In addition, through these data centers, we provide

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hosting, collocation and IT outsourcing services, permitting our customers to outsource their IT infrastructures to us or to use these centers to provide backup for their IT systems.

During the third quarter of 2013, we partnered with PT SGPS to offer four major new service groups through *Oi SmartCloud*. These new services groups are:

collaborative solutions, a hosting and sharing platform that provides employees with access to company documents;

business applications, an in-memory computing platform for large amounts of data;

mobility, a one-stop solution for mobile device management; and

security, a centralized, anti-spam filtering solution for corporate email.

The new solutions operate through our five cyber data centers. In addition, in the second quarter of 2012, we launched our *Oi Gestão Mobilidade* service, our mobile device management service focused on providing logistics and security solutions relating to mobile devices.

In 2014, we launched various services based on IT applications:

fleet management services, which provide a management system for fleet monitoring and location targeting, economies of scale for fuel costs, driver profile analysis and kilometer control for maintenance;

workforce management, which provides a system with web and mobile applications to monitor and control the workforce in the field and optimize routes and control logistics activities;

cloud reporting, which provides compression and transmission solutions for medical images using the DICOM format, with large optimization of transmission capacity, ensuring picture quality independent of bandwidth; and

digital content management (corporate TV platform and queue management), which provides a digital signage platform with queue management solutions, creating a powerful marketing tool for companies that have interactions with customers at points of sale.

In November 2014, we launched our *Oi Smart Office* service, which provides a system to control daily work and productivity of employees working remotely, including through the use of biometrics. The platform offers a connection between the home environment and the corporate network, providing unified communication options including chat, voice, video, conferencing and document sharing along with corporate applications for cloud computing.

In order to provide complete solutions to our corporate clients, we have entered into service agreements for the joint supply of international data services with a number of important international data services providers. These commercial relationships with international data services providers are part of our strategy of offering telecommunications services packages to our customers.

*Services for Other Telecommunications Providers*

We offer specialized services to other telecommunications providers, primarily consisting of interconnection to our networks, network usage charges for the use of portions of our long-distance network, and traffic transportation through our physical infrastructure.

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### *Interconnection and Network Usage Charges*

All telecommunications services providers in Brazil are required, if technically feasible, to make their networks available for interconnection on a non-discriminatory basis whenever a request is made by another telecommunications services provider. Interconnection permits a call originated on the network of a requesting local fixed-line, mobile or long-distance service provider's network to be terminated on the local fixed-line or mobile services network of the other provider.

We are authorized to charge for the use of our local fixed-line network on a per-minute basis for (1) all calls terminated on our local fixed-line networks in Regions I and II that originate on the networks of other mobile and long-distance service providers, and (2) all long-distance calls originated on our local fixed-line networks in Regions I and II that are carried by other long-distance service providers.

Conversely, other local fixed-line service providers charge us interconnection fees (1) to terminate calls on their local fixed-line networks that are originated on our mobile or long-distance networks, and (2) for long-distance calls originated on their local fixed-line networks that are carried by our long-distance network.

In addition, we charge network usage fees to long-distance service providers and operators of trunking services that connect switching stations to our local fixed-line networks.

We are authorized to charge for the use of our long-distance network on a per-minute basis for all calls that travel through a portion of our long-distance networks for which the caller has not selected us as the long-distance provider. Conversely, other long-distance service providers charge us interconnection fees on a per-minute basis for all calls that travel through a portion of their long-distance networks for which the caller has selected us as the long-distance provider.

We are authorized to charge for the use of our mobile network on a per-minute basis for all calls terminated on our mobile network that originate on the networks of other local fixed-line, mobile and long-distance service providers. Conversely, other mobile services providers charge us interconnection fees to terminate calls on their mobile networks that are originated on our local fixed-line, mobile or long-distance networks.

### *Transportation*

We provide Industrial Exploitation of Dedicated Lines (*Exploração Industrial de Linha Dedicada*), or EILD, services under which we lease trunk lines to other telecommunications services providers, primarily mobile services providers, which use these trunk lines to link their radio base stations to their switching centers;

Long-distance and mobile services providers may avoid paying long-distance network usage charges to us by establishing an interconnection to our local fixed-line networks. In order to retain these customers of our long-distance services, we offer a long-distance usage service, called national transportation, under which we provide discounts to our long-distance network usage fees based on the volume of traffic and geographic distribution of calls generated by a long-distance or mobile services provider.

We also offer international telecommunications service providers the option to terminate their Brazilian inbound traffic through our network, as an alternative to Embratel and TIM. We charge international telecommunications service providers a per-minute rate, based on whether a call terminates on a fixed-line or mobile telephone and the location of the local area in which the call terminates.

**Rates**

Our rates for local fixed-line services, domestic long-distance services, mobile services, interconnection, EILD and SLD services are subject to regulation by ANATEL, subject to certain exceptions relating to the rates we charge under alternative fixed-line and mobile plans that we are authorized to offer to our customers. For information on ANATEL regulation of our rates, see [Telecommunications Regulation Regulation of the Brazilian Telecommunications Industry](#).

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Many of the services we provide charge on a per-minute basis. For these services, we charge for calls based on the period of use. The charge unit is a tenth of a minute (six seconds), and rounding is permitted to the next succeeding tenth of a minute. There is a minimum charge period of 30 seconds for every call. For local fixed-line to fixed-line calls during off-peak hours, charges apply on a per-call basis, regardless the duration of the call.

***Local Fixed-Line Rates***

*Local Rates*

Our revenues from local fixed-line services consist mainly of monthly subscription charges, charges for local calls and charges for the activation of lines for new subscribers or subscribers that have changed addresses. Monthly subscription charges are based on the plan to which the customer subscribes and whether the customer is a residential, commercial or trunk line customer.

Under our concession agreements, we are required to offer two local fixed-line plans to users: the Basic Plan per Minute and the Mandatory Alternative Service Plan, each of which includes installation charges, monthly subscription charges, and charges for local minutes. As of December 31, 2014, 15.5% of our local fixed-line customers subscribed to the Basic Plan per Minute or the Mandatory Alternative Service Plan.

The monthly subscription fees under the Basic Plan per Minute and the Mandatory Alternative Service Plan vary in accordance with the subscribers' profiles, as defined in the applicable ANATEL regulations. The monthly subscription fee for the Basic Plan per Minute includes the use of 200 local minutes per month by residential customers and 150 local minutes per month by commercial customers and trunk line customers. The monthly subscription fee for the Mandatory Alternative Service Plan includes the use of 400 local minutes per month by residential customers and 360 local minutes per month by commercial customers and trunk line customers. We deduct only two local minutes from a Basic Plan per Minute customer's monthly allotment and four minutes from a Mandatory Alternative Service Plan customer's monthly allotment for each local call made, regardless of the duration of the call, during off-peak hours. If the minute limits are exceeded, customers will incur additional metered-minute charges, the prices of which vary depending on whether the customer is a Basic Plan per Minute subscriber or a Mandatory Alternative Service Plan subscriber. If a customer does not use all of the minutes covered by the monthly subscription fee, the minutes cannot be carried over to the next month.

In addition to the Basic Plan per Minute and the Mandatory Alternative Service Plan, we are permitted to offer non-discriminatory alternative plans to the basic service plans. The rates for applicable services under these plans (e.g., monthly subscription rates and charges for local and long-distance calls) must be submitted for ANATEL approval prior to the offering of those plans to our customers. In general, ANATEL does not raise objections to the terms of these plans. As of December 31, 2013, 84.5% of our local fixed-line customers subscribed to alternative plans.

Under our fixed-line rate plans, we charge for calls on a per-minute basis. There is a minimum charge period of 30 seconds for every call. However, calls of three seconds or less are not charged, except in certain specific instances as provided for in ANATEL regulations.

On an annual basis, ANATEL increases or decreases the maximum rates that we are permitted to charge for our basic service plans. ANATEL increased the rates that we and Telemar may charge by an average of 1.97% as of December 24, 2011 and 0.55% as of February 8, 2013, and decreased the rates that we and Telemar may charge by an average of 0.10% as of April 18, 2014. In addition, we are authorized to adjust the rates applicable to our alternative plans annually by no more than the rate of inflation, as measured by the IST. Discounts from the rates set in basic



service plans and alternative service plans may be granted to customers without ANATEL approval.

*Local Fixed Line-to-Mobile Rates*

When one of our fixed-line customers makes a call to a mobile subscriber of our company or another mobile services provider that terminates in the mobile registration area in which the call was originated, we charge our fixed-line customer per-minute charges for the duration of the call based on rates designated by ANATEL as VC-1

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rates. In turn, we pay the mobile services provider a per-minute charge based on rates designated by ANATEL as VU-M rates for the use of its mobile network in completing the call. VC-1 rates vary depending on the time of the day and day of the week, and are applied on a per-minute basis.

On an annual basis, ANATEL may increase or decrease the maximum VC-1 rates that we are permitted to charge. ANATEL authorized our company and Telemar to increase our VC-1 rates by an average 0.98% as of February 9, 2010. Discounts from the VC-1 rates approved by ANATEL may be granted to customers without ANATEL approval. In November 2011, ANATEL adopted new regulations under which ANATEL was authorized to reduce the then-current VC-1 rates by as much as 18% in 2011, 12% in 2012 and 10% in 2013, after giving effect to an inflation adjustment based on the IST measured from June 2009. In February 2012, ANATEL ordered us to reduce our VC-1 rates by approximately 10%, although we are appealing the timing of the application of this rate decrease to our company as our VC-1 rate was increased in Region I by 1.54% in accordance with our application for this increase in February 2012. In March 2013, ANATEL reduced our VC-1 rates in Region I and Region II by approximately 18.6% and 8%, respectively.

#### *Domestic Long-Distance Rates*

##### *Fixed Line-to-Fixed-Line*

If a caller selects one of our carrier selection codes for a long-distance call that originates and terminates on fixed-line telephones, we receive the revenues from the call and must pay interconnection fees to the service providers that operate the networks on which the call originates and terminates. Rates for these long-distance calls are based on the physical distance separating callers (which are categorized by four distance ranges), time of the day and day of the week, and are applied on a per-minute basis for the duration of the call. Rates on these calls are applied on a per-minute basis.

On an annual basis, ANATEL increases or decreases the maximum domestic fixed line-to-fixed line long-distance rates that we are permitted to charge. ANATEL increased the rates that our company and Telemar may charge by an average of 1.97% as of December 24, 2011, 0.55% as of February 8, 2013 and 0.65% as of April 18, 2014. Discounts from the domestic fixed line-to-fixed line long-distance rates approved by ANATEL may be granted to customers without ANATEL approval.

##### *Mobile Long-Distance*

Rates for long-distance calls that originate or terminate on mobile telephones are based on whether the call is an intrasectorial long-distance call, which is charged at rates designated by ANATEL as VC-2 rates, or an intersectorial long-distance call, which is charged at rates designated by ANATEL as VC-3 rates. If the caller selects one of our carrier selection codes for the call, we receive the revenues from the call and must pay interconnection fees to the service providers that operate the networks on which the call originates and terminates. The applicable VC-2 and VC-3 rates vary depending on the time of the day and day of the week, and are applied on a per-minute basis.

On an annual basis, ANATEL may increase or decrease the maximum VC-2 and VC-3 rates we are authorized to charge. In November 2011, ANATEL adopted new regulations under which ANATEL was authorized to reduce the then-current VC-2 and VC-3 rates by as much as 18% in 2011, 12% in 2012 and 10% in 2013, after giving effect to an inflation adjustment based on the IST measured from June 2009. In February 2012, ANATEL ordered us to reduce our VC-2 and VC-3 rates by approximately 10%, although we are appealing the timing of the application of these rate decreases to our company as our VC-1, VC-2 and VC-3 rates were increased by 1.54% in Region I in accordance with our application for this increase in February 2012. In March 2013, ANATEL reduced our VC-2 and VC-3 rates in

Region I and Region II by approximately 18.6% and 8%, respectively.

***Mobile Rates***

Mobile telecommunications service in Brazil, unlike in the United States, is offered on a calling-party-pays basis under which a mobile subscriber pays only for calls that he or she originates (in addition to roaming charges

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paid on calls made or received outside the subscriber's home registration area). A mobile subscriber receiving a collect call is also required to pay mobile usage charges.

Our revenues from mobile services consist mainly of charges for local and long-distance calls paid by our pre-paid and post-paid mobile subscribers and monthly subscription charges paid by our post-paid plan subscribers. Monthly subscription charges are based on a post-paid subscriber's service plan. If one of our mobile subscribers places or receives a call from a location outside of his or her home registration area, we are permitted to charge that customer the applicable roaming rate.

Under ANATEL regulations, TNL PCS and Oi Mobile were each required to submit a basic post-paid service plan and a basic pre-paid service plan to ANATEL for its approval. As of December 31, 2014, fewer than 1% of our mobile customers subscribed to our basic post-paid plans or our basic pre-paid plans.

In addition to the basic service plans, we are permitted to offer non-discriminatory alternative plans to the basic service plans. The rates for applicable services under these plans (*e.g.*, monthly subscription rates, charges for local and long-distance calls and roaming charges) must be submitted for ANATEL approval prior to the offering of those plans to our customers. In general, ANATEL does not raise objections to the terms of these plans. As of December 31, 2014, substantially all of our post-paid and pre-paid customers subscribed to these alternative plans.

Although subscribers of a plan cannot be forced to migrate to new plans, existing plans may be discontinued as long as all subscribers of the discontinued plan receive a notice to that effect and are allowed to migrate to new plans within six months of such notice.

We charge for all mobile calls made by our pre-paid customers, and for mobile calls made by our post-paid customers in excess of their allocated monthly number of minutes, on a per-minute basis.

Rates under our mobile plans may be adjusted annually by no more than the rate of inflation, as measured by the IST. These rate adjustments occur on the anniversary dates of the approval of the specific plans. Discounts from the rates set in basic service plans and alternative service plans may be granted to customers without ANATEL approval. The rate of inflation as measured by the IST was 4.77% in 2012, 5.01% in 2013 and 5.85% in 2014.

***Network Usage (Interconnection) Rates***

***Fixed-Line Networks***

Our revenues from the use of our local fixed-line networks consist primarily of payments on a per-minute basis, which are charged at rates designated by ANATEL as TU-RL rates, from:

long-distance service providers to complete calls terminating on our local fixed-line networks;

long-distance service providers for the transfer to their networks of calls originating on our local fixed-line networks; and

mobile services providers to complete calls terminating on our local fixed-line networks.; and

TU-RL rates vary depending on the time of the day and day of the week, and are applied on a per-minute basis.

Prior to August 2012, the TU-RL rates of Oi and Telemar were equal to 40% of the rate included in their respective Basic Plan per Minute for a local fixed-line call, which was adjusted on an annual basis by ANATEL. In May 2012, ANATEL adopted revisions to the regulations relating to TU-RL rates that became effective in August 2012. Under the revised regulations (1) between August 2012 and December 2013, fixed-line service providers were able to charge other fixed-line service providers for local fixed-line calls originating on their local fixed-line networks and terminating on the other provider's local fixed-line networks only if the outgoing traffic in a given direction of transmission was higher than 75% of the total traffic between such providers, and (2) since January 2014, fixed-line service providers have no longer been able to charge other fixed-line service providers for local

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fixed-line calls originating on their local fixed-line networks and terminating on the other provider's local fixed-line networks.

As of the date of this annual report, Oi's TU-RL rate during peak hours is R\$0.035 per minute and Telemar's TU-RL rate during peak hours is R\$0.032 per minute. In July 2014, ANATEL approved a rule for the definition of maximum fixed reference rates, including TU-RL and TU-RIU, for entities with significant market power, such as our company, based on a long-run incremental cost methodology. Under this rule, TU-RL and TU-RIU reference rates will decline from 2016 through 2019 when TU-RL and TU-RIU reference rates reflecting the long-run incremental cost methodology will apply.

Our revenues from the use of our long-distance networks consist primarily of payments on a per-minute basis, which are charged at rates designated by ANATEL as TU-RIU rates, from other long-distance carriers that use a portion of our long-distance networks to complete calls initiated by callers that have not selected us as the long-distance provider.

TU-RIU rates vary depending on the time of the day and day of the week, and are applied on a per-minute basis. From January 1, 2007 through July 31, 2012, the TU-RIU rates of Oi and Telemar were equal to 30% of their respective domestic fixed line-to-fixed line long-distance rates for calls of more than 300 km, which are typically adjusted on an annual basis by ANATEL. From August 1, 2012 through December 31, 2012, the TU-RIU rates of Oi and Telemar were equal to 25% of their respective domestic fixed line-to-fixed line long-distance rates for such calls. Since January 1, 2013, the TU-RIU rates of Oi and Telemar have been equal to 20% of their respective domestic fixed line-to-fixed line long-distance rates for such calls.

As of the date of this annual report, Oi's TU-RIU rate is R\$0.072 per minute and Telemar's TU-RIU rate is R\$0.083 per minute. In July 2014, ANATEL approved a rule for the definition of maximum fixed reference rates, including TU-RL and TU-RIU, for entities with significant market power, such as our company, based on a long-run incremental cost methodology. Under this rule, TU-RL and TU-RIU reference rates will decline from 2016 through 2019 when TU-RL and TU-RIU reference rates reflecting the long-run incremental cost methodology will apply.

### *Mobile Networks*

Our revenues from the use of our mobile networks consist primarily of payments on a per-minute basis from (1) local fixed-line, long-distance and mobile services providers to complete calls terminating on our mobile networks, and (2) long-distance service providers for the transfer to their networks of calls originating on our mobile networks.

The terms and conditions of interconnection to our mobile networks, including the rates charged to terminate calls on these mobile networks, which are designated by ANATEL as VU-M rates, commercial conditions and technical issues, are freely negotiated between us and other mobile and fixed-line telecommunications service providers, subject to compliance with regulations established by ANATEL relating to traffic capacity and interconnection infrastructure that must be made available to requesting providers, among other things. We must offer the same VU-M rates to all requesting service providers on a nondiscriminatory basis. We apply VU-M charges on a per-minute basis.

If we are not able to establish interconnection rates for use of our mobile networks with other mobile and fixed-line telecommunications service providers, ANATEL is empowered to arbitrate, at its discretion, the interconnection rates that we may charge. In January 2010, ANATEL set provisional reference rates for each mobile services provider for each region based on the mean VU-M previously charged by that mobile services provider in the applicable service region. In February 2010, ANATEL authorized an increase of 0.67% in the VU-M rates of our company and Telemar, equivalent to 68.5% of the increase in our VC-1 rates granted at that time.

In November 2011, ANATEL adopted new regulations that provided procedures under which ANATEL adopted a maximum VU-M rate that was applicable in the event that providers could not agree upon the VU-M applicable in their interconnection agreements. Under the General Plan on Competition Targets (*Plano Geral de Metas de Competição*), in February 2014 the VU-M rate was reduced to 75% of the maximum VU-M rate established by ANATEL in December 2013, and in February 2015 the VU-M rate was reduced to 50% of the

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maximum VU-M rate established by ANATEL in December 2013. The maximum VU-M rate established by ANATEL December 2013 is R\$0.33 per minute. In July 2014, ANATEL approved a rule for the definition of maximum VU-M reference rates for entities with significant market power, such as our company, based on a long-run incremental cost methodology. Under this rule, VU-M reference rates will decline from 2016 through 2019 when VU-M reference rates reflecting the long-run incremental cost methodology will apply.

The General Plan on Competition Targets established that the VU-M would be paid only when the traffic out of a network in a given direction was greater than (1) 80% of the total traffic exchanged until February 23, 2015, and (2) 60% of the total traffic exchanged from February 24, 2015 to February 23, 2016, or the partial bill-and-keep system. After February 24, 2016, each mobile service provider would be entitled to collect the VU-M on all calls for which its network was used to originate or terminate the call, or the full billing system.

In February 2015, ANATEL revised the General Plan on Competition Targets regulation relating to the VU-M applicable to the relationship between companies with significant market power and companies without significant market power. Under the revised regulations, the dates and percentages applicable to the VU-M partial bill-and-keep system were revised so that the VU-M will be paid only when the traffic out of a network in a given direction is greater than:

75% of the total traffic exchanged until February 23, 2016;

65% of the total traffic exchanged until February 23, 2017;

55% of the total traffic exchanged until February 23, 2018; and

50% of the total traffic exchanged until February 23, 2019.

The full billing system is scheduled to come into effect on February 23, 2019.

***Data Transmission Rates***

Broadband services, IP services and frame relay services are deemed to be value-added services under ANATEL regulations and, therefore, the rates and prices for these services are not subject to regulation and are market-driven. We offer broadband services subscriptions at prices that vary depending on the download speeds available under the purchased subscription.

A significant portion of our revenues from commercial data transmission services are generated by monthly charges for EILD and SLD services, which are based on contractual arrangements for the use of part of our networks. Under ANATEL regulations, because we are deemed to have significant market power in the fixed-line services business, we are required to make publicly available the forms of agreements that we use for EILD and SLD services, including the applicable rates, and are only permitted to offer these services under these forms of agreements. ANATEL publishes reference rates for these services and if one of our customers objects to the rates that we charge for these services, that customer is entitled to seek to reduce the applicable rate through arbitration before ANATEL.



In May, 2014, ANATEL approved a standard for setting maximum values for EILD services based on a long-run incremental cost methodology. In July, 2014, ANATEL published reference rates for EILD services that contain a single reference table which will be valid from 2016 until 2020. Under ANATEL regulations, EILD reference rates will decline from 2016 through 2020 when EILD reference rates reflecting the long-run incremental cost methodology will apply. In addition, under the General Plan of Competition Targets, companies with significant market, such as our company, are required to present a public offer every six months including standard commercial conditions, which is subject to approval by ANATEL.

Our revenue from IP services is based on the number of data ports to which the customer is granted access. Our revenue from frame relay services consists mainly of charges for access to the data transmission network and metered service charges based on the amount of data transmitted. Such services are offered as pay-per-use or volume-based packages. Our revenue from cyber data center services is generally based on contractual arrangements that are tailored to the specific services provided.

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### *DTH and IP TV Services Rates*

DTH and IP TV services are deemed to be value-added services under ANATEL regulations and, therefore, the rates and prices for these services are not subject to regulation and are market-driven. We offer DTH and IP TV subscriptions at prices that vary depending on the content of the subscription package. We offer basic subscription packages for our *Oi TV* services, as well as a variety of premium packages which allow subscribers to tailor the content that they receive to their individual tastes.

### **Marketing**

During 2014, we incurred R\$674 million in marketing expenses in our Brazilian operations, primarily to:

strengthen the *Oi* brand, reinforcing the image of the convergence of the integrated company;

promote our bundled plans, such as *Oi Internet Total*, *Oi Fixo + Oi Velox + Oi TV* and *Fixo Ilimitado + Pré Ilimitado* as part of our effort to expand and strengthen our customer base;

expand our *Oi TV* customer base with offers through our other services;

promote our pre-paid mobile services through a promotional campaign that awards prizes to new and existing customers who recharge their Oi SIM cards;

promote our post-paid mobile plans, primarily those that include unlimited calls and 3G data services at higher speeds, through specific marketing campaigns and mobile device subsidies for customers who subscribe to our post-paid plans, as part of our effort to increase our market share in mobile services; and

expand our broadband and 3G internet customer base, focusing on geographic regions covered by the National Broadband Plan.

Throughout 2014, we focused our marketing efforts on three types of customers: (1) retail customers, including mobile telephone and residential fixed-line customers; (2) SMEs; and (3) corporate customers.

We advertise through a diverse array of media outlets as part of our strategy to reach all types and classes of customers and potential customers. We use television, radio, billboards, exterior signage, telemarketing, direct mail and internet advertising to market our fixed-line, mobile, long-distance, broadband and subscription television services. We use our branded assets in advertising campaigns, such as the *Orelhão Mágico* Christmas campaign, in which children are able to place calls to Santa Claus from our telephone booths. We sponsor sporting events and individual athletes, as well as cultural events, such as fashion shows and popular music concerts. We were the official telecom provider and a sponsor of the 2014 World Cup in Brazil. The goal of our marketing initiatives is to increase brand awareness of our company as a convergent provider capable of meeting all of the telecommunications needs of our customers and expand the use of our distribution channels to increase net operating revenue.

***Distribution Channels***

We distribute our services through channels focused on three separate sectors of the telecommunications services market: (1) residential customers, including customers of our mobile services to whom we sell bundled plans; (2) personal mobility customers that purchase our mobile services independently of our bundled plans; and (3) business and corporate customers.

***Residential Customers***

Our distribution channels for residential customers are focused on sales of fixed-line services, including voice, *Oi Velox* and *Oi TV*, and post-paid mobile services. As part of the restructuring of our distribution channels, we have begun to provide more extensive training to our employees and the employees of third-party sales agents and have

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revised our commission structures to incentivize sales of plans and services that generate higher average revenue per user. As of December 31, 2014, the principal distribution channels that we used for sales to residential customers were:

our own network of stores, which included 218 *Oi* branded stores.

approximately 320 *Oi* franchised service stores and kiosks located in the largest shopping malls and other high density areas throughout Brazil.

approximately 330 stores located throughout our service areas that primarily sell telecommunications products and services and have entered into exclusivity agreements with us.

our telemarketing sales channel, which is operated by our call center and other third-party agents and consists of approximately 1,400 sales representatives that answer more than 1.5 million calls per month. This channel provides us with the ability to pro-actively reach new customers, thereby increasing our client base and revenues, and also receives calls prompted by our offers made in numerous types of media.

our teleagents channel, which consists of approximately 590 local sales agents that operate in specific regions and complement our telemarketers.

door-to-door sales calls made by our sales force of approximately 4,000 salespeople trained to sell our services throughout Brazil in places where customers generally are not reachable by telemarketing.

our e-commerce sites through which customers may purchase a variety of our services.

*Personal Mobility*

Our distribution channels for personal mobility customers are focused on sales of mobile services to post-paid customers and pre-paid customers, including mobile broadband customers. As part of the restructuring of our distribution channels, our distribution channels for our post-paid personal mobility services have converged with our distribution channels for residential services. As of December 31, 2014, the principal distribution channels that we used for sales of our pre-paid personal mobility services were:

approximately 9,800 stores that are part of large national chains which sell our SIM cards and pre-paid mobile cards.

approximately 36 multibrand distributors that distribute our SIM cards and pre-paid mobile cards to approximately 168,000 pharmacies, supermarkets, newsstands and similar outlets.

our website, through which our pre-paid customers may recharge their SIM cards.

*Business and Corporate Customers*

We have established separate distribution channels to serve small and medium-sized enterprise, or SMEs, and large enterprises, or corporate customers. We market a variety of services to SMEs, including our core fixed-line and mobile services, as well as our higher-value added services, such as broadband services, voice, text and data applications, advanced voice services and commercial data transmission services. We have five regional offices from which approximately 200 employees supervise our marketing efforts to SMEs and our third-party sales force serving this sector. We also have begun to provide more extensive training to our employees and the employees of third-party sales agents. As of December 30, 2014, the principal distribution channels that we use to market our services to SMEs were:

approximately 160 *Oi* exclusive agents with approximately 1,000 door-to-door sales consultants that are dedicated to understanding and addressing the communications needs of our existing and prospective SME customers.

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our telemarketing sales channel, which consists of three agents that use approximately 400 sales representatives that are specifically trained to discuss the business needs of our prospective SME customers to make sales calls, as well as representatives in our call center and representatives at call centers under contract with us to receive calls from existing and prospective SME customers to sell services to new customers and promote higher-value and additional services to existing customers. In addition, our telemarketing channel utilizes approximately 370 customer retention representatives.

We market our entire range of services to corporate customers through our own direct sales force which meets with current and prospective corporate customers to discuss the business needs of these enterprises and design solutions intended to address their communications needs. Our client service model focuses on post-sale service and we regularly discuss service needs and improvements with our customers through calls and meetings with our customers. As of December 31, 2014, our corporate sales team, including post-sale service personnel, was composed of approximately 1,750 employees operating in five regional offices.

## **Billing and Collection**

### ***Fixed-Line Telephone Services***

We send each of our fixed-line customers a monthly bill covering all the services provided during the prior monthly period. Customers are grouped in billing cycles based on the date their bills are issued. Each bill separately itemizes local calls, long-distance calls, calls terminating on a mobile network, toll-free services and other services such as call waiting, voicemail and call forwarding. We have agreements with several banks for the receipt and processing of payments from our customers. A variety of businesses, such as lottery houses, drugstores and grocery stores, accept payments from our customers as agents for these banks.

We are required to include in our monthly bills charges incurred by our customers for long-distance services provided by other long-distance service providers upon the request of these providers. We have billing agreements with each long-distance telecommunications service provider that interconnects with our networks under which we bill our customers for any long-distance calls originated on our network that are carried by another long-distance service provider and transfer the balance to the relevant provider after deducting any access fees due for the use of our network. Payments are due within an average of 15 days after the billing date. We charge late-payment interest at a rate of 1% per month plus a one-time late charge of 2% of the amount outstanding. As of December 31, 2014, 8.9% of all accounts receivable due from our fixed-line customers in Brazil were outstanding for more than 30 days and 4.4% were outstanding for more than 90 days.

ANATEL regulations permit us to restrict outgoing calls made by a fixed-line customer in Brazil when the customer's account is more than 31 days past due, restrict incoming calls received by a fixed-line customer when the customer's account is more than 61 days past due, and disconnect a fixed-line customer when the customer's account is more than 91 days past due, provided in each case that 15-days' prior notice has been given to that customer prior to the imposition of each restriction. The disconnection process thus comprises several stages, including customer notification regarding the referral of their delinquency to credit bureaus, before the fixed-line customer may be ultimately disconnected due to non-payment. Notices range from voice messages to active calls for negotiation with the customer. Our collection system enables us to access delinquent subscribers' accounts according to their payment profile. This profile takes into consideration, among other things, the length of subscription, the outstanding balance of the account and the longest payment delays.

### ***Mobile Telecommunications Services***

We bill our mobile post-paid customers on a monthly basis and itemize charges in the same manner as we bill our fixed-line customers. In addition, the monthly bills also provide details regarding minutes used and roaming charges. Payments are due within an average of 15 days after the billing date. We charge late-payment interest at a rate of 1% per month plus a one-time late charge of 2% of the amount outstanding. As of December 31, 2014, 6.6% of all accounts receivable due from our mobile customers in Brazil were outstanding for more than 30 days and 3.4% were outstanding for more than 90 days.

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ANATEL regulations permit us to partially suspend services to a mobile customer in Brazil when the customer's account is more than 15 days past due, restrict all incoming calls received and outgoing calls made by a mobile customer when the customer's account is more than 45 days past due, and cancel services to a mobile customer when the customer's account is more than 90 days past due, provided in each case that 15-days' prior notice has been given to that customer prior to the imposition of each restriction. The cancellation process thus comprises several stages, including customer notification regarding the referral of their delinquency to credit bureaus, before services to the mobile customer may be ultimately cancelled due to non-payment. Notices range from text messages to active calls for negotiation with the customer. Our collection system enables us to access delinquent subscribers' accounts according to their payment profile. This profile takes into consideration, among other things, the length of subscription, the outstanding balance of the account and the longest payment delays. We have also implemented an information tool to assist with account management that is designed to warn subscribers of high outstanding amounts due and unpaid.

## **Network and Facilities**

Our Brazilian networks are comprised of physical and logical infrastructures through which we provide fully-integrated services, whether fixed-line or mobile, voice, data or image, thereby optimizing available resources. We monitor our networks remotely from our centralized national network operations center in Rio de Janeiro. Network operating and configuration platforms, located at the network operations center, perform failure monitoring, database and configuration management, security management and performance analysis for the each network.

### *Access Networks*

Our Brazilian access networks connect our customers to our signal aggregation and transportation networks. We have a large number of network access points, including twisted copper pair wires to residences and commercial buildings, fiber optic lines to residences and commercial buildings, wireless transmission equipment and Wi-Fi hotspots. Our fixed-line networks are fully digitalized.

Voice and data signals that originate through fixed-line access points are routed through Multi-service Access Nodes, or MSANs, to our aggregation networks, or are rerouted to our aggregation networks through Digital Subscriber Line Access Multiplexer, or DSLAM, equipment which split the voice signal from the digital signal which is transmitted using ADSL or VDSL technology. We are engaged in a long-term program to update our MSAN equipment to DSLAM equipment as demand for data services increases. As of December 31, 2014, approximately 49% of our fixed-line network had been updated to support ADSL2+ or VDSL2 and we provided ADSL or VDSL2 services in 4,762 municipalities.

ADSL technology allows high-speed transmission of voice and data signals on a single copper wire pair for access to the network. Since voice transmission through telephone lines uses only one of many available frequency bands, the remaining frequency bands are available for data transmission. Our network supports ADSL2+ and VDSL2, or very-high-bitrate digital subscriber line, technologies. ADSL2+ is a data communications technology that allows data transmission at speeds of up to 24 Mbps downstream and 1 Mbps upstream, which is much faster than data transmission through conventional ADSL. ADSL2+ permits us to offer a wider range of services than ADSL, including IP TV. VDSL2 is a DSL technology providing faster data transmission, up to 100 Mbps (downstream and upstream), permitting us to support high bandwidth applications such as HDTV, Voice over Internet Protocol, or VoIP, and broadband internet access, over a single connection.

We are engaged in a long-term program to upgrade portions of our fixed-line access networks with optical fiber networks based on gigabit passive optical network, or GPON, technology to support VDSL2 service and facilitate our



offering of our *Oi TV* service. The implementation of this technology permits us to provide broadband with speeds up to 100 Mbps to residential customers and up to 1 Gbps to commercial customers.

For our non-residential customers, we have a fully integrated and managed network providing access for networks based on internet protocol, or IP, and Asynchronous Transfer Mode, or ATM, protocol over legacy copper wire through which are able to provide:

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symmetric and transparent access to Frame Relay services at speeds from 64 kbps to 1.5 Mbps;

symmetrical access with PPP (Point to Point) for the Internet connection services at speeds from 64 kbps to 1.5 Mbps; and

symmetrical access with PPP (Point to Point) to provide connection services for virtual private networks, or VPNs, through Multiprotocol Label Switching, or MPLS, protocol at speeds from 64 kbps to 1.5 Mbps.

The following table sets forth selected information about our fixed-line networks as of the dates and for the periods indicated.

	<b>As of and For Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Installed access lines (in millions)	28.0	28.3	28.3
Access lines in service (in millions)	16.3	17.7	17.8
Public telephones in service (in thousands)	653.3	655.6	727.5
Broadband access lines in service (in millions)	6.1	6.1	5.8

Mobile devices access our GSM (Global System for Mobile Communications), or 2G, mobile networks on frequencies of 900 MHz/1800 MHz, our 3G mobile networks on frequencies of 2100 MHz and our 4G mobile networks on frequencies of 2500 MHz. Our 2G access points use General Packet Radio Service, or GPRS, which allows speeds in the range of 115 kilobytes per second (Kbps), and Enhanced Data Rates for Global Evolution, or EDGE, which allows speeds in the range of 230 Kbps, to send and receive data signals. Our 3G access points use high speed packet access, or HSPA, which allows speeds in the range of 14.2 Mbps, to send and receive data signals. Our 4G access points use 10+10 MHz and 2x2 Multiple Input Multiple Output, which allows speeds in the range of 75 Mbps, to send and receive data signals. Voice and data signals sent and received through our 2G and 3G access points are routed to our aggregation networks. Our mobile networks have unique data core and are fully integrated with our fixed-line data networks.

As of December 31, 2014, our 2G mobile access networks, consisting of 13,766 active radio base stations, covered 3,386 municipalities, or 93% of the urban population of Brazil. We have GPRS coverage in 100% of the localities covered and EDGE coverage in all state capitals.

As of December 31, 2014, our 3G mobile access networks, consisting of 8,865 active radio base stations, covered 1,009 municipalities, or 77% of the urban population of Brazil. We have HSPA coverage in all state capitals.

In the fourth quarter of 2012, we began deploying our 2.6 GHz mobile access networks to support 4G service in cities that hosted the 2014 World Cup. As of December 31, 2014, our 4G access networks covered 24 municipalities, or 19% of the urban population of Brazil.

In addition to these mobile access networks, we also operate Wi-Fi hotspots in public areas such as coffee shops, airports and shopping centers. Since 2012, we have provided outdoor urban wireless networks, including in the neighborhoods of Copacabana and Ipanema in the city of Rio de Janeiro. As of December 31, 2014, our Wi-Fi network consisted of approximately one million hotspots, with broadband access compatible with approximately one million access points provided by Fon Wireless Ltd., or Fon, which allows our customers to access Fon lines

worldwide.

***Aggregation Networks***

Voice and data signals sent through our access network are routed through our aggregation networks to digital switches which connect voice calls and route digital signals to their destinations. Portions of our aggregation network use conventional copper trunk lines to connect our access network to our switches and transportation

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networks. We use ATM protocol to permit high speed transmission of these signals. Other portions of our aggregation network use fiber optic cable to connect our access network to our switches and transportation networks using Synchronous Digital Hierarchy, or SDH, protocol. In large metropolitan areas where the density of access point results in increased demand, we have deployed Metro Ethernet networks. We are currently deploying Metro Ethernet networks in additional cities to serve rising customer demand. Our Metro Ethernet networks are fully-integrated management systems and provide:

ethernet data services from 4 Mbps up to 1 Gbps for point-to-point and multipoint dedicated access;

ethernet access services from 4 Mbps up to 1 Gbps for IP access and MPLS/VPN access;

aggregation network services for ADSL2+ and VDSL2 platforms;

aggregation network services for GPON platforms; and

DWDM systems for services above 1Gbps to prevent overbooking our Metro Ethernet network. Historically, we have used ATM protocol to transport digital signals through our access network from non-residential customers that require dedicated bandwidth to our switching stations. Our ATM networks have a fully-integrated management system and provide:

frame relay data services (a data transmission service using fast protocols based on direct use of transmission lines) from 64 Kbps up to 2 Mbps;

ATM data services supporting access rates from 2 Mbps to 622 Mbps; and

aggregation network services for ADSL2+ platforms.

In response to changing customer needs, we converting elements of our network that use ATM and SDH protocols, that permit us to offer dedicated bandwidth to our customers, to MPLS protocol, which supports IP and permits the creation of VPNs through our MetroEthernet networks.

We have begun to use MPLS-TP capable devices that have been designed to interface with our existing Metro Ethernet Network to increase the bandwidth of our networks to support our 4G network data traffic and replace our legacy SDH networks.

## ***Transportation Networks***

Our long-distance transportation network consists of optical fiber cable networks supporting high capacity Dense Wavelength Division Multiplex, or DWDM, systems that can operate with up to 80 channels at 10 and 40 Gbps.

Currently We are in the process of quadrupling the capacity of our backbone as a result of the deployment of 40 Gbps optical technology. In 2013, we implemented DWDM links of 100 Gbps between Rio de Janeiro, São Paulo, Belo Horizonte and Salvador. Our optical cable network is complemented by microwave links that we use in Region I and Region II. We have a nationwide long-distance backbone, consisting of an optical fiber network that connects the Federal District and the state capitals in Region I and Region II. Most of the large urban areas of our fixed-line service areas are also connected by our fiber optic cable networks. Our transmission infrastructure connects our digital switches to four international gateway switches: two in Rio de Janeiro, one in Curitiba and one in Brasília.

We employ automatic traffic protection to improve the reliability of our network and increase its traffic capacity. The network is fully supervised and operated by management systems that allow rapid response to customer service requests and reduce the recovery time in case of failures.

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We operate an internet backbone network and a fully IP-routed network, which provides a backbone for all internet dedicated services and VPN offerings. Our internet backbone connects to the public internet via international links that we maintain abroad.

We have implemented an address control and name resolution system for our IP networks with the objective of optimizing resources and improving the availability of internet access services.

Our transportation network is directly interconnected to the national and international long-distance networks of all long-distance service providers operating in Regions I, II and III and all mobile services providers in Regions I, II and III.

### ***Satellite Network***

We have deployed an expanded range of satellite-based services to comply with our public service obligations to the rural and remote areas of Brazil, including the Amazon rainforest region. These satellite services include internet access and access to corporate data applications. As of December 31, 2014, our satellite network covered approximately 5,165 localities in 26 states and the Federal District and provided voice and data services.

In 2000, we began the implementation of the land-based segment of our respective satellite networks in order to extend transmission to remote areas in the states of Acre, Paraná, Rondônia, Rio Grande do Sul, Santa Catarina, Pará, Amazonas, Amapá and Roraima, as well as to other areas with limited access to telecommunications services due to geographical conditions, such as Mato Grosso, Mato Grosso do Sul, Goiás and Tocantins. The satellite network comprises satellite earth stations located in less-populated rural areas, as well as hub stations in the cities of Brasília, Manaus, Boa Vista, Macapá, Belém, Santarém, Marabá, Rio de Janeiro, Curitiba, Porto Alegre, Florianópolis, Cuiabá, Porto Velho and Goiânia. These satellite networks use digital technology and began operating in August 2000. The fiber optic and satellite backbones are interconnected in Brasília, Belém, Fortaleza, Rio de Janeiro, Curitiba, Porto Alegre, Florianópolis, Cuiabá, Porto Velho and Goiânia. The integration of the land-based segment of our satellite network allows us to service our subscribers in any location in our fixed-line service areas.

Hispar Satellite S.A., or Hispar, a Spanish-Brazilian consortium created in November 1999 by Hispasat (the leading satellite telecommunications provider in the Iberian Peninsula), and our company operate the Amazonas 1 satellite, which was manufactured by Astrium (EADS Space Company). In December 2002, we entered into an agreement with Hispasat that granted and transferred to Hispar the rights to exploit geostationary orbital position 61 degrees west, and we acquired a minority equity stake in Hispar. The Amazonas 1 satellite was launched into geostationary orbit over the Americas and started to operate in November 2004. The Amazonas 1 satellite provides both C and KU band transponders and on-board switching. The Amazonas 1 satellite is owned by a subsidiary of Hispasat and Hispar has been granted the right to operate and lease all of the transponder space on this satellite.

In 2009, the Amazonas 2 satellite was launched and this satellite commenced commercial operations in early 2010. The Amazonas 2 satellite was manufactured by Astrium and launched into geostationary orbit of 61 degrees West. This satellite provides both C and KU band transponders and on-board switching, with an expected useful life of 15 years. The Amazonas 2 satellite is owned by a subsidiary of Hispasat and Hispar has been granted the right to operate and lease all of the transponder space segment on this satellite.

In 2013, the Amazonas 3 satellite was launched to replace all traffic from Amazonas 1 satellite, which had reached the end of its useful life.

We lease transponders from:

Hispamar with 754 MHz of capacity, in the C band, on the Amazonas 3 satellite and 540 MHz of capacity in the C band on the Amazonas 2 satellite to provide voice and data services through 653 remote switches covering 390 municipalities;

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Hisparmar with 98.3 Mhz of capacity, in the KU band, on the Amazonas 3 satellite and 576 Mhz of capacity in the KU band on the Amazonas 2 satellite to provide voice and data services to approximately 3,028 localities;

Intelsat Satellite with 122 MHz of capacity, in the C band, on the IS-805 satellite and 648 MHz of capacity in the C band on the IS 10-02 satellite to transport voice and data signals from Manaus to Rio de Janeiro;

SES New Skies with 108 MHz of capacity, in the KU band, on the SES-4 satellite to provide voice and data services throughout Brazil;

Intelsat Satellite with 103 MHz of capacity, in the C band, on the IS-905 satellite to transport voice and data signals from Macapá to Rio de Janeiro and Boa Vista to Rio de Janeiro; and

SES New Skies with 1.5 GHz of capacity, in the KU-band, on the SES-6 satellite to provide our own head-end DTH services within Brazil.

In 2005, we and Telemar started to operate gateways satellite platforms operating in the KU band that are comprised of a satellite transport solution with Digital Video Broadcast Return Channel Satellite, or DVB-RCS, technology and an NGN control solution.

***DTH Network***

We provide our DTH services through a satellite uplink located in Lurin, Peru which receives, encodes and transmits the television signals to satellite transponders. We lease these facilities and license the related technology from Telefónica.

We lease transponders for the delivery of the television signals to our subscribers from Telefónica. We have leased 216 Mhz of capacity in the KU band on the Amazonas 1 satellite and 36 Mhz of capacity in the KU band on the Amazonas 2 satellite to provide DTH services.

Our customers lease satellite dishes and set-top boxes from us as part of their subscriptions to our *Oi TV* services.

***HFC Network***

We provide subscription analog and digital television services and broadband internet access to the residential and commercial market segments in the cities of Belo Horizonte, Poços de Caldas, Uberlândia and Barbacena using an HFC network. The analog television signal is distributed from integrated headend equipment owned by Cemig Telecom that is located in these cities. The digital television signal is distributed to the HFC network in Belo Horizonte from our integrated headend equipment located in Alvorada in the city of Rio de Janeiro.

***Fixed-Line and Mobile Tower Leases and Infrastructure Sharing Agreements***

In December 2012, TNL PCS and Brasil Telecom Celular S.A. entered into an operating lease agreement with Sumbe to lease space to install our equipment on 1,200 communications towers and rooftop antennae of Sumbe. The monthly payments under this operating lease agreement reflect a base rental amount specified in the agreement, adjusted



annually by the positive variation of IPCA. This operating lease has a 15-year term and is automatically renewable for successive 12-month periods unless any party to the agreement provides 60-day prior written notice terminating such renewal.

In April 2013, Telemar and Oi entered into an operating lease agreement with São Paulo Cinco Locação de Torres Ltda. to lease space to install our equipment on 2,113 fixed-line communications towers of São Paulo Cinco Locação de Torres Ltda. The monthly payments under this operating lease agreement reflect a base rental amount specified in the agreement, adjusted annually by the positive variation of IPCA. This operating lease has a 20-year term that commenced upon completion of the assignment of the right to lease space and install equipment on the fixed-line communication towers, and is renewable for another 20 years.

In April 2013, Telemar and Oi entered into an operating lease agreement with BR Towers SPE 3 S.A. to lease space to install our equipment on 2,113 fixed-line communications towers of with BR Towers SPE 3 S.A. The monthly payments under this operating lease agreement reflect a base rental amount specified in the agreement, adjusted annually by the positive variation of IPCA. This operating lease has a 20-year term that commenced upon completion of the assignment of the right to lease space and install equipment on the fixed-line communication towers, and is renewable for another 20 years.

In July 2013, Telemar and Oi entered into an operating lease agreement with SBA Torres Brasil Ltda. to lease space to install our equipment on 2,113 fixed-line communications towers of São Paulo Cinco Locação de Torres Ltda. The monthly payments under this operating lease agreement reflect a base rental amount specified in the agreement, adjusted annually by the positive variation of IPCA. This operating lease has a 20-year term that commenced upon completion of the assignment of the right to lease space and install equipment on the fixed-line communication towers, and is renewable for another 20 years.

In December 2013, TNL PCS and Oi Mobile entered into an operating lease agreement with Caryopoceae to lease space to install our equipment on 2,007 communications towers and rooftop antennae of Caryopoceae. The monthly payments under this operating lease agreement reflect a base rental amount specified in the agreement, adjusted annually during the first seven years of the lease by the greater of 6.5% or the positive variation of IPCA, and adjusted annually thereafter by the positive variation of IPCA. This operating lease has a 15-year term and is automatically renewable for successive 60-month periods unless any party to the agreement provides 60-day prior written notice terminating such renewal.

In June 2014, TNL PCS and Oi Mobile entered into an operating lease agreement with Tupã Torres to lease space to install our equipment on 1,641 communications towers and rooftop antennae of Tupã Torres. The monthly payments under this operating lease agreement reflect a base rental amount specified in the agreement, adjusted annually during the first seven years of the lease by the greater of 6.5% or the positive variation of IPCA, and adjusted annually thereafter by the positive variation of IPCA. This operating lease has a 15-year term and is automatically renewable for successive 60-month periods unless any party to the agreement provides 60-day prior written notice terminating such renewal.

In November 2012, we entered into a memorandum of understanding with TIM under which we agreed to the joint use of elements of our 4G network under a RAN sharing model pursuant to which we have invested in (and provided TIM with access to) infrastructure in certain cities, while TIM has invested in (and provided us with access to) infrastructure in other cities. In late 2013, we and TIM extended this memorandum of understanding to additional cities and revised certain obligations of each party under the memorandum of understanding.

In April 2014, we and TIM entered into another memorandum of understanding under which we agreed to the joint construction, implementation and reciprocal assignment of elements of our respective 2G and 3G network infrastructure.

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### ***Network Maintenance***

Our external plant and equipment maintenance, installation and network servicing are performed by third-party service providers. We employ our own team of technicians for the maintenance of our internal plant and equipment.

In January 2012, we entered into a services agreement with Telemont for installation, operation, and corrective and preventive maintenance in connection with our external plant and associated equipment, public telephones, and fiber optic and data communication networks (including broadband access services) in the State of Rio de Janeiro. In October 2012 we entered into a substantially similar services agreement with Telemont with respect to the States of Minas Gerais, Espírito Santo, Mato Grosso, Mato Grosso do Sul, Tocantins, Acre, Rondônia and Goiás and the Federal District. The total estimated payments during the five-year terms of these contracts are expected to be R\$6.6 billion.

In January 2012, we entered into a services agreement with Serede Serviços de Rede S/A for installation, operation, and corrective and preventive maintenance in connection with our external plant and associated equipment, public telephones and fiber optic in the State of Rio de Janeiro. The total estimated payments under this contract are R\$1.4 billion during the five-year term of this contract.

In October 2012, we entered into a services agreement with A.R.M. Engenharia for installation, operation, and corrective and preventive maintenance in connection with our external plant and associated equipment, public telephones, and fiber optic and data communication networks (including broadband access services) in the States of Maranhão, Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco, Alagoas, Sergipe, Bahia, Amazonas, Roraima, Pará, Amapá, Paraná, Santa Catarina and Rio Grande do Sul. The total estimated payments under this contract are R\$6.3 billion during the five-year term of this contract.

From May 2013 to June 2013, we internalized our installation, operations, and corrective and preventive maintenance services in connection with our fixed-line telecommunications services, mobile telecommunications services, data transmission services (including broadband access services), satellite services, buildings, access ways and towers. These services had previously been provided by Nokia Solutions and Alcatel-Lucent.

### **Competition**

The Brazilian telecommunications industry is highly competitive. The competitive environment is significantly affected by key trends, including technological and service convergence, market consolidation and combined service offerings by service providers. See Item 5. Operating and Financial Review and Prospects Principal Factors Affecting Our Financial Condition and Results of Operations Effects of Competition on the Rates that We Realize and the Discounts We Record.

### ***Local Fixed-Line Services***

In the Brazilian local fixed-line telecommunications services market, competition has historically been focused on corporate customers, however, recently our competitors have begun competing in the consumer market with bundles or services targeted to the needs of lower income customers. In addition, competition from other telecommunications services has been increasing, particularly from mobile telecommunications services, which has led to traffic migration from fixed-line traffic to mobile traffic and the substitution of mobile services in place of fixed-line services, encouraged by offers of aggressively-priced packages from some mobile telecommunications service providers. Finally, the decrease in interconnection rates has discouraged the construction of new fixed-line networks and has led to decreases in market prices for telecommunications services by enabling telecommunications service providers that

use the local fixed-line networks of incumbent fixed-line providers to offer lower prices to their customers.

We are the leading provider of local fixed-line services in Regions I and II of Brazil with 16.3 million fixed lines in service as of December 31, 2014. Based on information available from ANATEL, as of December 31, 2014, we had an estimated market share of 59.1% of the total fixed lines in service in Region I and an estimated market share of 55.7% of the total fixed lines in service in Region II. Our principal competitors for fixed-line services are

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(1) Embratel (a subsidiary of América Móvil), which had an estimated market share of 24.1% of the total fixed lines in service in Region I and an estimated market share of 16.6% of the total fixed lines in service in Region II as of December 31, 2014, based on information available from ANATEL, and (2) GVT (an affiliate of Vivendi S.A. which is expected to be acquired by Telefônica Brasil), which had an estimated market share of 9.1% of the total fixed lines in service in Region I and an estimated market share of 22.8% of the total fixed lines in service in Region II as of December 31, 2014, based on information available from ANATEL.

Embratel provides local fixed-line services to residential customers through fixed devices that receive wireless signals from a single transmission tower located near the subscriber's residence and through the cable network owned by its subsidiary Net in the portions of Regions I and II where Net provides cable television service. As a result, Net is able to offer cable television, broadband and telephone services as a bundle at a very competitive price. We also expect competition from Embratel to increase in certain large cities, such as Rio de Janeiro, Belo Horizonte and Salvador, where it continues to expand its local fixed-line network.

GVT has been increasing its competitive activities in Regions I and II, expanding its fiber optic network in high-income residential areas and increasing its services to low- and medium-size businesses. We expect competition from GVT to increase in certain large cities, such as Rio de Janeiro, Belo Horizonte and Salvador, and in some medium size cities with population in the range of 350,000 to 1,000,000, where GVT continues to expand its local fixed-line network.

We expect to continue to face competition from mobile services providers, which represent the main source of competition in the local fixed-line service market. As of December 31, 2014, there were 141.9 million mobile subscribers (including our mobile customers) in Region I, a 3.3% increase over December 31, 2013, and there were 70.7 million mobile subscribers (including our mobile customers) in Region II, a 3.0% increase over December 31, 2013, based on information available from ANATEL. The increase in the number of mobile users, in addition to reduced mobile services rates, is expected to continue to adversely affect the number of fixed-line subscribers and the volume of local fixed-line traffic. In addition, because mobile providers offer promotions and service plans that permit subscribers to make calls within the mobile provider's network at rates that are less than those charged for calls from a fixed-line telephone to a mobile telephone, we believe that we may be vulnerable to traffic migration as customers with both fixed-line and mobile telephones use their mobile devices to make calls to other mobile subscribers.

***Long-Distance Services***

The long-distance services market is highly competitive. As of December 31, 2012, based on the most recent information available from ANATEL, of the total number of national long-distance minutes originated nationwide, we had a market share of 11.0%, ranking behind TIM with 50.1% and Embratel with 27.7% and ahead of Telefônica Brasil with 8.4%.

Our principal competitors for long-distance services are TIM and Embratel, which offer long-distance services throughout Brazil at rates that are charged on a per call or per day, rather than per minute, basis. We also compete in the State of São Paulo with Telefônica Brasil, which is the incumbent fixed-line service provider in the State of São Paulo.

Increased competition from long-distance service providers has resulted in pressure on our long-distance rates and adversely affected our revenue from these services. In addition, the proliferation of new types of service plans, such as same network subscription plans that offer unlimited long distance calls and data combination plans are impacting the long-distance services market in Brazil. Competition in the long-distance market may require us to increase our marketing expenses and/or provide services at lower rates than those we currently expect to charge for such services.

Competition in the domestic market has had and could continue to have a material adverse effect on our revenues and margins.

In addition, the offering of plans by other mobile services providers that include free minutes for calls to other subscribers of those mobile services providers may adversely impact our revenues from mobile long-distance calls if our mobile customers migrate to our competitors to remain within the network of the people to whom they plan to place long-distance calls. However, as a result of the increased use of SIM card only strategies by other mobile

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service providers, there is a trend among Brazilian pre-paid customers to purchase SIM cards from multiple mobile service providers to maximize the number of calls that they can make which are covered by these promotional offers.

New technologies that serve as an alternative to traditional long-distance telephone calls, such as VoIP, may start to capture part of Brazil's long-distance traffic.

### ***Mobile Services***

The mobile telecommunications services market in Brazil is characterized by intense competition among providers of mobile telecommunications services. We compete primarily with the following mobile services providers, each of which provides services throughout Brazil:

Telefônica Brasil, which is a subsidiary of Telefónica S.A, and which markets its mobile services under the brand name Vivo ;

TIM, which is a subsidiary of Telecom Italia S.p.A.; and

Claro, which is a subsidiary of América Móvil.

In December 2010, Nextel Brazil acquired licenses to provide 3G services throughout Brazil. Nextel launched commercial services on its 3G network in December 2012.

As of December 31, 2014, based on information available from ANATEL, we had a market share of 18.1% of the total number of subscribers in Brazil, ranking behind Telefônica Brasil with 28.5%, TIM with 27.0% and Claro with 25.3%, and we captured 7.3% of all net additions of mobile subscribers in Brazil (calculated based on the number of mobile subscribers at the end of a period less the number of mobile subscribers at the beginning of that period) during 2014.

Competitive efforts in the Brazilian mobile telecommunications services market generally take the form of handset subsidies in the post-paid market, and traffic subsidies and aggressive discounts on data packages in both the pre-paid and post-paid market. The aggressiveness of promotions is generally driven by the desire of the provider offering the promotion to increase market share; however, these promotions generally are for a short duration as the pricing terms offered are not sustainable over the long term.

### ***Data Transmission Services***

Cable television providers that offer broadband services, particularly Net, represent our principal competition in the broadband market. We face competition from these providers that offer integrated packages, consisting of subscription television, broadband and voice telephone services to cable television subscribers who, in general, have more purchasing power than other consumers.

Our principal competitors in the commercial data transmission services market are Embratel, GVT and Telefônica Brasil. The commercial data transmission services market is significantly less regulated than the fixed-line, long-distance and mobile services markets. Along with growth in traffic volume and increasing demand for broadband capacity, we expect significant price reductions in data transmission services as competitors expand their networks. In

recent years, there has been a shift in competition towards value-added services provided over IP platforms and VPN services.

***Subscription Television Services***

In Brazil, the high quality programming of television broadcasters has resulted in aggregate ratings for these broadcasters of approximately 60% of viewers and has limited the perceived value of subscription television. As a result, the subscription television market in Brazil has a low penetration compared to developed countries and even to other South American countries such as Argentina, Chile and Mexico. Penetration rates by subscription television



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have grown from 8.0% of Brazilian households in 2005 to 30% in 2014. According to information available from ANATEL, the Brazilian subscription television market grew by 1% to 19.5 million subscribers as of December 31, 2014 from 18.0 million subscribers as of December 31, 2013.

The primary providers of subscription television services our fixed-line service regions are, SKY, which provides DTH services, and América Móvil, which provides DTH service through Embratel under the Claro TV brand and provides subscription television services using coaxial cable through Net. We commenced offering DTH subscription television services to the low-income residential market in the states of Rio de Janeiro, Minas Gerais, Rio Grande do Sul, Paraná and Santa Catarina. In 2010, we expanded this service to the Distrito Federal and the states of Bahia, Sergipe, Pernambuco, Ceará, Paraíba, Rio Grande do Norte, Alagoas, Espírito Santo and Goiás. In 2011, we expanded this service to the remaining states of our fixed-line service areas.

In December 2012 and January 2013, we began to deliver *Oi TV* through our fiber optic network using an internet protocol, or IP TV, in the Rio de Janeiro and Belo Horizonte, respectively.

**Concessions, Authorizations and Licenses**

Under the General Telecommunications Law and ANATEL regulations, the right to provide telecommunications services is granted either through a concession under the public regime or an authorization under the private regime. For additional details regarding the rights and obligations of service providers operating under the public regime and the private regime, see Telecommunications Regulations Regulation of the Brazilian Telecommunications Industry Concessions and Authorizations. We operate under:

a concession to provide local fixed-line services in Region I (other than the 57 municipalities in the State of Minas Gerais that are excluded from the concession area of Region I) and a concession to provide local fixed-line services in Region II (other than the nine municipalities in the States of Goiás, Mato Grosso do Sul and Paraná that are excluded from the concession area of Region II);

a concession to provide domestic long-distance services in Region I (other than the 57 municipalities in the State of Minas Gerais that are excluded from the concession area of Region I) and a concession to provide domestic long-distance services in Region II (other than the nine municipalities in the States of Goiás, Mato Grosso do Sul and Paraná that are excluded from the concession area of Region II);

authorizations to provide personal mobile services in Regions I, II and III;

radio frequency licenses to provide 3G mobile services in Regions I, II and III (other than 23 municipalities in the interior of the State of São Paulo that include the city of Franca and surrounding areas);

radio frequency licenses to provide 4G mobile services in Regions I, II and III;

authorizations to provide local fixed-line services and domestic long-distance services in (1) the 57 municipalities in the State of Minas Gerais that are excluded from the concession area of Region I, (2) the nine municipalities in the States of Goiás, Mato Grosso do Sul and Paraná that are excluded from the concession area of Region II, and (3) Region III;

authorizations to provide international long-distance services originating anywhere in Brazil;

authorizations to provide Multimedia Communication Services (*Serviço de Comunicação Multimídia*) throughout Brazil; and

an authorization to provide subscription television services throughout Brazil.

These concessions and authorizations allow us to provide specific services in designated geographic areas and set forth certain obligations with which we must comply.

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***Fixed-Line Services Concession Agreements***

We have entered into concession agreements with ANATEL that govern our concessions to provide fixed-line services in the Federal District and each of the states of Regions I and II. Each of our concession agreements:

expires on December 31, 2025;

sets forth the parameters that govern adjustments to our rates for fixed-line services;

requires us to comply with the network expansion obligations set forth in the General Plan on Universal Service Goals;

requires us to comply with certain quality of service obligations set forth in these concession agreements as well as the quality of service obligations set forth in the General Plan on Quality Goals;

requires payment of biannual fees equal to 2.0% of our net operating revenue that is derived from the provision of local fixed-line services (excluding taxes and social contributions) during the immediately preceding year, while allowing us to apply the amount of such fees to finance the expanded service obligations created by the amended General Plan on Universal Service Goals in lieu of making payment to ANATEL;

allows us to offer subscription television services such as IP TV, over our fixed-line networks;

requires us to implement electronic billing systems;

sets forth the conditions under which ANATEL may access information from us;

requires us to pay fines for systemic service interruptions; and

requires us to rescind our contracts if ANATEL determines they are contrary to any rules or regulations, economic order or public interest.

These concession agreements also required us to provide transmission lines connecting our fiber-optic internet backbones to municipalities in our concession areas in which we did not provide internet service, which we refer to as backhaul. Under these concession agreements, we were obligated to set up backhaul in 3,252 municipalities in Regions I and II. The facilities that we constructed to meet these obligations are considered to be property that is part of our concessions and will therefore revert to the Brazilian government on January 1, 2026.

These concession agreements provide that ANATEL may modify their terms in 2015 and 2020 and may revoke them prior to expiration under the circumstances described under [Telecommunications Regulation Regulation of the Brazilian Telecommunications Industry Regulation of Fixed-Line Services Termination of a Concession](#). The modification right permits ANATEL to impose new terms and conditions in response to changes in technology, competition in the marketplace and domestic and international economic conditions. ANATEL is obligated to engage in public consultation in connection with each of these potential modifications.

For more information regarding the regulation of our fixed-line services, the General Plan on Universal Service Goals and the General Plan on Quality Goals, see [Telecommunications Regulation Regulation of the Brazilian Telecommunications Industry Regulation of Fixed-Line Services](#).

***Domestic Long-Distance Services Concession Agreements***

We have entered into concession agreements with ANATEL that govern our concessions to provide domestic long-distance services originating from the Federal District and each of the states of Regions I and II. Each of our concession agreements:

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expires on December 31, 2025;

sets forth the parameters that govern adjustments to our rates for domestic long-distance services;

requires us to comply with certain quality of service obligations set forth in these concession agreements as well as the quality of service obligations set forth in the General Plan on Quality Goals;

requires payment of biannual fees equal to 2.0% of our net operating revenue that is derived from the provision of domestic long-distance services (excluding taxes and social contributions) during the immediately preceding year;

requires us to implement electronic billing systems;

sets forth the conditions under which ANATEL may access information from us;

requires us to pay fines for systemic service interruptions; and

requires us to rescind our contracts if ANATEL determines they are contrary to any rules or regulations, economic order or public interest.

These concession agreements provide that ANATEL may further modify their terms in 2015 and 2020 and may revoke them prior to expiration under the circumstances described under Telecommunications Regulation Regulation of the Brazilian Telecommunications Industry Regulation of Fixed-Line Services Termination of a Concession. The modification right permits ANATEL to impose new terms and conditions in response to changes in technology, competition in the marketplace and domestic and international economic conditions. ANATEL is obligated to engage in public consultation in connection with each of these potential modifications.

For more information regarding the regulation of our fixed-line services, the General Plan on Universal Service Goals and the General Plan on Quality Goals, see Telecommunications Regulation Regulation of the Brazilian Telecommunications Industry Regulation of Fixed-Line Services.

***Personal Mobile Services Authorization Agreements and Radio Frequency Spectrum Licenses***

We have entered into authorization agreements with ANATEL that govern our authorizations to provide personal mobile services in Regions I, II and III. These authorizations permit us to provide personal mobile services for an indeterminate period of time, but do not provide us with the right to use specific radio frequency spectrum.

We hold five licenses to use radio frequency spectrum to provide 2G services in Regions I and II and four in Region III. These licenses grant us permission to use the applicable radio spectrum for 15 years from the date of the authorization agreement under which they are granted and are renewable for additional 15-year terms. Upon renewal of any of these licenses and on every second anniversary of such renewal, we will be required to pay an amount equal to 2.0% of our prior year's net operating revenue from personal mobile services. The initial terms of our radio

frequency spectrum licenses expire between 2016 and 2022.

Our authorization agreements are subject to network scope and service performance obligations set forth in these authorization agreements. Under these obligations we are required to service all municipalities in Brazil with a population in excess of 100,000. A municipality is considered serviced when the covered service area contains at least 80% of the urban area in the municipality. Our failure to meet these targets may result in the imposition of penalties established in ANATEL regulations and, in extreme circumstances, in termination of our personal mobile services authorizations by ANATEL. As of the date of this annual report, we have satisfied the network scope and service performance obligations set forth in these authorization agreements; however, we have not yet received ANATEL's inspection report.

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For more information regarding the regulation of our personal mobile services, see [Telecommunications Regulation](#) [Regulation of the Brazilian Telecommunications Industry](#) [Regulation of Mobile Services](#) [Additional Obligations](#).

***3G Radio Frequency Licenses***

We hold five licenses to use radio frequency spectrum to provide 3G services in Regions I, II and III. Each of these licenses grants us permission to use the applicable radio spectrum for 15 years from the date of grant and is renewable for additional 15-year terms. We will be required to pay an amount equal to 2.0% of our prior year's net operating revenue from personal mobile services upon renewal of the license and on every second anniversary of the renewal. The initial terms of these licenses expire in 2023.

These radio frequency licenses include network scope obligations. Under these obligations, we are currently required to (1) provide service to 459 municipalities that did not have mobile services at the time these licenses were granted with either 2G or 3G mobile telecommunications services, (2) provide 3G service to all state capitals in Brazil, the Federal District and all municipalities with a population in excess of 200,000 inhabitants, (3) provide 3G service to all of the municipalities covered by these licenses with a population in excess of 100,000, and (4) provide 3G service to 50% of all of the municipalities with a population between 30,000 and 100,000. In addition, we will be required to provide 3G service to 60% of the municipalities, including 641 specified municipalities, covered by these licenses with a population less than 30,000 by 2016.

A municipality is considered serviced when the covered service area contains at least 80% of the urban area in the municipality. Our failure to meet these targets may result in the imposition of penalties established in ANATEL regulations and, in extreme circumstances, in termination of our 3G frequency licenses by ANATEL. As of the date of this annual report, we have satisfied the network scope and service performance obligations set forth in these licenses; however, we have not yet received ANATEL's inspection report.

***4G Radio Frequency Licenses***

We hold three licenses to use radio frequencies in 2.5 GHz sub-bands to provide 4G services in Regions I, II and III. Each of these licenses grants us permission to use the applicable radio spectrum for 15 years from the date of grant and is renewable for additional 15-year terms. We will be required to pay an amount equal to 2.0% of our prior year's net operating revenue from 4G services upon renewal of the license and on every second anniversary of the renewal. The initial terms of these licenses expire in 2027.

These radio frequency licenses include network scope obligations. Under these obligations, we are currently required to provide 4G service in all state capitals, municipalities with a population in excess of 500,000 and the Federal District. In addition, we will be required to:

provide 4G service to all of the municipalities covered by these licenses with a population in excess of 200,000 by December 31, 2015;

provide 4G service to all of the municipalities covered by these licenses with a population in excess of 100,000 by December 31, 2016;

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provide 4G service to all of the municipalities covered by these licenses with a population between 30,000 and 100,000 by December 31, 2017;

provide 4G service to 30% of the municipalities covered by these licenses with a population less than 30,000 by December 31, 2017;

provide 4G service to 60% of the municipalities covered by these licenses with a population less than 30,000 by December 31, 2018;



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provide 4G service to all of the municipalities covered by these licenses with a population less than 30,000 by December 31, 2019;

provide voice services in the 450 MHz spectrum and data services at minimum upload speeds of 128 kbps and download speeds of 256 kbps and a minimum monthly allowance of 250 MB in 289 municipalities in the States of Goiás, Mato Grosso, Mato Grosso do Sul, Rio Grande do Sul and the Federal District by June 30, 2014, and in 384 such municipalities by December 31, 2015 and offer voice services in the 450 MHz spectrum and data services at minimum upload speeds of 256 kbps and download speeds of 1Mbps and a minimum monthly allowance of 500 MB in 962 such municipalities by December 31, 2017;

provide unlimited data services at minimum upload speeds of 256 kbps and download speeds of 128 kbps to rural schools in 289 municipalities in the States of Goiás, Mato Grosso, Mato Grosso do Sul, Rio Grande do Sul and the Federal District by June 30, 2014, in 384 such municipalities by December 31, 2015 and in 962 such municipalities by December 31, 2017; and

make our fixed-line network available to other telecommunications service providers to allow them to comply with their obligations under the General Plan on Universal Service Goals in 289 municipalities in the States of Goiás, Mato Grosso, Mato Grosso do Sul, Rio Grande do Sul and the Federal District by June 30, 2014, in 384 such municipalities by September 30, 2014 and in 962 such municipalities by September 30, 2015.

In addition, our 4G radio frequency licenses impose minimum investment obligations in domestic technologies. At least 65% of the cost of all goods, services, equipment, telecommunications systems and data networks that we purchase to meet our 4G service obligations must be developed in Brazil. This minimum requirement will increase to 70% between January 1, 2017 and December 31, 2022.

Our failure to meet these targets may result in the imposition of penalties established in ANATEL regulations and, in extreme circumstances, in termination of our 4G frequency licenses by ANATEL. As of the date of this annual report, we have satisfied the network scope and service performance obligations set forth in these licenses.

***Fixed-Line Services Authorization Agreements***

We have entered into authorization agreements with ANATEL that govern our authorizations to provide local fixed-line services in and domestic long-distance services originating from (1) the 57 municipalities in the State of Minas Gerais that are excluded from the concession area of Region I, (2) the nine municipalities in the States of Goiás, Mato Grosso do Sul and Paraná that are excluded from the concession area of Region II, and (3) Region III. These authorizations do not have termination dates and require us to comply with certain quality of service obligations set forth in the General Plan on Quality Goals.

We have also entered into authorization agreements with ANATEL that govern our authorizations to provide international long-distance services originating from anywhere in Brazil. These authorizations do not have termination dates and require us to comply with quality of service obligations set forth in the General Plan on Quality Goals.

***Multimedia Communication Services Authorization Agreements***

We have a Multimedia Communication Services authorizations, which superseded our prior Telecommunications Network Transportation Services (*Serviço de Rede de Transporte de Telecomunicações*) authorizations, permitting us to provide high speed data service.

The Multimedia Communication Services authorizations became effective in May 2003 and cover the same geographical areas as our concession agreements. In April 2008, in connection with the amendments to our fixed-line services concessions, we agreed to provide internet service free of charge until December 31, 2025 to all urban schools in the areas of our concession agreements.

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***Term of Commitment to Adhere to National Broadband Plan***

On June 30, 2011, we entered into a Term of Commitment (*Termo de Compromisso*) with ANATEL and the Ministry of Communications to formalize our voluntary commitment to adhere to the terms of the National Broadband Plan, created in May 2010 by Executive Decree No. 7,175/10 with the goal to make broadband access available at low cost, regardless of technology, throughout Brazil. Pursuant to the Term of Commitment, we are required to offer (1) broadband services with minimum upload and download capabilities to retail customers in certain sectors of Region I and II for a maximum price of R\$35 per month (or R\$29.90 in ICMS-exempt states), plus fees, and (2) access to our broadband infrastructure to certain wholesale customers, including small businesses and municipalities, in certain sectors of Region I and II for a maximum price of R\$1,253 per 2 Mbps per month and a one-time installation fee, while observing all quality standards under ANATEL regulations. Both retail and wholesale services are subject to certain network capacity limits and need only be provided at the demand of the customer. Pursuant to the Term of Commitment, we have offered the required services to all eligible retail and wholesale customers since the date of its execution and have gradually increased the capacities offered to wholesale customers since November 2011. We have been obligated to provide the maximum capacities established by the Term of Commitment to eligible wholesale customers since June 30, 2015. In addition, the Term of Commitment requires that we:

provide one public internet access point for the first 20,000 inhabitants and one additional access point for each subsequent 10,000 inhabitants, with a limit of six access points, at a speed of 2 Mbps, in each municipality that has only satellite service, free of charge and upon demand of such municipality;

adequately advertise the services contemplated by the Term of Commitment and present to the Ministry of Communications semi-annual reports detailing our marketing efforts; and

make our best efforts to offer broadband services to retail customers at speeds of up to 5 Mbps, reaching the largest possible number of municipalities by 2015.

The Term of Commitment will expire on December 31, 2016.

***Subscription Television Authorization Agreement***

In November 2008, we entered into an authorization agreement with ANATEL that governs our use of satellite technology to provide DTH satellite television services throughout Brazil. The authorization agreement permits us to provide DTH satellite television services for 15-years and is renewable for an additional 15 year term in exchange for a fee to be agreed upon between us and ANATEL.

Under this authorization, we are required to furnish equipment to certain public institutions, to make channels available for broadcasting by specified public institutions, and to comply with quality of service obligations set forth in applicable ANATEL regulations.

In December 2012, ANATEL granted our request to convert our DTH authorization agreement into a Conditional Access Service authorization allowing us to provide nationwide subscription television services through any technology, including satellite, wireline and coaxial cable. The Conditional Access Service authorization agreement authorized us to offer the services to be governed by such agreement, including IP TV. In accordance with the

ANATEL resolution that approved the Conditional Access Service regime, our Conditional Access Service authorization prohibits us from creating television content or owning more than 30% of a company that creates content. We are also required to carry a certain percentage of Brazilian programming, including open channels and public access channels.

**Research and Development**

We conduct independent innovation, research and development in areas of telecommunications services but historically we have not independently developed new telecommunications technologies. We depend primarily on suppliers of telecommunications equipment for the development of new technology.

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As a condition to ANATEL's approval of Telemar's acquisition of control of our company in January 2009, Telemar agreed to make annual investments in innovation, research and development through 2018 in amounts equal to at least 50% of the amounts of its contributions to the Fund for the Technological Development of Telecommunications (*Fundo para o Desenvolvimento Tecnológico das Telecomunicações*), or FUNTTEL. To fulfill this obligation, as well as to centralize our innovation, research and development activities and programs, in 2009, we created a division to manage innovation, research and development with the mission of coordinating and promoting efforts and projects that it develops.

Our technology laboratory performs a variety of functions, such as operation support systems, business support systems and information security. We conduct trials of technologies from different vendors in this laboratory to evaluate these technologies for deployment.

Since 2009, we have executed cooperation agreements with the following national research centers: CERTI Foundation, C.E.S.A.R., Technological Projects, Research and Studies Coordination Foundation (*Fundação Coordenação de Projetos, Pesquisas e Estudos Tecnológicos - COPPETEC*), Telecommunications Research and Development Foundation (*Fundação Centro de Pesquisa e Desenvolvimento em Telecomunicações - CPqD*), Technological Innovation Foundation (*Fundação Para Inovações Tecnológicas - FITEC*), National Institute for Telecommunications Foundation (*Fundação Instituto Nacional de Telecomunicações - Inatel*) and PUC-RJ. We have also executed cooperation agreements with Brazilian national telecommunications suppliers which develop technology in Brazil, such as AsGa S.A., Digitel S.A., Indústria Eletrônica and Padtec S.A.

In order to achieve our goals on innovation investments, in 2011, we intensified the process for the exploration of innovative services and activities concerning innovation, research and development to promote our innovation ecosystem and in October 2011 launched the first call for Innovative Mobile Applications for Major Events through the Oi Innovation Program (*Programa Oi Inovação*).

Our investments in innovation, research and development totaled R\$16 million in 2014, R\$13 million in 2013 and R\$11 million in 2012.

### **Property, Plant and Equipment in Brazil**

Our principal Brazilian properties, owned and leased, are located in Regions I and II. As of December 31, 2014, the net book value of our property, plant and equipment in Brazil was R\$25,670 million. Our main equipment in Brazil consists of transmission equipment, trunking and switching stations (including local, tandem and transit telephone exchanges), metallic and fiber-optic cable networks and lines, underground ducts, posts and towers, data communication equipment, network systems and infrastructure (including alternating and direct current supply equipment) and motor-generator groups.

As of December 31, 2014, of the net book value of our property, plant and equipment in Brazil, transmission and other equipment represented 50.5%; infrastructure, primarily underground ducts, post and towers, cables and lines represented 21.0%; work in progress represented 10.4%; automatic switching equipment represented 8.7%; buildings represented 7.3%; and other fixed assets represented 2.2%.

All Brazilian property, plant and equipment that are essential in providing the services described in our concession agreements are considered reversible assets, which means that, should our concession agreements expire or terminate without being renewed, these assets will automatically revert to ANATEL. There are no other encumbrances that may affect the utilization of our property, plant and equipment. For more details, see note 14 to our consolidated financial statements.

## **Intellectual Property**

We believe the trademarks that identify us and our Brazilian businesses are important for us, and as a result, we have taken steps to protect them. As of December 31, 2014, we had 1,091 trademarks registered with the Brazilian Patent and Trademark Office (*Instituto Nacional de Propriedade Industrial*), or BPTO, and 637 pending trademark applications. Our main trademark used in Brazil, *Oi*, is registered with the BPTO in several classes, which allows us to use this trademark in a variety of markets in which we operate, including in connection with our fixed-line,

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mobile and broadband services. Among the various trademarks we have registered with the BPTO, 16 are being contested by third parties. In addition, of our 637 pending trademark applications, 22 have been challenged by third parties.

As of December 31, 2014, we had 1,205 domain names registered with the Center of Information and Coordination of Dot Br NIC. Br, an agency responsible for registering domain names in Brazil. The information included on our websites or that might be accessed through our websites is not included in this annual report and is not incorporated into this annual report by reference.

As of December 31, 2014, the INPI had granted 12 patents, utility models or industrial designs to our company. We had also filed 18 patent applications, which are pending with the BPTO. Requests for technical examination have been submitted to the BPTO for all of these pending patent applications. Once examination is concluded, a decision accepting or rejecting the application will be issued. If granted, the patent will have a term of 20 years from the date of filing and no less than ten years from the date the application is granted.

## **Insurance**

Pursuant to requirements in our Brazilian concession agreements, we maintain the following insurance policies: (1) all risk property insurance covering all insurable assets pertaining to the concessions; (2) loss of profit insurance covering lost profits deriving from property damage and business interruption; and (3) performance bond insurance to assure compliance with our obligations related to quality of service and universal service targets set forth in our concession agreements.

In addition to the above policies, we maintain civil liability insurance in Brazil. Our assets that are of material value and/or exposed to high degrees of risks are also insured. All of our insurance coverage was purchased from highly rated insurance companies in Brazil.

We believe that our current insurance coverage is suitable to our Brazilian operations.

## **Social Responsibility**

In 2001, we created *Oi Futuro*, a corporate social responsibility program that has been designated a Public Interest Organization (*Organização da Sociedade Civil de Interesse Público*) by the Brazilian Ministry of Justice (*Ministério da Justiça*). *Oi Futuro* develops and supports cultural, sustainability and educational programs using information technology and communications to promote social inclusion and human development.

*Oi Futuro* operates two cultural centers in Rio de Janeiro and a cultural center in Belo Horizonte, as well as two telecommunications museums. *Oi Futuro* also manages the *Programa Oi de Patrocínios Culturais Incentivados*. In 2014, we remained one of the primary sponsors of cultural activities in Brazil, sponsoring more than 100 projects through a public selection process.

*Oi Futuro* supports and develops education projects that use new communication and information technologies to transform the classroom environment and prepare young people from low-income communities for jobs of the future. *Oi Futuro*'s diverse initiatives include (1) the Advanced Education Center (*Núcleo Avançado em Educação*), or NAVE, a public vocational high school established through a public-private partnership with campuses in Rio de Janeiro and Recife, and (2) the Oi Kabum! Arts and Technology School (*Oi Kabum! Escola de Arte e Tecnologia*) with campuses in Rio de Janeiro, Recife, Belo Horizonte and Salvador.

Since 2009, NAVE has been consistently recognized by Microsoft as one of the most innovative schools in the world. The NAVE Rio was the only Brazilian school invited by Qatar Foundation to participate in the WISE Summit (World Innovation Summit for Education) in Doha in November 2014 and ranks in the WISE Book, one of the most relevant publications worldwide in the field of innovation and education. In 2014, more than 1,800 students participated in both educational programs (NAVE and Oi Kabum!).

*Oi Futuro* supports social-environmental programs through its *Oi Novos Brasis* program, which focuses on community development, environment and biodiversity. In 2014, more than 5,000 people benefited from these



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programs. In addition, in 2014, *Oi Futuro* supported 10 projects through the Public Funds for Childhood and Adolescence (*FIA Fundos Públicos da Infância e da Adolescência*) and 16 sports projects.

We contributed R\$24 million in 2014, R\$24 million in 2013 and R\$20 million in 2012 to these projects and programs.

**Operations in Portugal**

PT Portugal provides telecommunications services in Portugal in the following customer categories:

*Residential services*, which include integrated networks inside the customer's home, enabling the simultaneous connection of multiple devices, including fixed line telephone, TV (including IPTV and DTH satellite Pay-TV services), game consoles, PCs, laptops, tablets and smartphones. PT Portugal provides these services through its subsidiaries, in particular PT Comunicações.

*Personal services*, which are mobile telecommunications services, such as voice, data and Internet-related multimedia services provided to personal (*i.e.*, individual) customers across several access devices, such as mobile phones, smartphones and tablets, as well as wireless datacards and dongles (devices that attach to the USB port of a laptop/computer to provide mobile broadband service) for internet access. PT Portugal provides these services through its subsidiary MEO.

*Enterprise services*, which provide PT Portugal's corporate and medium and small business customers with integrated data and business solutions, as well as IT/IS and BPO services, including:

*Corporate services*, which target large companies and provide data, internet, video and voice communications, services, fixed-mobile convergence solutions and selected information technology services, network managing and outsourcing; and

*SME/SoHo services*, which target (1) SMEs customers, providing vertical data and business solutions that are similar to PT Portugal's corporate services and (2) SoHo customers, providing cost-effective data and business solutions for those working in small businesses or at home; and

*Wholesale and other services*, which primarily include wholesale telecommunications services, public pay telephones, the production and distribution of telephone directories and other services in Portugal.

The following table sets forth the total number of retail lines (or accesses), net retail additions and other information for the Portuguese operations of PT Portugal as of the dates and for the periods indicated.

<b>As of and For the Year Ended</b>		
<b>December 31,</b>		
<b>2014</b>	<b>2013</b>	<b>2012</b>

<b>Fixed retail accesses (thousands):</b>			
PSTN/ISDN(1)	2,475	2,549	2,604
Broadband customers	1,373	1,294	1,225
Pay-TV customers	1,412	1,315	1,223
<b>Total fixed retail accesses</b>	<b>5,261</b>	<b>5,158</b>	<b>5,052</b>
<b>Mobile customers (thousands):</b>			
Post-paid	3,888	2,925	2,469
Pre-paid	4,101	4,971	5,129
<b>Total mobile customers</b>	<b>7,989</b>	<b>7,896</b>	<b>7,598</b>

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<b>Net additions (thousands):</b>			
Fixed retail accesses:			
PSTN/ISDN	(74)	(55)	(43)
Broadband customers	79	69	119
Pay-TV customers	98	91	181
Total fixed retail accesses	103	105	257
Mobile customers:			
Post-paid	963	456	91
Pre-paid	(870)	(158)	63
Total mobile customers	93	298	154

- (1) The public switched telephone network, or PSTN, is the traditional telephone system that runs through copper lines. The integrated digital services network, or ISDN, is the digital telecommunications network that allows simultaneous voice and data transmission over an access line.

**Services in Portugal**

PT Portugal provides services in Portugal in the following customer categories: residential services, personal services, enterprise services and wholesale and other services as described below.

**Residential Services**

PT Portugal's residential customer category in Portugal includes the provision of fixed-line telephone and broadband services, Pay-TV services (IPTV over ADSL and fiber, and DTH satellite TV) services and internet access services to residential customers. The table below sets forth the total number of retail lines (or accesses), net additions and other information as of the dates and for the periods indicated.

	<b>As of and For the Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Fixed retail accesses (thousands):</b>			
PSTN/ISDN	1,627	1,646	1,692
Broadband customers	1,095	1,027	1,015
Pay-TV customers	1,231	1,157	1,135
Total fixed retail accesses	3,953	3,830	3,841
<b>Net additions (thousands):</b>			
PSTN/ISDN	(19)	(22)	18
Broadband customers	69	29	104
Pay-TV customers	73	43	162
Total net additions	123	50	284
<b>Other data:</b>			

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Unique customers	1,766	1,818	1,881
Retail RGU per PSTN/ISDN line	2.43	2.33	2.27
Average Revenue Per User ( ARPU ) (in Euros)(1)	32.2	31.6	31.6
Retail traffic (millions of minutes)	2,363	2,748	2,935
Non-voice revenues as percentage of revenues	68.7	65.7	63.4

(1) ARPU is calculated based on the total revenue for the year divided by the monthly average customer base for the year divided by 12.

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*Components of Revenue.* PT Portugal's revenues from residential customers of its operations in Portugal are derived from the following components:

*Service revenues*, which are the revenues PT Portugal generates from providing fixed telephone services, broadband internet access and Pay-TV services. These revenues generally consist of:

*Fixed charges*, including network access charges based on a monthly line rental and an initial installation fee, as well as, in most cases, a monthly fee from pricing packages, which can include broadband and Pay-TV services; and

*Traffic*, including charges for the use of PT Portugal's fixed line network based on rates dependent on the amount and type of usage.

*Sales and other revenues*, which are revenues from the sale of telephone, broadband and Pay-TV equipment and other revenues, such as sales commissions.

*Fixed Line Services.* PT Portugal had approximately 3,953 million fixed retail accesses in service in Portugal as of December 31, 2014, excluding external supplementary lines, direct extensions and active multiple numbers. Fixed retail accesses in service include:

traffic-generating lines held by subscribing customers;

carrier pre-selection lines, which are lines of competitors for which those customers have elected to use PT Portugal's services;

fixed broadband retail lines; and

IPTV, FTTH and DTH customers using PT Portugal's *Meo* Pay-TV services.

Over the last decade, total traffic on PT Portugal's fixed line network has declined, primarily because consumers have increasingly used mobile services instead of fixed line services and because of the migration of dial-up internet users to ADSL. As of December 31, 2014, the number of active mobile cards (the mobile equivalent of main lines) in Portugal exceeds the number of fixed line main lines. PT Portugal has responded to this trend by encouraging the use of its fixed line network for bundled services, including triple-play packages that include fixed telephone services, broadband internet access and Pay-TV services.

PT Portugal is required to provide carrier selection to its customers for all types of traffic. See Telecommunications Regulation Regulation of the Portuguese Telecommunications Industry Generally Applicable Regulations Number Portability and Carrier Selection. Carrier selection has been an additional factor that has contributed to the reduction in traffic on PT Portugal's fixed-line network.

*Bundled Services.* In January 2013, PT Portugal announced the launch of a quadruple-play offer of converged fixed-mobile services, including TV, internet, fixed telephone and mobile telephone services under the brand *M<sub>4</sub>O*. PT Portugal designed this product after careful study of recent trends in the Portuguese market, which revealed rising consumer preference for quadruple-play services all reflected on the same bill, a desire to include the entire family in a single plan, and the importance of high-quality connectivity to the internet. *M<sub>4</sub>O* offers 120 TV channels, 100 Mbps broadband speed, unlimited calls and two to four mobile SIM cards, including free of charge calls and text messages to all wireline and wireless networks, using PT Portugal's 3G and 4G networks.

*Pay-TV Services.* PT Portugal's Pay-TV strategy is based on a multiplatform concept that aims to provide similar content and user experiences across television, PCs and mobile phones. *Meo* is PT Portugal's TV brand across the various platforms, primarily at home (through IPTV and satellite), through mobile telephones (through *Meo Go! Mobile*), or through personal computers (through *Meo Go!*, a service that allows access to live TV channels on PCs, tablets and smartphones). *Meo* provides access to a comprehensive content offering, with more than 160 TV channels and thousands of video-on-demand titles. PT Portugal offers tiered packages of channels, as

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well as on-demand availability that can be subscribed for, in real time, directly through the TV set. *Meo* also provides access to advanced features, such as digital recording and pause live-TV. The set-top boxes in the *Meo* service are all HD-compliant, using MPEG4. PT Portugal was the first operator in Portugal to introduce HDTV and has the most extensive video-on-demand offer in the market. As of December 31, 2014, *Meo* had approximately 1.2 million Pay-TV customers and a 42.2% share of the Pay-TV market, according to ANACOM.

*Meo* also offers advanced interactive applications accessed through the remote control and covering multiple categories, such as:

News, including a personalized newscast application, developed in partnership with RTP, the state-owned free-to-air channel, and the *Sapo Kiosk* application featuring the daily covers of all local and several international newspapers and magazines;

Sports, including a soccer application, a surf application and specific sports channel applications, such as the *BenficaTV* application and the *SportTV* application;

Music, including *MusicBox*, a multiscreen music streaming service, *Meo Radios*, a radio streaming application, and *Meo Karaoke*, an application that offers *Meo* customers the ability to subscribe and sing from a wide catalog of local and international hits;

Kids, including a comprehensive children's portal where children can access video-on-demand content, music clips, karaoke, games and tailored educational content;

Convenience, including applications for weather, traffic and pharmacies; and

Personal content, including an online photo storage application.

In 2012, *Meo* launched eight new applications of this type, including *Sapo Voucher*, the first interactive TV application allowing financial transactions and interactions with TV advertisements.

In the first quarter of 2013, PT Portugal added a new exclusive channel, *Correio da Manhã TV*, in partnership with Cofina, the owner of several newspapers and magazines in Portugal, including *Correio da Manhã*. This channel is available on several screens, including PCs, smartphones and tablets, through the *Meo GO!* service. *Meo*'s content offering also includes interactivity based on anchor programs (e.g., *Idols*, *Secret Story*, *Biggest Loser*). PT Portugal continues to focus on the intensification of partnerships with content providers, on two-way collaborations to improve content quality, and on the renegotiation of existing content deals aimed at further adapting the content cost structure to the current environment and thereby generating savings in content costs.

In line with its strategy for content differentiation through interactivity, PT Portugal launched two new red button interactive applications in the third quarter of 2013, linked to two popular TV programs in Portugal: (1) *X Factor*, developed in partnership with SIC, and (2) *I love it*, a youth TV series, developed in partnership with TVI. In late September 2013, PT Portugal launched an exclusive *Secret Story* channel airing live 24 hours a day from the *Secret*

Story house, leveraging the fourth edition of *Secret Story*, a reality show on TVI, with an interactive application that allowed customers to select the camera from which they wanted to follow contestants in the show and delivered exclusive content.

In January 2013, PT Portugal launched *Gravações Automáticas*, a recording feature that allows customers to record programs and access those recordings up to seven days after the programs were broadcast. PT Portugal also has developed new and innovative interactive solutions, such as *MEO Energy*, a service for monitoring home energy consumption, which includes rate recommendations based on a subscriber's actual consumption profile and suggestions on how to lower the subscriber's energy bill.

*Personal Services*



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PT Portugal provides telecommunications and mobile data services for a variety of personal devices, including traditional cell phones, smartphones, tablets and laptops. MEO is the leading provider of mobile voice, data and internet services in Portugal in terms of the number of active mobile cards connected to its network, as well as by revenues and margins, based on information from the other operators' releases. The following table sets forth the total number of mobile customers, net additions and other information as of the dates and for the periods indicated.

	<b>As of and For the Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Mobile customers (thousands):</b>			
Post-paid	2,394	1,570	1,093
Pre-paid	3,987	4,820	4,931
Total mobile customers	6,380	6,390	6,024
Mobile broadband customers (included in total)	1,023	886	947
<b>Net additions (thousands):</b>			
Post-paid	824	441	30
Pre-paid	(833)	(129)	62
Total mobile customers	(9)	312	92
Mobile broadband customers (included in total)	137	(73)	5
<b>Other data:</b>			
MOU(1) (minutes)	106	98	93
ARPU (in Euros)	7.1	7.6	8.7
Customer	6.5	7.1	8.0
Interconnection	0.6	0.5	0.7
SARC(2) (Euro)	23.8	24.6	27.9
Data as percentage of service revenues	39.1	35.8	33.2

(1) Minutes of Usage, or MOU, represents the monthly average of outgoing traffic in minutes divided by the average number of users in the period.

(2) Subscriber Acquisition and Retention Cost, or SARC, equals (i) the sum of 70% of marketing and publicity costs *plus* commissions *plus* subsidies, divided by (ii) gross additions *plus* upgrades.

*Components of Revenue.* PT Portugal's revenues from personal services of its operations in Portugal are derived from the following components:

*Service revenues*, which are the revenues PT Portugal generates from providing mobile voice telecommunications services, mobile broadband access and other mobile services. These service revenues consist of:

*Customer revenues*, which are revenues PT Portugal receives directly from its customers and consist primarily of traffic charges, subscription and usage charges; and

*Interconnection revenues*, which are the revenues PT Portugal receives from other telecommunications providers when their customers make calls or otherwise connect to PT Portugal's network from fixed lines or mobile devices.

*Sales and other revenues*, which are revenues from the sale of mobile phones and related equipment. We believe that mobile services in Portugal are priced lower than the European average and are among the lowest in Europe. Fixed-to-mobile and mobile-to-mobile interconnection charges are regulated by ANACOM and have a significant impact on PT Portugal's business. ANACOM has determined that all mobile operators have significant market power in call termination in the mobile networks market and has imposed price controls on

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interconnection rates for the termination of calls on mobile networks. ANACOM has issued successive decisions that have reduced mobile termination rates over time. Most recently, ANACOM issued a final decision in March 2012 that reduced mobile termination rates to 0.0127 as of December 31, 2012. These reductions have had, and are expected to continue to have, a significant impact on PT Portugal's interconnection revenues and consequently its cash flows and earnings.

*Mobile Services.* PT Portugal's products and services in the Personal Services category include:

a variety of voice and data tariff plans, both pre-paid and post-paid. Its post-paid tariff plans are designed to integrate unlimited voice and data plans targeted at high-value customers and its pre-paid tariff plans are designed to discourage migration to low-value tariff plans by offering additional voice and data services;

a portfolio of approximately 50 smartphones, including exclusive handsets, with the capability to use an array of value-added and convergent services (mobile TV, music on demand, navigation application, social network aggregator, cloud storage, etc.); and

mobile broadband offers with speeds of up to 150Mbps using 4G technology and offering free access to PT Portugal's national Wi-Fi network.

As of December 31, 2014, approximately 62% of PT Portugal's personal services subscribers were using pre-paid tariff plans.

In early 2012, PT Portugal launched a multi-SIM offer that can be used both in 3G and 4G tariff plans. This multi-SIM offer allows both MEO mobile broadband and smartphone users to share their data tariff allowance with more than one device.

PT Portugal launched a 4G offering in 2012, and it continuously invests in new services. PT Portugal markets its 4G mobile broadband services through MEO's *4G* and *Meo 4G* brands. PT Portugal's 4G offerings currently:

range in speed from 50Mbps to 150Mbps;

allow customers that are also *Meo* customers access to more than 60 live TV channels through the *Meo Go* service;

include a music streaming service through *Meo Music*, a multiplatform music streaming service, providing access to a catalog of millions of music tracks;

include *Multi-SIM*, for sharing of traffic among various devices, including PCs, through wireless dongles, tablets and smartphones; and

include *Meo Drive*, a navigation application available in iOS and Android Marketplaces.

PT Portugal's 4G services are offered at monthly retail prices starting 34.99 (with discounts for early subscribers under a month loyalty program).

In January 2013, following the launch of the *M4O* quadruple-play offering, MEO repositioned its post-paid voice and data tariff plans. In the post-paid category, unlimited plans now have four price points, or sizes:

the *unlimited S*, for 15.90 per month, which offers 600 MB of mobile internet, unlimited Wi-Fi access plus 100 minutes or SMS on all other networks;

the *unlimited M*, for 29.90 per month, which offers 1GB of mobile internet, unlimited Wi-Fi access plus unlimited voice and SMS, and 120 minutes or SMS on all other networks;

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the *unlimited L*, for 39.90 per month, which offers 1GB of mobile internet and unlimited Wi-Fi plus unlimited voice and SMS on all other networks; and

the *unlimited XL*, for 69.90 per month, which offers 5GB of mobile internet and unlimited Wi-Fi access plus unlimited voice and SMS.

All of these plans include *Meo Music*, which is otherwise priced at 4.99 or 6.99 per month, depending on whether the subscriber is an existing MEO customer.

In the pre-paid market, MEO extended the all-day version of its *e nunca mais acaba* tariff plan to include (1) unlimited all-day voice and SMS for the MEO network and fixed networks, and (2) the ability to apply the equivalent of 20.00 monthly toward voice minutes and SMS on other mobile networks. This tariff plan also includes unlimited in-network video calls and can be configured with a 500 MB mobile internet option for 25.00 per month. MEO also extended its *Moche* tariff plans, for customers younger than 25 years of age, to include 1GB of mobile internet in the case of the monthly fee, and if the customer recharges the card with at least 11.00. The *Moche* tariff plans also include SMS options for use on other mobile networks. These changes in MEO's tariff structure were in response to price movements in the market and were aimed at maintaining MEO's competitive position in the market.

In addition, through roaming agreements, PT Portugal's subscribers can make and receive mobile calls throughout Europe and in many other countries around the world. Roaming agreements between operators allow their subscribers to make and receive voice calls automatically, send and receive data, or access other services when traveling outside the geographical coverage area of the home network, by using the networks of other operators abroad. As of December 31, 2014, PT Portugal had entered into 2G roaming agreements with a total of 501 operators in 223 countries.

*Enterprise Services*

PT Portugal provides enterprise services to corporate, SMEs and SoHo customers in Portugal that need diversified telecommunications solutions and integration with IT services. PT Portugal has developed a full range of telecommunications services for businesses, and it integrates these services to provide its customers with service packages. By combining PT Portugal's communications capabilities with its software-based integrated systems and applications, PT Portugal offers integrated voice, data and image solutions, virtual private networks, convergence solutions, consultancy and outsourcing. We believe that PT Portugal is the primary service provider in Portugal capable of offering customers a full range of integrated and customized services. The following table below sets forth the total number of retail lines (or accesses), net retail additions and other information as of the dates and for the periods indicated.

	<b>As of and For the Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Fixed retail accesses (in thousands):</b>			
PSTN/ISDN	679	720	725
Broadband customers	275	264	207
Pay-TV customers	179	155	86
<b>Total fixed retail accesses</b>	<b>1,133</b>	<b>1,139</b>	<b>1,019</b>

<b>Mobile customers (in thousands)</b>	1,542	1,457	1,514
<b>Net additions (thousands):</b>			
Fixed retail accesses:			
PSTN/ISDN	(41)	(28)	(101)
Broadband customers	11	40	15
Pay-TV customers	24	48	18

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	As of and For the Year Ended		
	December 31,		
	2014	2013	2012
Total fixed retail accesses	(6)	60	(68)
Mobile customers	85	(4)	69
<b>Other data:</b>			
Retail RGU per access	1.67	1.58	1.41
ARPU (in Euros)	20.2	21.8	23.8
Non-voice revenues as percentage of revenues	59.1	55.0	50.3

*Components of Revenue.* PT Portugal's revenues from enterprise services of its operations in Portugal include the following components:

traffic charges for voice and data services;

outsourcing or management services and fees for BPO services; and

consultancy fees.

*Enterprise Services.* PT Portugal's enterprise services include:

*Network and voice services*, which include fixed voice services, fixed and mobile convergence services, broadband data services, Ethernet services, digital leased lines and VSAT services, business high band fiber-based internet, VPN accesses and applications, and global services for multinational customers.

*IT services*, which include data center services (such as housing and hosting), cloud based solutions (primarily public and private virtual servers, remote backup and storage, hosted e-mail and web hosting), security managed services based on a security operations center, business continuity services and disaster recovery, IT infrastructure outsourcing and IT and security consultancy.

*Business solutions and applications*, which include unified communications, IP Centrex and voice servers, digital signage Corporate TV, messaging and interaction solutions, business video communications and telepresence solutions, machine-to-machine managed connectivity and vertical end-to-end solutions, BPO services, vertical solutions for special business market customer categories (such as health care and the public sector), special bundling services for SMEs using the *Office Box* brand name, and outsourcing. PT Portugal provides these services to its enterprise customers using three customer categories:

*Residential+* customers, served with an offering based on the convergence of voice and broadband services;

*Connected+* customers, served mainly with multi-employee connectivity services, including mobility solutions for traveling employees, and simple software solutions; and

*Integrated+* customers, served with a full range of telecommunications and technological services, such as unified communications, outsourcing of ICT services, application integration, machine-to-machine and specific IT/IS solutions, BPO services and IT consultancy.

The provision of services to PT Portugal's corporate customers is guided by the following strategic objectives:

maximize value from traditional telecommunications services by upselling additional services, including fixed-mobile convergence on FTTH, VPN, LAN management and video services;



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accelerate IT transformation through cloud computing, by building upon partnerships with key suppliers to enable business process transformation and cost reductions to its corporate customers, with a special focus on system on a chip, or SOC, based security solutions;

capture mobile data growth through 4G solutions and new machine-to-machine projects;

use specialization to achieve gains from scale, including by focusing on outsourcing and BPO services to improve productivity; and

introduce a business consulting approach in order to extend the services provided to corporations to video, multiscreen and other convergent services.

As part of its enterprise services, PT Portugal provides a broad offer of integrated and vertical solutions. PT Portugal continues to market its *Office Box* product for SMEs, which allows integrated solutions with one bill and on a pay-per-employee basis bundling voice and data communication services: (1) connectivity: mobile and fixed voice and broadband, (2) devices: PCs, phones and mobile phones, routers and switches, and (3) mobility: cloud solutions including customized domains, e-mail accounts, hosting sites and optional software. PT Portugal provides vertical solutions through its *Office Box* product which includes tailored software systems for health clinics, restaurants and hotels, including access to an online marketing and booking system and a full suite of hotel-management software. For large corporations, PT Portugal provides: (1) integrated solutions, bundling customized connectivity and IT services with dedicated account managers, and (2) unified communications integrated services without requiring capital expenditures on a pay-per-employee basis, including a flat voice rate, customer equipment and a full set of collaboration functionalities. PT Portugal's secure and innovative cloud offering provides a broad portfolio of services, including (1) web services, such as webhosting, instant website, database hosting and e-mail relay, (2) security services, comprising e-mail security, remote backup, video surveillance and clean pipes, and (3) IT resources, including remote desktop, public and private servers, SAP HANA and virtual drives. PT Portugal has developed this end-to-end offering with strategic partnerships that enable PT Portugal to leverage its technological skills and integration capacity in key markets in Portugal and Africa.

PT Portugal provides IT and BPO services for corporate customers through PT Sistemas de Informação, S.A., or PT SI, which provides an integrated ICT service and IT/IS outsourcing capabilities, and PT Pro, Serviços Administrativos e de Gestão Partilhados, S.A., or PT Pro, which provides BPO and shared services. See Shared Services Companies.

PT Portugal has a strong and competitive position in the development of information technology solutions where communications are an integral part of the services provided. To reinforce PT Portugal's position as a leader in this area, it is pursuing a partnership strategy with the primary information technology suppliers in the market, particularly software and hardware providers.

PT Portugal offers services in partnership with leading operators and service providers such as Telefónica, British Telecom and Orange. PT Portugal uses systems and networks in partnership with Nokia Solutions and Networks Portugal, Alcatel-Lucent, Ericsson, Huawei, Cisco Systems, Nortel Networks, Critical Software, Microsoft and SAP, among others.

In 2012, PT Portugal pursued partnerships with Microsoft and SAP, and in 2013 with Ericsson, towards developing, implementing and continuously launching new services in PT Portugal's cloud computing offer, *SmartCloudPT*, which is intended to help companies adopt more efficient business models by reducing costs related to information

technology

*Wholesale and Other Services*

In addition to the services PT Portugal provides in Portugal in its primary customer categories of residential services, personal services and enterprise services, it provides wholesale services and generates a small amount of revenue from other activities, such as the production and distribution of telephone directories. PT Portugal's wholesale services consist of:

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domestic and international interconnection telephone services that PT Portugal provides to other telecommunications services providers in Portugal;

provision of carrier pre-selection and number portability;

leasing of domestic and international lines to other telecommunications services providers and operators;

provision of ADSL (including naked DSL) on a wholesale basis to other ISPs;

provision of unbundled access (including shared access) to metallic loops and sub-loops to provide broadband and voice services to other telecommunications operators in Portugal;

provision of wholesale line rental to other telecommunications services providers in Portugal;

provision of co-location services and access to ducts, poles and associated facilities to other telecommunications operators in Portugal;

transmission of television and radio signals for major broadcast television companies in Portugal;

narrowband internet access origination services, which PT Portugal provides to ISPs;

international carrier services (transport, transit and/or termination) for international switched traffic; and

other services provided to telecommunications services providers and operators, such as IP international connectivity.

PT Portugal also provides public pay telephone services, advertising on [www.sapo.pt](http://www.sapo.pt), its internet portal, and rentals of equipment and other infrastructure. We describe some of PT Portugal's wholesale services below.

*Interconnection Traffic.* The service providers who purchase interconnection services from PT Portugal include fixed and mobile network operators, voice and data communications service providers, ISPs, value-added service providers and service providers whose international calls are terminated on or carried by PT Portugal's network. Providing interconnection services means allowing third parties to connect their networks to PT Portugal's network, and vice versa. PT Portugal has interconnection rates primarily for call termination, call origination, transits and international interconnection. In accordance with EU and Portuguese regulations, PT Portugal's national interconnection prices are cost-oriented applying a pure BU-LRIC cost model for call termination.

*Leased Lines.* PT Portugal leases lines to other telecommunications providers for fixed, mobile and data communications services, including its own subsidiaries and competitors. Leased line services involve making a

permanent point-to-point connection with dedicated and transparent capacity between two geographically separate points. PT Portugal offers both national terminating segments and trunk segments at the wholesale level. PT Portugal also leases international circuits to national and international operators to allow them to complete their circuits (often circuits that pass through Portugal linking other countries), and it sells segments of international circuits to international operators. The three current mobile telephone operators in Portugal, which include PT Portugal's subsidiary MEO, Vodafone Portugal and ZON Optimus, are among its wireline business's largest leased line customers.

*Digital Terrestrial Television Services.* In 2008, pursuant to the EC's proposal to cease analog transmissions in all member states by 2012, ANACOM launched a public tender to grant the rights of use of frequencies allocated to the transmission of digital terrestrial television, or DTT, signals. Following a public tender launched by ANACOM in 2008, PT Comunicações was granted the frequency usage rights for DTT associated with the transmission of the signal for free-to-air television programs (the RTP, SIC and TVI broadcast channels), the so-called Multiplex A or Mux A. In 2009, the Portuguese media regulatory authority (*Entidade Reguladora para a Comunicação Social*), or the ERC, notified PT Portugal of its final decision to grant PT Portugal a license to act as a TV distribution

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operator. Although ANACOM has revoked the rights of use of the frequencies which are necessary to use this license, the license remains valid.

PT Portugal launched DTT (using DVB-T, or terrestrial signals) in 2009, initially covering 29 municipalities and more than 40% of the population. By the end of 2011, PT Portugal achieved 100% coverage of the Portuguese population (approximately 90% using DVB-T and 10% using DVB-H (satellite)). The switch-off of the analog television network in Portugal occurred on April 26, 2012.

DTT only encompasses broadcasting of free-to-air television programs, while PT Portugal's *Meo* offer comprises both free-to-air television programs, as well as Pay-TV channels, provided over FTTH, ADSL and DTH technologies.

### ***Marketing in Portugal***

#### ***Residential Services***

In the third quarter of 2013, PT Portugal aired a new campaign, *Mundo Meo*, to strengthen its market position as an innovative brand in the Pay-TV market. This campaign describes *Meo*'s key differentiating features: (1) *Meo Kanal*, an application that allows users to produce, edit and share multimedia user content on television with other *Meo* customers; (2) *Meo Karaoke*; (3) PVR-experience; (4) interactive apps, and (5) *Meo Music* (formerly Music Box), a music streaming service. In September 2013, *Meo* was named by *Meios e Publicidade*, an independent Portuguese specialized magazine, as the brand of the year.

#### ***Personal Services***

In 2013, PT Portugal divided the marketing strategy for its personal segment into two key brands. PT Portugal expects to use *Meo*, the primary and pre-existing brand, and a leading brand in mobile telecommunications in Portugal, to serve the broader market and to focus on the growth of its post-paid base through dedicated tariff plans and attractive pricing policies in smartphones. PT Portugal markets personal services through more than 2,100 points of sale, including its sales force, retail shops, supermarket chains and independent dealers.

In January 2014, as part of its convergence strategy and building on the 2013 launch of M<sub>4</sub>O, PT Portugal announced that all services rendered by MEO would be provided under the *Meo* brand.

PT Portugal developed *Moche*, its new youth brand, to encourage a broad-based use of mobile internet. *Moche* is supported by its brand positioning and values and is tailored to the target youth demographic.

PT Portugal also has a low-cost brand, *Uzo*, that targets low-cost subscribers and uses PT Portugal's 2G network. *Uzo* focuses primarily on selling SIM cards and low-cost mobile phones to its customers. *Uzo* is offered through the internet, *Uzo* call centers (which are separate from MEO's call centers) and independent news stands and shops located throughout Portugal.

### ***Networks in Portugal***

PT Portugal's networks in Portugal are comprised of physical and logical infrastructures through which we provide fully-integrated services, whether fixed-line or mobile, voice, data or image, thereby optimizing available resources.

#### ***Fixed Network***

PT Portugal's FTTH network covers 1.6 million homes in Portugal. In July 2014, PT Portugal entered into an agreement to deploy, exchange capacity and share its fibre network with Vodafone Portugal. This agreement includes sharing of dark fibre in approximately 900 thousand homes, in which each party shares approximately 450 thousand homes, which commenced in December 2014. PT Portugal's network, which is developed in urban areas,

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is a strategic investment to improve its competitiveness among residential customers, where it can offer distinctive Pay-TV and bundled offers.

*Mobile Network*

PT Portugal provides mobile telephone services using the GSM, or 2G, Universal Mobile Telecommunications System, or 3G, and Long-Term Evolution, or 4G, technologies. Within PT Portugal's 2G offering, it provides services in the 900 MHz and 1800 MHz band spectrums. At launch in March 2012, PT Portugal's 4G service was available to 20% of the Portuguese population and as of December 31, 2014, the coverage area has been expanded to reach 93% of the Portuguese population.

*IP Networks*

PT Portugal provides services over the largest IP/MPLS backbone in Portugal. PT Portugal has points of presence in all major cities throughout Portugal, and PT Portugal links its network to its customers' premises through switches and access points that it owns. This broadband data transmission network provides high capacity, flexibility and security and can progressively incorporate current voice and data infrastructures at lower costs than alternative networks. PT Portugal also provides high speed internet access through ADSL and Ethernet.

*Data Center Network*

Following the opening of PT Portugal's Tier 3 top-European level data center in Covilhã in central Portugal in September 2013, PT Portugal's data center network consists of seven data centers located in Lisbon, Oporto, the Azores, Madeira and Covilhã. The data center in Covilhã provides the base infrastructure for offering solutions that will serve the needs of national and international individuals and businesses. Against the backdrop of growth in global data usage, PT Portugal believes the Covilhã data center provides PT Portugal with the technological means to respond to customer demands for coverage, speed, reliability and security.

The Covilhã data center occupies a total area of 75,500 square meters and increases PT Portugal's total IT room space from 14,000 square meters to 26,000 square meters, the number of servers from 6,000 to 56,000, and capacity storage from three Pbytes to 33 Pbytes. This data center is connected to PT Portugal's backbone network (100 Gbps), enabling the export of data storage capacity and technological services abroad. The first block was inaugurated with six IT rooms of 520 square meters each and a PUE (power usage effectiveness) of 1.25. This new infrastructure will allow PT Portugal to further take advantage of the cloud services business opportunity. Cloud services are considered to be an attractive growth point in the telecommunications industry.

*Suppliers in Portugal*

In 2013, PT Portugal obtained telephones and equipment for its fixed line voice, broadband and Pay-TV services from several suppliers, including Novabase, Alcatel-Lucent and Motorola. PT Portugal obtains television content, including premium channels, from several national and international suppliers. PT Portugal does not manufacture handsets, but it has agreements with a number of manufacturers to sell handsets in Portugal, including Nokia, Samsung, ZTE, Huawei, Apple, Sony, LG and RIM.

*Competition in Portugal*

The Portuguese telecommunications market has been characterized by a broad trend towards consolidation in the past several years. In November 2008, ZON acquired several regional cable TV companies and acquired the residential

business of AR Telecom in March 2012, before merging with Optimus, the third-largest mobile operator, in August 2013 to create ZON Optimus. In 2012, Altice consolidated its stake of Cabovisão, a regional residential Pay-TV operator, with Oni, a telecom company mostly focused on serving enterprise and corporate customers, to form Cabovisão/Oni Telecom.

*Residential Services*



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We face heavy competition from various telecommunications operators in the residential services market. Our primary competitors include NOS, Vodafone Portugal (a Vodafone Group subsidiary), Cabovisão/Oni Telecom (100% owned by Altice, a European private equity group that owns Numericable, the leading cable operator in France), AR Telecom and Colt.

As of December 31, 2014, Portugal had a penetration of 44.0 per 100 inhabitants in the fixed voice market according to ANACOM, and PT Portugal held an estimated 54.1% market share of access lines.

As of December 31, 2014, fixed broadband internet reached 2,710 thousand subscribers in Portugal, with market penetration of 27.1 per 100 inhabitants, according to ANACOM data, and PT Portugal had a 48.5% market share.

As of December 31, 2014, Pay-TV reached 3,350 thousand subscribers in Portugal, with market penetration of 53.7% of Portuguese households, according to ANACOM data, and PT Portugal had a market share of 42.2%. NOS was the market leader with a 44.0% market share, followed by Vodafone with a 7.5% market share, and Cabovisão/Oni Telecom Vodafone with a 6.2% market share. The remaining competitors did not have significant market shares.

Although the Portuguese regulatory regime requires that carrier pre-selection is offered in the fixed voice market, the fixed voice market in Portugal is primarily a direct access market as a result of the focus of operators on direct access commercial offers that place a strong emphasis on customer migration from pre-selection configurations. As of December 31, 2014, there were approximately 87 thousand customers in pre-selection according to ANACOM, the lowest number since 2001.

PT Portugal's fixed services face strong competition from both fixed line operators and mobile operators. Currently, all mobile network operators offer residential services supported by mobile networks that are a direct alternative to PT Portugal's fixed line telephone services, competing for the same customers. In addition, all mobile network operators have launched low-cost brands that are designed to reach the lower-end segment of the mobile market and have had an adverse effect on the number of subscribers to fixed line retail service.

A major trend in the Portuguese telecommunications market in recent years has been the launch of bundled offers with a strong focus on triple-play services. This strategy has been followed by several telecommunications operators, including PT Portugal (through its *Meo* brand), ZON Optimus, Cabovisão/Oni Telecom and Vodafone Portugal. Among these companies, both PT Portugal and ZON Optimus have a strong triple-play customer base (as of December 31, 2014, PT Portugal had 951 thousand triple-play subscribers). As of December 31, 2014, 53.8% of our fixed line customers have triple-play services. We compete in terms of content and price through the launch of bundled offers combining several services.

The merger of ZON and Optimus increased the focus on bundled offers and the evolution from triple-play to quadruple-play services as ZON Optimus leveraged its new position as an integrated telecommunications operator by launching ZON4i in October 2013. This quadruple-play service competes with PT Portugal's *M<sub>4</sub>O* service, which was launched in January 2013. PT Portugal has since then launched *M<sub>4</sub>O* for satellite TV customers (adding to fiber and xDSL launch offers) and *M<sub>3</sub>O* (a triple play bundle offer with television, fixed voice and mobile voice). All operators are leveraging new convergent fixed-mobile offers to reduce churn and secure their market shares in both the residential and personal services markets.

ZON Optimus and Cabovisão/Oni Telecom have leveraged their coaxial cable networks to upgrade to the DOCSIS 3.0 standard. Vodafone Portugal has based its offers mainly on IPTV, relying on PT Portugal's wholesale offer (ULL) and on its own FTTH network, covering 1.4 million homes in Portugal as of December 31, 2014. ZON Optimus is obligated to provide Vodafone Portugal with access to its fiber network as part of a remedy imposed by the

Portuguese Competition Authority after the merger of ZON and Optimus.

Recently, operators have been offering unlimited voice communications to all national and up to 50 international fixed destinations, whenever the fixed voice service is purchased as part of a fixed service bundle. This competitive movement aimed to respond to the eroding revenues from international telephone service due to (1)

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falling international call prices, (2) extensive usage of leased lines by large users through which they connect to networks outside Portugal, (3) aggressive competition from calling cards, (4) rerouting of calls by other international operators, and (5) VoIP, which increasingly enables communications at lower prices than traditional public switched telephone networks. These factors have resulted in significant pressure on PT Portugal to reduce international fixed line telephone tariffs.

### *Personal Services*

In the mobile market, MEO competes with Vodafone Portugal and ZON Optimus, the two other mobile network operators licensed to provide mobile telephone services in Portugal. In 2007, CTT, the Portuguese postal company, launched Phone-ix, an MVNO (Mobile Virtual Network Operator) supported by MEO's network. In 2012, an international MVNO, Lycamobile, was launched in Portugal, supported on Vodafone's network, focusing on offering low-cost international voice and data services targeting a niche market mainly composed of immigrant communities. In early 2013, Vectone, another low-cost MVNO targeting ethnic minorities, was launched, hosted by ZON Optimus network. As of December 31, 2014, none of these MVNOs has been able to gain relevant market share. In 2013, Cabovisão/Oni Telecom announced that it intended to enter the mobile telephone services by late 2013, in order to compete with PT Portugal's and ZON Optimus quadruple-play offers, and that it was engaging in negotiations with the three mobile network operators to obtain the necessary access to infrastructure. As of the date of this annual report, Cabovisão/Oni Telecom has not launched its MVNO operation.

As of December 31, 2014, there were approximately 160.5 active mobile cards per 100 inhabitants in Portugal according to ANACOM data, making Portugal one of the European countries with the highest adoption rate of mobile services. We believe that this level of penetration derives from a dynamic market, mostly based on pre-paid services, where operators are focused on providing an extended product portfolio in order to address an extensive range of communication needs for their customers.

As of December 31, 2014, MEO had a 47.3% market share in terms of active mobile cards in the Portuguese market, according to ANACOM data. As of December 31, 2014, there were 669 thousand customers using dongles/modems to receive mobile broadband service, according to ANACOM data.

In the mobile broadband market, the competitive landscape has been challenging. Both in 3G and 4G tariff plans, Vodafone Portugal and ZON Optimus have promoted their services aggressively through pricing campaigns under which they decrease the monthly fee during a certain period, as well as subsidize USB dongles.

All mobile operators launched 4G commercial offers in early 2012, both in the form of smartphones and dongles, and they have been marketing them aggressively. Operators have also been focusing on extending 4G network coverage as quickly as possible.

Market share leadership is and will continue to be MEO's priority, as its main mobile competitors, Vodafone Portugal and ZON Optimus, are expected to continue to market their services aggressively.

A major trend in the Portuguese mobile telecommunications market in recent years has been the launch of aggressive on-net differentiated pricing plans, known as tribal plans, led by Optimus (with Tag) and followed by MEO (with Moche) and Vodafone Portugal (with Extreme and Extravaganza). These tribal plans, targeting the youth segment through strong marketing campaigns, reached beyond this segment and became mass market plans with a strong relative presence in the personal mobile market.

In addition to the tribal plans, some post-paid, on-net oriented bundles of voice+internet were launched by MEO (with *tmn unlimited*), Optimus (with Smart ) and Vodafone Portugal (with Best ). The focus on on-net oriented flat rate plans and bundles of voice+internet, which offer unlimited on-net voice calls, led to an increase in minutes of usage and an erosion of average revenue per minute.

In early 2011 MEO expanded its pricing plan portfolio with the launch of *e nunca mais acaba*, a pre-paid flat-fee, on-net pricing plan that expands the tribal plan concept to all MEO customers; this concept was later followed by Vodafone (with Vita 0 ) and Optimus (with Zero ).

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In April 2012, MEO launched a tribal plan, *moche sub-25*, specifically designed for the youth segment, restricting new additions to those able to prove they are 25 years old or younger. This under-25 tribal plan has a different monthly fee and includes additional services that are appealing to this segment, such as music streaming, unlimited all-net SMS and an internet data allowance. The introduction of this plan was countered by Optimus with the launch of TAG sub-25. Vodafone Portugal chose not to launch an under-25 tribal plan, decreasing instead the monthly fee and adding internet data allowance to its mass market tribal plans. MEO and Optimus followed Vodafone Portugal's lead in their mass market tribal plans.

Mobile operators are also undertaking aggressive marketing efforts, often offering a subscription fee that allows access to cheaper communications during a limited period. Aggressive pricing structures and campaigns have stimulated usage at the expense of eroding retail revenues. MEO has recently launched marketing campaigns focused on its under-25 tribal plan, using this tariff plan to better segment the market and target its efforts more efficiently.

Vodafone Portugal has access to substantial resources, cost synergies (*e.g.*, network and equipment costs) and best practices (*e.g.*, product development processes) to compete against MEO in the Portuguese mobile telephone market. In addition, by strengthening its position in the mobile business, these assets enable Vodafone Portugal to compete more directly and in fixed line services.

### *Enterprise Services*

PT Portugal faces significant competition from several operators in the enterprise services market, primarily ZON Optimus, Vodafone Portugal, Cabovisão/Oni Telecom, AR Telecom and Colt. These companies compete with PT Portugal in providing data communications, voice services and internet services to business customers. Customers tend to have large volumes of traffic and complex virtual private network services with data, voice and video integration.

PT Portugal's competitors may use satellite-based networks, public network operators' infrastructure, leased lines and their own infrastructure to provide telecommunications services to customers. These are all alternatives to PT Portugal's leased lines offer. As a result of competition, PT Portugal has reduced its prices for leased lines and is focusing on value-added solutions based on Internet Protocol Virtual Private Networks, or IP VPN.

In September 2013, PT Portugal launched a Tier 3 top-European level data center in Covilhã. PT Portugal intends to use its data centers to position itself ahead of its competition in cloud computing services, which we expect will be an additional source of revenue as well as a retention and loyalty tool in PT Portugal's data and corporate customer category.

### *Other Services*

PT Portugal faces competition in its wholesale services. Fixed and mobile operators, other than MEO, are establishing direct international interconnections with mobile or wireline operators outside Portugal, enabling them to offer international telephone services without using PT Portugal's network. This is decreasing wholesale revenues generated from connecting mobile operators in Portugal to operators abroad.

The interconnection business faces more direct competition as operators are focusing on installing and operating their own public wireline telephone networks in an effort to make direct access offers.

Some international operators are now providing wholesale services in Portugal, including international telephone services, network interconnection, data services, and broadband access to Portuguese ISPs.

*Shared Services Companies*

*PT Cloud*

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PT Cloud e Data Centers, S.A., or PT Cloud, is responsible for data centers, information systems and information technology activities of PT Portugal's business units in Portugal. PT Cloud provides cloud services, integrated information systems and information technology services to PT Portugal's business units in Portugal, as well as to PT Portugal's existing and new customers. We hold 100% of the share capital of PT Cloud.

### *PT Inovação e Sistemas*

PT Inovação e Sistemas, S.A., or PT Inovação e Sistemas, is responsible for research and development activities in Portugal. PT Portugal's research and development programs focus on intelligent networks, network management systems, advanced services and systems and network integration and have led to the introduction of innovative products and services. PT Inovação e Sistemas's activities have been a driving force behind the development of new products and services, telecommunications infrastructure and information systems.

### *PT Contact*

PT Contact – Telemarketing e Serviços de Informação, S.A., or PT Contact, is responsible for call center operations in Portugal. PT Contact takes advantage of economies of scale and process alignments to reduce costs in PT Portugal's call center operations.

### *PT Pro*

PT Pro aggregates all of PT Portugal's back-office activities in Portugal. PT Pro takes advantage of economies of scale and process alignments throughout PT Portugal's group to reduce costs in back-office activities.

## ***Authorizations and Licenses in Portugal***

### *PT Portugal's Fixed Line and Data Licenses*

PT Portugal holds the following licenses: (1) a non-exclusive license to provide fixed line telephone services; (2) a non-exclusive license to be a Public Telecommunications Networks operator; and (3) all the licenses formerly held by Telepac, S.A. including a data communications license. PT Portugal's data communications license authorizes it to provide X.25/X.32 synchronous services and X.28 asynchronous services and other switched and non-switched data communications services, including frame relay and virtual private networks for data communications. The license also authorizes PT Portugal to provide value-added services such as electronic data interchange and videotext services. In addition, the license authorizes PT Portugal to construct certain network infrastructure in connection with licensed services. Since 1997, PT Portugal has also held a license to provide data communications services using satellite infrastructure and a license to offer voice services to corporate networks and other closed groups of users.

### *MEO's Mobile Service License*

Through MEO, PT Portugal holds a renewable license to provide 2G digital mobile telephone services throughout Portugal. The authorization for the use of 2G radio spectrum is valid until March 16, 2022. PT Portugal is required to comply with a number of mobile telephone service criteria, including satisfying minimum quality standards regarding blocked call rates, network effectiveness and servicing time, and providing certain services. PT Portugal is also required to provide ANACOM with information about its mobile telephone operations, including the number of customers, number and average duration of calls on a quarterly basis, and annual information about the development of infrastructure.

In March 2012, ANACOM formally allocated to MEO rights to the following spectrum for 15 years following a multiband auction for the provision of electronic communications services based on 4G technology:

2 × 10 MHz in the 800 MHz band for a final price of 90.0 million;

2 × 14 MHz in the 1800 MHz band for a final price of 11.0 million; and



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2 × 20 MHz in the 2.6 GHz band for a final price of 12.0 million.

These rights are reflected in a license agreement that is valid until March 2027 and includes and supersedes the previous 2G and 3G licenses issued to MEO by ANACOM. MEO's existing license imposes certain requirements on MEO, including the following:

Mobile network obligations for 800 MHz: MEO must enter into agreements with mobile virtual network operators and national roaming agreements with operators with rights of use on frequencies greater than 1 GHz.

Coverage obligations for 800 MHz: For each lot of 2 × 5 MHz in the 800 MHz band, MEO must cover a maximum of 80 of the 480 municipal areas without adequate broadband coverage on the date of the 4G license.

*DTT Usage Rights*

PT Comunicações holds frequency usage rights for DTT associated with the transport of the signal of free-to-air television channels (the RTP, SIC and TVI broadcast channels), the so-called *Multiplex A* or *Mux A*. PT Comunicações fulfilled all of its obligations with respect to the usage grant and successfully concluded the channel update process. PT Comunicações is entitled to receive compensation or reimbursement, to be provided pursuant to a governmental ordinance, for the costs related to the channel update process. The switch-off of the analog television network in Portugal occurred in April 2012. Designed to ensure equal access to DTT, the DTT usage rights require PT Comunicações to subsidize the installation and purchase of DTT-related equipment for individuals with special needs (e.g., the elderly, low income groups, etc.).

*Properties in Portugal*

PT Portugal's principal properties consist of buildings and telecommunications installations. These include various sizes of exchanges, transmission equipment, cable networks, base stations for mobile networks, equipment for radio communications and a nationwide network of ducts. They are located throughout Portugal and internationally. PT Portugal and its subsidiaries own several office buildings in Portugal. PT Portugal's main proprietary office space with over 5,000 square meters is located at the following addresses:

Av. Fontes Pereira de Melo, 38/40, Lisboa, Portugal (68,994 square meters);

R. José Ferreira Pinto Basto, Aveiro, Portugal (11,668 square meters);

R. Tenente Valadim, 431/453, Porto, Portugal (23,300 square meters);

R. Afonso Costa, 4, Lisboa, Portugal (13,901 square meters);

R. General Humberto Delgado, 342/368, Coimbra, Portugal (13,380 square meters);

Largo do Carmo, Faro, Portugal (8,770 square meters);

R. Andrade Corvo, 10/14, Lisboa, Portugal (12,128 square meters);

R. Postiguiho Valadares, 12, Castelo Branco, Portugal (5,206 square meters);

Av. Carvalho Araújo, 629, Vila Real, Portugal (7,599 square meters);

Av. Infante D. Henrique/Praça Vasco da Gama, Ponta Delgada, Açores, Portugal (6,295 square meters);

Av. Doutor João Martins Azevedo, 21, Torres Novas, Portugal (7,112 square meters);

Av. de Zarco, Funchal, Portugal (7,025 square meters); and

Rua Conselheiro Veloso Cruz, 532, Vila Nova de Gaia, Portugal (6,044 square meters).

PT Portugal is not aware of any material environmental issues that may affect its use of these properties.

***Intellectual Property***

PT Portugal has registered its important trademarks, such as Portugal Telecom, PT Comunicações, Telepac, Sapo, Meo, Moche and their related logos, in Portugal. PT Portugal has also applied for a

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European Community trademark for Portugal Telecom and PT Portugal's logo. PT Portugal does not own any registered patents or copyrights which are material to its business as a whole.

**Operations in Africa**

In 2007, PT SGPS formed Africatel Holdings B.V., or Africatel, and contributed to Africatel its equity interests in (1) Unitel, which operates in Angola, (2) Mobile Telecommunications Limited, or MTC, which operates in Namibia, (3) Cabo Verde Telecom, S.A., or CVTelecom, which operates in Cape Verde, and (4) CST Companhia Santomense de Telecomunicações S.A.R.L., or CST, which operated in São Tomé and Príncipe, among others. In 2007, PT SGPS sold 22% of the equity interests in Africatel to Samba Luxco S.à.r.l., or Samba Luxco, an affiliate of Helios Investors LP, or Helios, a private equity firm operating in sub-Saharan Africa, and entered into a shareholders' agreement with Samba Luxco regarding governance and liquidity rights relating to Africatel. In 2008, PT SGPS sold an additional 3% of the equity interests in Africatel to Samba Luxco.

As of December 31, 2014, in addition to its interests in Unitel, MTC, CVTelecom and CST, Africatel owns Directel Listas Telefónicas Internacionais, Lda., or Directel, which publishes telephone directories and operates related data bases in Angola, Cabo Verde, Mozambique, Uganda and Kenya.

As a result of our acquisition of PT Portugal in May 2014, we own 75% of the equity interests in Africatel. PT Portugal, our subsidiaries PT Ventures and Africatel GmbH & Co KG, of Africatel GmbH, and Samba Luxco are parties to a shareholders' agreement under which we have ownership and management control of Africatel, which we refer to as the Africatel shareholders' agreement.

On September 16, 2014, our subsidiary, Africatel GmbH, which directly holds our interest in Africatel, received a letter from Samba Luxco in which Samba Luxco claimed that Oi's acquisition of PT Portugal was deemed a change of control of PT SGPS under the Africatel shareholders' agreement, and that this change of control entitled Samba Luxco to exercise a put right under the Africatel shareholders' agreement at the fair market equity value of Samba Luxco's Africatel shares. In the letter, Samba Luxco purported to exercise the alleged put right and thereby require Africatel GmbH to acquire its shares in Africatel.

On September 26, 2014, Africatel GmbH responded to Samba Luxco stating that there had not been any action or event that would trigger the right to exercise the put option under the Africatel's shareholders' agreement and that Africatel GmbH intended to challenge Samba Luxco's purported exercise of the put option. On the same date, we issued a Material Fact disclosing Samba Luxco's purported exercise of the put option, our understanding that the exercise of the put option is not applicable, and that our board of directors had authorized our management to take the necessary actions to sell our interest in Africatel.

On November 12, 2014, the International Court of Arbitration of the International Chamber of Commerce notified Africatel GmbH that Samba Luxco had commenced arbitral proceedings against Africatel GmbH to enforce its purported put right or, in the alternative, certain other rights and claims allegedly arising out of Oi's acquisition of PT Portugal. Africatel GmbH presented its answer to Samba Luxco's request for arbitration on December 15, 2014. The arbitral tribunal was constituted on March 12, 2015. Africatel GmbH intends to vigorously defend these proceedings.

***Unitel, Angola***

In 2000, PT Ventures, then a wholly-owned subsidiary of PT SGPS, acquired 25% of the share capital of Unitel, a 2G mobile operator in Angola. Unitel began operations in Luanda in 2001. In connection with this investment, PT Ventures entered into a shareholders' agreement with the other shareholders of Unitel regarding governance and

liquidity rights relating to Unitel, and dispute resolution provisions. In 2007, PT SGPS contributed its shares of PT Ventures to Africatel. As a result of our acquisition of PT Portugal in May 2014, we have an 18.75% economic interest in Unitel. We account for this investment as an asset held-for-sale.

**Table of Contents*****MTC, Namibia***

In 2006, PT SGPS acquired 34% of the capital of MTC, a Namibian mobile operator, from Namibia Post and Telecom Holdings, a state-controlled entity, or NPTH. In connection with this transaction, PT SGPS entered into a shareholders agreement with NPTH regarding governance and liquidity rights relating to MTC, that allowed PT SGPS to set and control the financial and operating policies of MTC. In 2006, PT SGPS contributed its shares of MTC to Africatel and assigned its rights under the shareholders' agreement to Africatel. As a result of our acquisition of PT Portugal, we fully consolidate MTC in our consolidated financial statements.

As of December 31, 2014, MTC had 2,574 thousand customers, of which 94.3% were customers under pre-paid plans.

MTC was established in 1994 and provides mobile telecommunications services under the terms of a 15-year technology- and service-neutral concession granted in March 2012 that replaced its earlier licenses. Under the terms of this concession, MTC is permitted to offer 2G, 3G and 4G services. MTC commenced offering 4G services in Windhoek, the capital of Namibia, in May 2012 and, as of December 31, 2014, had expanded its coverage to ten additional cities.

In 2006, a license was granted to Powercom to provide mobile telecommunications services in Namibia. Powercom commenced operations in 2007. In November 2012, Telecom Namibia, the incumbent provider of fixed-line telecommunications services in Namibia and a wholly-owned subsidiary of NPTH, acquired Powercom. Telecom Namibia re-launched Powercom's portfolio of service plans under the brand TN Mobile in August 2013. In November 2013, TN Mobile began offering 4G services in Windhoek and other urban areas.

During 2014, MTC focused its marketing efforts and commercial activity on: (1) boosting broadband revenue growth, underpinned by the use of 4G technology and its Netman brand; (2) promoting the upselling of new pricing plans aimed at increasing usage and revenues, and (3) selling Smartshare, a convergent internet/ mobile service that combines Netman home (internet router) with up to three smartphones.

***CVTelecom, Cape Verde***

PT Ventures owns 40% of the share capital of CVTelecom, a provider of fixed-line and mobile services in the Cabo Verde Islands. In 2000, PT Ventures, entered into a shareholders' agreement with the other shareholders of CVTelecom, regarding governance and liquidity rights relating to CVTelecom, that allowed PT Ventures to set and control the financial and operating policies of CVTelecom. As a result of our acquisition of PT Portugal, we fully consolidated CVTelecom in our financial statements as of December 31, 2014. In December 2014, the other shareholders of CVTelecom notified us that as a result of our acquisition of PT Portugal, the shareholders agreement governing CVTelecom had been terminated. Although we dispute this interpretation of the shareholders' agreement and will defend our rights under the shareholders' agreement, at a general shareholders meeting of CVTelecom in March 2015, we were only able to elect three of the seven members of the board of directors of CVTelecom. As a result, for dates and periods ending after January 1, 2015, we expect to record our interest in CVTelecom under the equity method.

As of December 31, 2014, CVTelecom had 60 thousand fixed-lines in service, which represents approximately 11.7 fixed main lines per 100 inhabitants. As of December 31, 2014, CVTelecom had 435 thousand active mobile telephone cards, of which 98.6% were pre-paid customers.

CVTelecom was established in 1995 and provides fixed-line and mobile telecommunications services under the terms of a 25-year license granted in 1996. In December 2011, CVTelecom was granted a license to provide 3G services in

Cabo Verde. In May 2012, CVTelecom's connection to the West African Cable System, a submarine cable which connects CVTelecom's network to networks in West Africa and Europe, began operating.

In 2006, the National Communications Agency (*Agência Nacional das Comunicações*) granted the second license to provide fixed-line and mobile telecommunications services in Cabo Verde to T Plus S.A., or T Plus,

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which commenced operations under the brand T+ in December 2007. In December 2011, T Plus was granted a license to provide 3G services in Cabo Verde. In October 2012, a controlling interest in T Plus was acquired by Unitel Holdings, which is controlled by Mrs. Isabel dos Santos.

During 2014, CVTelecom launched several commercial offers, both mobile and fixed lines, aimed at promoting usage and customer loyalty, including: (1) the development of a youth segment, based on the *Powa Swag* service, (2) the launch of several voice promotions, such as *Di Borla Domingão*, and (3) the development of *ZAP*, an NPlay offer. As of December 31, 2014, broadband and IPTV customers represented 29.1% and 10.3% of CVTelecom's fixed line customer base, respectively.

### ***CST, São Tomé and Príncipe***

Africatel owns 51.0% of the share capital of CST, which provides fixed and mobile services in São Tomé and Príncipe. As of December 31, 2014, CST had 146 thousand mobile customers.

CST was established in 1989 and provides fixed-line and mobile telecommunications services under the terms of a 20-year license granted in 2007. CST began offering 3G services in São Tomé and Príncipe in March 2012 anticipating the connection of its network to the Africa Coast to Europe submarine cable which was inaugurated at the end of 2012. In March 2013, the General Regulatory Authority (*Autoridade Geral de Regulação*), the telecommunications regulator in São Tomé and Príncipe granted the second license to provide fixed-line and mobile telecommunications services in São Tomé and Príncipe to Unitel Holdings, which is controlled by Mrs. Isabel dos Santos. The second operator commenced commercial activity in July 2014.

## **Telecommunications Regulation**

### **Regulation of the Brazilian Telecommunications Industry**

#### ***Overview***

Our business, including the nature of the services we provide and the rates we charge, is subject to comprehensive regulation under the General Telecommunications Law and a comprehensive regulatory framework for the provision of telecommunications services promulgated by ANATEL. We provide fixed-line, domestic and international long-distance and mobile telecommunications services under concessions, authorizations and licenses that were granted by ANATEL and allow us to provide specified services in designated geographic areas, as well as set forth certain obligations with which we must comply. See Concessions, Authorizations and Licenses.

ANATEL is a regulatory agency that was established in July 1997 pursuant to the General Telecommunications Law and the *Regulamento da Agência Nacional de Telecomunicações*. ANATEL oversees our activities and enforces the General Telecommunications Law and the regulations promulgated thereunder. ANATEL is administratively independent and is financially autonomous. ANATEL is required to report on its activities to the Brazilian Ministry of Communications. ANATEL has authority to propose and to issue regulations that are legally binding on telecommunications service providers. ANATEL also has the authority to grant concessions and licenses for all telecommunications services, other than broadcasting services. Any regulation or action proposed by ANATEL is subject to a period of public comment, which may include public hearings, and ANATEL's decisions may be challenged administratively before the agency itself or through the Brazilian judicial system.

#### ***Concessions and Authorizations***

Under the General Telecommunications Law and ANATEL regulations, the right to provide telecommunications services is granted either through a concession under the public regime (as discussed below) or an authorization under the private regime (as discussed below). A concession is granted for a fixed period of time following a public auction and is generally renewable only once. An authorization is granted for an indeterminate period of time and public auctions are held for some authorizations. These concessions and authorizations allow service providers to provide specific services in designated geographic areas, set forth certain obligations with which the service providers must comply and require equal treatment of customers by the service providers.



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The three principal providers of fixed-line telecommunications services in Brazil, Telefónica, Embratel and our company, provide these services under the public regime. In addition, CTBC and Sercomtel, which are secondary local fixed-line telecommunications service providers, operate under the public regime. All of the other providers of fixed-line telecommunications services and all providers of personal mobile services and data transmission services in Brazil operate under the private regime.

Providers of public regime services are subject to more obligations and restrictions than providers of private regime services. Under Brazilian law, providers of public regime services are subject to certain requirements with respect to services such as quality of service, continuity and universality of service, network expansion and network modernization. Additionally, the rates that public regime service providers may charge customers are subject to ANATEL supervision.

Providers of private regime services, although not generally subject to the requirements concerning continuity and universality of service and network modernization, are subject to certain network expansion and quality of service obligations set forth in their respective authorizations.

### ***Regulation of Fixed-Line Services***

#### *General Policies for the Regulation of the Fixed-Line Telecommunications Sector*

In June 2003, Brazil's president issued Decree No. 4,733, outlining a number of new rules and guidelines which were intended to consolidate several changes in the regulation of Brazil's fixed-line telecommunications sector. This decree sets forth general declarations of policy regarding, among other things:

universal access to telecommunications services;

stimulation of employment and development of the Brazilian telecommunications sector;

promotion of competition and adoption of rate readjustment policies that take into account Brazilian socioeconomic considerations; and

the financial equilibrium of existing concession agreements.

This decree also defined certain changes that are reflected in the concession agreements entered into by providers of public regime services that became effective on January 1, 2006.

#### *Private Regime Authorizations*

With the goal of introducing competition in fixed-line telephone services in Brazil, the federal government granted four private-regime authorizations in 1999 to permit fixed-line service providers to compete with the incumbent fixed-line concessionaires. Since 2002, the number of authorizations to provide fixed-line services that the federal government may issue is unlimited.

#### *Public Regime Concessions*

Each of the public regime service providers operates under concession agreements that expire in December 2025. Under these concession agreements, each of the public regime service providers is required to comply with the provisions of (1) the General Plan on Universal Service Goals that was adopted by ANATEL in June 2003, (2) the General Plan on Quality Goals that was adopted by ANATEL in June 2003, and (3) the General Plan on Competition Targets that was adopted by ANATEL in November 2012.

The concession agreements provide that ANATEL may modify their terms in 2015 and 2020 and may revoke them prior to expiration under the circumstances described below under Termination of a Concession. The modification right permits ANATEL to impose new terms and conditions in response to changes in technology,

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competition in the marketplace and domestic and international economic conditions. ANATEL is obligated to engage in public consultation in connection with each of these potential modifications.

### *Rate Regulation*

Public regime service providers must offer a basic service plan comprised of the following basic services:

(1) installation; (2) monthly subscription; and (3) switched local minutes. Modifications of the rates charged for these basic services are determined by reference to a local rate basket that represents the weighted average of the rates for monthly subscriptions and switched local minutes. Rates for long-distance services originated and terminated on fixed lines vary in accordance with three basic criteria: (1) physical distance separating callers; (2) time of the day; and (3) day of the week on which the call is placed. Modifications of the rates charged for these long-distance services are determined by reference to a long-distance rate basket that represents the weighted average of the rates for long-distance calls. The rates for the provision of services through payphones and installation rates are treated separately. The rates for international long-distance services provided by Embratel, the incumbent international long-distance concessionaire, are regulated by ANATEL. However, the rates for international long-distance services charged by other long-distance service providers, all of whom provide these services under authorizations rather than concessions, are not subject to ANATEL regulation.

The concession agreements establish a price-cap mechanism for annual rate adjustments for basic service plans and domestic long-distance rates based on formulas set forth in each provider's concession agreement. The formula provides for two adjustments to the price cap based on the local rate basket, the long-distance rate basket and the use of a price index. The price cap is first revised upward to reflect increases in inflation, as measured by an index, then ANATEL applies a productivity discount factor, or Factor X, which reduces the impact of the rate readjustment provided by the index.

Prior to 2008, Factor X, which was discounted from the IST, was equal to 50% of the increase in a public regime provider's productivity. Beginning in 2008, ANATEL has calculated the sector's weighted average productivity rate. As of the date of this annual report, Factor X is equal to (1) 50% of the increase in the weighted average productivity rate of public regime providers, plus (2) 75% of a factor calculated by ANATEL that is designed to reflect cost optimization targets for the telecommunications industry as a whole. If the weighted average productivity rate is negative, ANATEL will not allow an annual adjustment in excess of the IST.

ANATEL has proposed new regulations under which it would modify the Factor X applicable to the determination of rate increases available to public concessionaires providing fixed-line services. These regulations were submitted for public consultation in July 2011 and the public consultation period ended on September 1, 2011. ANATEL is likely to launch a new public consultation in 2015.

A provider may increase rates for individual services within the local rate basket or the long-distance rate basket by up to 5% more than the IST so long as the rates for other services in that rate basket are reduced to the extent necessary to ensure that the weighted average increase for the entire rate basket does not exceed the permitted annual rate adjustment.

A provider may also offer alternative plans in addition to the basic service plan. Alternative plans must be submitted for ANATEL's approval. The rates offered under the alternative plans may be adjusted annually based on the IST.

For information on our rates and service plans, see [Rates](#).

### *General Plan on Universal Service Goals*

The General Plan on Universal Service Goals was approved by ANATEL in June 2003 and became effective in January 2006. The General Plan on Universal Service Goals sets forth the principal network expansion and modernization obligations of the public regime providers, such as providing public telephones in localities with a population in excess of 100, and installing residential fixed lines within seven days of a request in localities with a population in excess of 300. In addition, public regime providers must comply with the Special Individual Access Class (*Acesso*

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*Individual Classe Especial*) rules, which are designed to require service for economically disadvantaged people. Under the Special Individual Access Class rules, a qualifying customer may subscribe to a service plan, limited to one fixed-line per household, and pay a lower monthly fee for service than under the basic service plans.

Public regime providers are also subject to network expansion requirements under the General Plan on Universal Service Goals, which are revised by ANATEL from time to time. No subsidies or other supplemental financings are anticipated to finance our network expansion obligations. Our failure to meet the network expansion and modernization obligations established by the General Plan on Universal Service Goals or in our concession agreements may result in fines and penalties of up to R\$50 million, as well as potential revocation of our concessions.

On June 30, 2011, the General Plan on Universal Service Goals was amended. Among other things, these amendments:

expanded the obligations of local fixed-line service providers to provide individual access to fixed-line voice services to economically disadvantaged segments of the Brazilian population within their service areas, through programs to be established and regulated by ANATEL;

reduced the density requirements applicable to the obligations of local fixed-line service providers to provide public telephones in urban areas within their service areas; and

expanded the obligations to provide universal service in rural and remote areas of local and long-distance fixed-line providers that obtain authorizations to use radio spectrum in the 450 Mhz band, including increased obligations to provide individual and group access to fixed-line voice services.

*Service Restrictions*

Pursuant to regulations in effect as of the date of this annual report, public regime providers are subject to certain restrictions on alliances, joint ventures and mergers and acquisitions with other public regime providers, including:

a prohibition on holding more than 20% of the voting shares of more than one other provider of public regime services; and

a restriction on mergers between regional fixed-line service providers.

In December 2010, ANATEL adopted new regulations eliminating the limitation on the number of authorizations to provide subscription television services. In September 2011, Law No. 12,485 became effective, which creates a new legal framework for subscription television services in Brazil, replacing and unifying the previously existing regulatory provisions that governed various forms of subscription television services, such as cable television, Multichannel Multipoint Distribution Service, or MMDS, and DTH. The principal provisions of Law No. 12,485:

allow fixed-line telephone concessionaires, such as us, who previously were allowed to provide subscription television services using only MMDS and DTH technologies, to enter the cable television market in Brazil;

remove existing restrictions on foreign capital investments in cable television providers;

establish minimum quotas for domestic content programming on every television channel;

limit the total and voting capital held by broadcast concessionaires and authorized providers, and in television programmers and producers, with headquarters in Brazil to 30%; and

prohibit telecommunications service providers with collective interests from acquiring rights to disseminate images of events of national interest and from hiring domestic artistic talent.

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The framework established by Law No. 12,485 increased the availability and lower the price of subscription television services in Brazil, through increased competition among providers, and improve the quality, speed and availability of broadband internet services as a result of the expected proliferation of fiber optic cables used to transmit cable television.

In March 2012, ANATEL adopted new regulations under which the authorizations to provide various existing subscription television services have been consolidated into authorizations to provide a newly-defined service called Conditional Access Service. Under these regulations, authorizations to provide Conditional Access Service apply to private telecommunications services, the receipt of which are conditioned on payment by subscribers, for the distribution of audiovisual contents in the form of packages, individual channels and channels with required programming, by means of any communications technology, processes, electronic means or protocols. An authorization granted by ANATEL to provide Conditional Access Service will be valid for the entire Brazilian territory, however, the provider must indicate in its application for an authorization the localities that it will service. In December 2012, ANATEL granted our request to convert our DTH authorization agreement into a Conditional Access Service authorization. In September 2014, we entered into a Conditional Access Service authorization agreement with ANATEL that authorized us to offer the services to be governed by such agreement, including IP TV.

*Termination of a Concession*

ANATEL may terminate the concession of any public regime telecommunications service provider upon the occurrence of any of the following:

an extraordinary situation jeopardizing the public interest, in which case the Brazilian government is authorized to start rendering the services set forth under the concession in lieu of the concessionaire, subject to congressional authorization and payment of adequate indemnification to the owner of the terminated concession;

termination by the provider (through an agreement with ANATEL or pursuant to legal proceedings) as a consequence of an act or omission of the Brazilian government that makes the rendering of the services excessively burdensome to the provider;

annulment of the concession due to a contractual term, which is deemed by subsequent law to be illegal;

material failure to comply with the provider's universalization targets;

failure to meet insurance requirements set forth in the concession agreement;

a split-up, spin-off, amalgamation, merger, capital reduction or transfer of the provider's control without ANATEL's authorization;

the transfer of the concession without ANATEL's authorization;

the dissolution or bankruptcy of the provider; or

an extraordinary situation in which Brazilian government intervention, although legally permissible, is not undertaken, as such intervention would prove to be inconvenient, unnecessary or would result in an unfair benefit to the provider.

In the event a concession is terminated, ANATEL is authorized to administer the provider's properties and its employees in order to continue rendering services.



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*General Plan on Quality Goals*

The General Plan on Quality Goals was approved by ANATEL in June 2003 and became effective in January 2006. Each fixed-line service provider operating under the public regime or the private regime must comply with the provisions of the General Plan on Quality Goals. All costs related to compliance with the quality goals established by the General Plan on Quality Goals must be borne exclusively by the service provider. The General Plan on Quality Goals establishes minimum quality standards with regard to:

modernization of the network;

responses to repair requests;

responses to change of address requests;

rate of call completion;

operator availability;

availability of services to customers;

personal services to customers;

issuance of bills;

responses to mail received from customers; and

quality of public telephones.

These quality standards are measured according to the definitions and quality indicators established by ANATEL. Every month, fixed-line service providers are required to report their compliance with quality goals to ANATEL. Additionally, they are obligated to provide ANATEL with an in-depth report and analysis on each quality goal that is not satisfied. ANATEL may also collect such data from fixed-line service providers at any time without prior notice. Fixed-line service providers that fail to meet quality goals established by ANATEL may be subject to warnings, fines, intervention by ANATEL, temporary suspensions of service or cancellation of their concessions and authorizations.

ANATEL measures the performance of fixed-line service providers in each individual state in which they operate. As a result, the performance of fixed-line service providers in any particular state may not meet one or more quality performance targets even if such service provider's overall performance is satisfactory. Therefore, fixed-line service

providers, including us, could be subject to fines or penalties as a result of the failure to meet the quality performance targets in one or more particular states.

Our failure to meet the quality of service obligations established by the General Plan on Quality Goals or in our concession agreements may result in fines and penalties of up to R\$40 million.

*General Plan on Competition Targets*

The General Plan on Competition Targets, which was approved by ANATEL and became effective in November 2012, contemplates the creation of one entity to manage information about telecommunications networks, act as an intermediary in contracts between telecommunications providers and supervise the offering of wholesale data traffic services. The General Plan on Competition Targets also addresses a variety of other matters relating to both fixed-line and mobile service providers, including criteria for the evaluation of telecommunications providers to determine which providers have significant market power, regulations applicable to the wholesale markets for trunk lines, backhaul, access to internet backbone and interconnection services, and regulations related to partial unbundling and/or full unbundling of the local fixed-line networks of the public regime service providers.

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The General Plan on Competition Targets imposes stricter restrictions on providers that are deemed to have significant market power in a particular geographic area, ranging from a neighborhood within a municipality to the entire national territory. In order to determine whether a provider has significant market power, ANATEL established criteria that consider:

that provider's market share in particular mobile interconnection markets and personal mobile services market;

the economies of scope and scale available to that provider;

that provider's dominance over infrastructure that is not economically viable to duplicate; and

that provider's concurrent operations in the wholesale and retail markets.

*Infrastructure Sharing*

Prior to the adoption of the General Plan on Competition Targets, ANATEL had established rules for partial unbundling of the local fixed-line networks of the public regime service providers, which we refer to as line sharing, and which (1) limited the rates service providers can charge for line sharing, and (2) addressed related matters such as co-location space requirements. Co-location means that a service provider requesting unbundling may place its switching equipment in or near the local exchange of the service provider whose network the requesting service provider wishes to use and may connect to the network at this local exchange.

The General Plan on Competition Targets requires public regime service providers that have significant market power to share their fixed-line network infrastructure with other providers, including their local fixed-line access networks. Providers that are deemed to have significant market power must offer (1) full unbundling of their copper wire or coaxial cable access networks, and (2) partial unbundling of their broadband networks to accommodate bitstreams of up to 10 Mbps. The methodology by which the wholesale prices for these services will be determined will be established by ANATEL. We expect that ANATEL will commence a public consultation process with respect thereto during the second half of 2015.

Providers with significant market power must also share their passive infrastructure, such as telecommunications towers, with other service providers at prices determined by bilateral negotiations between the providers.

*Utility Pole Sharing*

In December 2014, ANATEL and the Brazilian Electricity Regulatory Agency (*Agência Nacional de Energia Elétrica ANEEL*) approved a joint resolution establishing the reference value for sharing utility poles between electricity distributors and telecommunications providers. The utility poles of electricity companies are used by telecom operators for fixing wiring services like fixed telephone, cable TV and broadband. The resolution was designed to solve conflicts and define rules for the use and occupation of utility poles.

The resolution establishes a reference value of R\$3.19 per month as the price to be paid by telecommunications providers to energy companies for each attachment point in the event such amount is subject to dispute resolution or

contract renewal. This monthly fee can be adjusted in areas where there is greater competition in 10 year increments.

The resolution also provides that an adjustment schedule should be agreed between the parties addressing cases of pole occupation that do not comply with standards. All the regularization costs should be funded by telecommunications services providers.

*Interconnection Regulations Applicable to Personal Mobile Services Providers*

The General Plan on Competition Targets established regulations for the rates charged by mobile service providers to terminate calls on their mobile networks (the VU-M rate). The General Plan on Competition Targets

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established a reference value for VU-M rates of providers that are deemed to hold significant market power and determined that beginning in 2016, VU-M rates will be determined on the basis of costs. In July 2014, ANATEL approved a rule for the definition of maximum VU-M reference rates for entities with significant market power, such as our company, based on a long-run incremental cost methodology. Under this rule, VU-M reference rates will decline from 2016 through 2019 when VU-M reference rates reflecting the long-run incremental cost methodology will apply.

The General Plan on Competition Targets established that the VU-M would be paid only when the traffic out of a network in a given direction was greater than (1) 80% of the total traffic exchanged until February 23, 2015, and (2) 60% of the total traffic exchanged from February 24, 2015 to February 23, 2016. After February 24, 2016, each mobile service provider would be entitled to collect the VU-M on all calls for which its network was used to originate or terminate the call.

In February 2015, ANATEL revised the General Plan on Competition Targets regulation relating to the VU-M applicable to the relationship between companies with significant market power and companies without significant market power. Under the revised regulations, the dates and percentages applicable to the VU-M partial bill-and-keep system were revised so that the VU-M will be paid only when the traffic out of a network in a given direction is greater than:

75% of the total traffic exchanged until February 23, 2016;

65% of the total traffic exchanged until February 23, 2017;

55% of the total traffic exchanged until February 23, 2018; and

50% of the total traffic exchanged until February 23, 2019.

The full billing system is scheduled to come into effect on February 23, 2019.

***Roaming***

Under the General Plan on Competition Targets, a mobile service provider with significant market power, such as our company, must offer roaming services to other mobile providers without significant market power at the maximum rate that the mobile service provider with significant market power is permitted by ANATEL to offer such services to its retail customers.

***Regulation of Mobile Services***

In September 2000, ANATEL adopted regulations that established operating rules for providers under the personal mobile service (*Serviço Móvel Pessoal*) regime. The regulations permitted ANATEL to grant authorizations to provide mobile telecommunications services under the personal mobile service regime. For purposes of the personal mobile service regulations, Brazil is divided into three service regions covering the same geographic areas as the concessions for fixed-line telecommunications services.

Under the personal mobile service regulations:

Band A and Band B service providers can apply for an additional frequency range;

each service provider may apply to provide domestic and international long-distance services originating from its service region;

existing service providers, as well as new entrants into the Brazilian telecommunications market, may bid for new licenses in all frequency bands, other than Band A and Band B;

personal mobile services providers are required to offer a basic service plan to their customers containing certain prescribed features;

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personal mobile services providers are required to establish interconnection rates for the use of one provider's network by another provider;

the number of regions in which a personal mobile services provider may offer services is not limited; and

a personal mobile services provider, or its controlling shareholders, may not hold more than one personal mobile services authorization covering any specific region.

*Auction of Personal Mobile Services Spectrum*

Prior to the establishment of the personal mobile services regime, ANATEL had granted licenses to mobile services providers to operate in each region of Brazil using Bands A and B. In 2001 and 2002, ANATEL successfully auctioned authorizations and licenses to operators in Band D and Band E in each region. TNL PCS was granted its initial authorization to provide personal mobile services in Region I and a license to operate in Band D in March 2001. We were granted our initial authorization to provide personal mobile services in Region II and a license to operate in Band E in December 2002.

ANATEL conducted additional auctions of radio frequency licenses in 2004 and 2006. In April 2004, we acquired an additional license to operate in Region II.

In December 2007, ANATEL auctioned the remaining spectrum of Bands A, B, C, D and E to existing service providers as extension blocks and auctioned additional spectrum in Band M (1.8 GHz) and Band L (1.9 GHz). In these auctions, TNL PCS acquired (1) an authorization to provide personal mobile services in the State of São Paulo and licenses to operate using Band M throughout the State of São Paulo and Band E outside of the city of São Paulo and (2) licenses to use additional spectrum in 12 states in Region I.

*Auction of 3G Spectrum*

In preparation for auctions of spectrum in Bands F, G, I and J (2.1 GHz), the use of which allows personal mobile services providers to offer 3G services to their customers, ANATEL issued regulations that divide the Brazilian territory into nine regions for purposes of operations using these frequency bands. In December 2007, ANATEL auctioned radio frequency licenses to operate on each of these frequency bands in each of the nine regions and the related licenses to use these frequency bands. In this auction, we acquired the radio frequency licenses necessary to offer 3G services in two of the nine regions delineated by ANATEL for 3G services (corresponding to Regions II under the personal mobile services regime) and TNL PCS acquired radio frequency licenses necessary to offer 3G services in six of the nine regions delineated by ANATEL for 3G services (corresponding to Regions I and III under the personal mobile services regime, other than an area that consists of 23 municipalities in the interior of the State of São Paulo that includes the city of Franca and surrounding areas).

*Authorizations to Use 450MHz Band and 2.5 GHz Band*

Under Executive Decree 7,512, dated June 30, 2011, or Executive Decree 7,512, ANATEL granted authorizations to telecommunications providers to use radio spectrum in the 450 Mhz band radio spectrum and the 2.5 GHz radio spectrum, the latter of which allows telecommunications providers to offer 4G services to their customers. Among other obligations, licensees of radio frequencies in the 450 Mhz band radio spectrum must agree to provide individual and collective voice and data services in rural and remote areas, in accordance with the provisions of Executive Decree 7,512 and the General Plan on Universal Service Goals. In June 2012, we acquired radio frequency licenses

necessary to offer 4G services in 5,564 municipalities in Regions I, II and III.

*Personal Mobile Services Rate Regulation*

Rates for personal mobile services are regulated by ANATEL. Personal mobile services providers are required to offer a basic service plan that consists of a monthly subscription, local calls and roaming. Basic service plans were approved by ANATEL for each of the personal mobile services providers following the grant of personal mobile services authorizations to each of these providers.



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Following the effectiveness of the basic service plans, annual adjustments of the rates under these plans have been subject to a price cap mechanism. Rates may be adjusted annually by no more than the rate of inflation, as measured by the IST.

Personal mobile services providers are permitted to offer non-discriminatory alternative plans to the basic service plan. The rates charged under these plans (e.g., monthly subscription rates, charges for local calls and roaming charges) are subject to ANATEL approval prior to the time that these plans are first offered to mobile customers. Following the approval of these plans, the rates under these plans may be increased up to an annual adjustment that is approved by ANATEL and is no more than the rate of inflation, as measured by the IST.

Although subscribers of a plan cannot be forced to migrate to new plans, existing plans may be discontinued as long as all subscribers receive a notice to that effect and are allowed to migrate to new plans within six months of such notice. Discounts from the rates set in basic service plans and alternative service plans may be granted to customers without ANATEL approval.

In November 2012, ANATEL adopted revisions to the personal mobile services regulations that became effective in February 2013. Under these revised regulations, successive telephone calls originating from one telephone number to the same prior destination are considered one single call if the time elapsed between calls is equal to or less than 120 seconds, regardless of the duration of each individual call.

### *Obligations of Personal Mobile Services Providers*

As a telecommunications service provider, we are subject to requirements concerning network expansion and quality of service, as established in applicable regulations and in our personal mobile services authorizations. If we fail to meet these obligations, we may be fined, subject to a maximum penalty of R\$50 million, until we are in full compliance with our obligations. While it is possible for an authorization to be revoked for non-compliance with these obligations, there are no precedents for such a revocation.

### *Network Expansion Obligations*

The personal mobile services authorizations set forth certain obligations and targets that must be met by a personal mobile services provider. For a description of the obligations and targets that must be met by our company, see

Concessions, Authorizations and Licenses Personal Mobile Services Authorization Agreements and Radio Frequency Spectrum Licenses and Concessions, Authorizations and Licenses 3G Radio Frequency Licenses.

### *Quality of Service Obligations*

Our personal mobile services authorizations impose obligations on us to meet quality of service standards relating to our network's ability to make and receive calls, call failure rates, capacity to handle peak periods, failed interconnection of calls and customer complaints. ANATEL defines this quality of service standards, and we must report information in connection with such standards to ANATEL.

### *Additional Obligations*

Personal mobile services regulations adopted by ANATEL impose additional obligations on personal mobile services providers, particularly in connection with customers' rights. These obligations require personal mobile services providers to:

establish at least one customer service center in each registration area served that has more than 100,000 inhabitants;

upgrade customer service centers to improve access by people with hearing disabilities;

provide for terms applicable to pre-paid cards of a minimum of 180 days;

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deliver to pre-paid customers a detailed report of service use upon request;

reimburse unused pre-paid credits;

limit the duration of contracts with pre-paid customers to 12 months;

permit customers to change service plans without penalties; and

unblock mobile handsets, allowing a customer who purchased a mobile handset from any personal mobile services provider to use it on the network of another personal mobile services provider.

### ***Interconnection Regulations***

Under the General Telecommunications Law, all telecommunications service providers are required, if technically feasible, to make their networks available for interconnection on a non-discriminatory basis whenever a request is made by another telecommunications service provider. Interconnection permits a call originated on the network of a requesting fixed-line or personal mobile services provider's network to be terminated on the fixed-line or personal mobile services network of the other provider. ANATEL has adopted General Rules on Interconnection (*Regulamento Geral de Interconexão*) to implement these requirements.

#### ***Interconnection Regulations Applicable to Fixed-Line Providers***

Interconnection fees are charged at a rate per minute of use of a fixed-line provider's network. Interconnection rates charged by a fixed-line provider to terminate a call on its local network (the TU-RL rate) or intercity network (the TU-RIU rate) are subject to a price cap established by ANATEL. The price cap for interconnection rates varies from service provider to service provider based on the retail prices of each service provider.

Fixed-line service providers must offer the same TU-RL and TU-RIU rates to all requesting providers on a nondiscriminatory basis. The price caps on interconnection rates are adjusted annually by ANATEL at the same time that rates for local and long-distance rates are adjusted.

Prior to May 2012, (1) the TU-RL rates that fixed-line service providers can charge each other to terminate a call on their respective networks were 40% of the rate included in their Basic Plan per Minute for a local fixed-line call, and (2) the TU-RIU rates that fixed-line service providers could charge each other to use a portion of their long-distance networks to complete long-distance calls were 30% of the applicable domestic fixed line-to-fixed line long-distance rates for calls of more than 300 km.

In May 2012, ANATEL adopted revisions to the regulations relating to TU-RL rates and TU-RIU rates that became effective in August 2012. Under the revised regulations (1) between August of 2012 and December of 2013, fixed-line service providers were able to charge other fixed-line service providers for local fixed-line calls originating on their local fixed-line networks and terminating on the other provider's local fixed-line networks only if the outgoing traffic in a given direction of transmission is higher than 75% of the total traffic between such providers, and (2) beginning in January 2014, fixed-line service providers were no longer be able to charge other fixed-line service providers for local fixed-line calls originating on their local fixed-line networks and terminating on the other provider's local fixed-line networks.

In August 2012, the TU-RIU rates were reduced to 25% of the applicable domestic fixed line rates for calls with more than 300 km, and in January 2013, TU-RIU rates were reduced to 20% of the applicable domestic fixed line rates for such calls.

In July 2014, ANATEL approved a rule for the definition of maximum fixed reference rates, including TU-RL and TU-RIU, for entities with significant market power, such as our company, based on a long-run incremental cost methodology. Under this rule, TU-RL and TU-RIU reference rates will decline from 2016 through 2019 when TU-RL and TU-RIU reference rates reflecting the long-run incremental cost methodology will apply.

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***Interconnection Regulations Applicable to Personal Mobile Services Providers***

Interconnection fees are charged at a flat rate per minute of use of a personal mobile services provider's network. The terms and conditions of interconnection agreements of all personal mobile services providers, including the rates charged by the operator of the network to terminate a call on its mobile network (the VU-M rate), commercial conditions and technical issues, are freely negotiated between mobile and fixed-line telecommunications service providers, subject to compliance with regulations established by ANATEL relating to traffic capacity and interconnection infrastructure that must be made available to requesting providers, among other things.

Personal mobile services providers must offer the same VU-M rate to all requesting providers on a nondiscriminatory basis. Interconnection agreements must be approved by ANATEL before they become effective and they may be rejected if they are contrary to the principles of free competition and the applicable regulations. If the providers cannot agree upon the terms and conditions of interconnection agreements, ANATEL may determine terms and conditions by arbitration. Since no agreement with fixed-line service providers could be reached regarding VU-M rates when we began offering personal mobile services, ANATEL set the initial VU-M rates.

Personal mobile services providers negotiate annual rate increases for their VU-M charges with the fixed-line telecommunications providers. If the providers cannot agree upon the terms and conditions of annual rate increases, ANATEL may determine the annual rate increases by arbitration.

In November 2011, ANATEL adopted new regulations under which ANATEL was authorized to reduce the then-current VC-1, VC-2 and VC-3 rates by as much as 18% in 2011, 12% in 2012 and 10% in 2013, after giving effect to an inflation adjustment based on the IST measured from June 2009. In February 2012, ANATEL ordered us to reduce our VC-1, VC-2 and VC-3 rates by approximately 10%, although we are appealing the timing of the application of this rate decrease to our company as our VC-1 rate was increased in Region I by 1.54% in accordance with our application for this increase in February 2012. In March 2013, ANATEL reduced our VC-1 rates in Region I and Region II by approximately 18.6% and 8%, respectively. These regulations also provided procedures under which ANATEL adopted a maximum VU-M rate that is applicable in the event that providers cannot agree upon the VU-M applicable in their interconnection agreements. Under the General Plan on Competition Targets, in February 2014 the VU-M rate was reduced to 75% of the maximum VU-M rate established by ANATEL in December 2013, and in February 2015 the VU-M rate was reduced to 50% of the maximum VU-M rate established by ANATEL in December 2013. The maximum VU-M rate established by ANATEL in December 2013 is R\$0.33 per minute. In July 2014, ANATEL approved a rule for the definition of maximum VU-M reference rates for entities with significant market power, such as our company, based on a long-run incremental cost methodology. Under this rule, VU-M reference rates will decline from 2016 through 2019 when VU-M reference rates reflecting the long-run incremental cost methodology will apply.

***Consumer Protection Regulation***

In March 2014, ANATEL published a regulation approving the General Regulation on Telecommunications Customers Rights (*Regulamento Geral de Direitos do Consumidor de Serviços de Telecomunicações*), a single regulation for the telecommunications sector with general rules for customer service, billing, and service offers, which are applicable to fixed, mobile, broadband and Pay-TV customers. This regulation establishes a period ranging from 120 days to 24 months from the date of publication for entering into compliance with the new rules. Most of the new rules that expand the rights of those who use the telecommunications services entered into force on July 8, 2014.

***Number Portability Regulations***

Number portability is the ability of a customer to move to a new home or office or switch service providers while retaining the same fixed-line or mobile telephone number. ANATEL's General Regulation of Portability (*Regulamento Geral de Portabilidade*) establishes general rules regarding portability of fixed-line and mobile telephone numbers. These regulations permit fixed-line customers to retain their telephone numbers if they become customers of a different fixed-line service provider in the same municipality or if they move to a new home or office in the same municipality. Personal mobile services customers are permitted to retain their telephone numbers if they change their service plan or if they become customers of a different personal mobile services provider within the

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same registration area. Each telecommunications provider has been required to contract a third-party management entity to manage all procedures relating to number portability. Service providers are permitted to charge a migrating customer that elects to retain its telephone number a one-time fee of no more than R\$4.00. This amount is intended to compensate the customer's current provider for the costs associated with managing the portability process. The new provider may elect to absorb this fee on behalf of the customer.

### ***Regulation of Data Transmission and Internet Services***

Under Brazilian regulation, ISPs are deemed to be suppliers of value-added services and not telecommunications service providers. Value-added services are considered an activity that adds features to a telecommunications service supported by such value-added services. Telecommunications service providers are permitted to render value-added services through their own networks. In addition, ANATEL regulations require all telecommunications service providers and cable television operators to grant network access to any party interested in providing value-added services, including internet access, on a non-discriminatory basis, unless not technically feasible.

ANATEL has adopted regulations applicable to fixed-line service providers with significant market power. Under these regulations, these providers are required to make the forms of agreements that they use for EILD and SLD services publicly available, including the applicable rates, and are only permitted to offer these services under these forms of agreement. ANATEL publishes reference rates for these services, and if a customer of one of these providers objects to the rates which that provider charges for these services, the customer is entitled to seek to reduce the applicable rate through arbitration before ANATEL.

In May 2014, ANATEL approved a standard for setting maximum values for EILD services based on a long-run incremental cost methodology. Reference rates for EILD services were published containing a single reference table which will be valid from 2016 until 2020. Under this ANATEL regulation, EILD reference rates will decline from 2016 through 2020 when EILD reference rates reflecting the long-run incremental cost methodology will apply. In addition, under the General Plan of Competition Targets, companies with significant market, such as our company, are required to present a public offer every six months including standard commercial conditions, which is subject to approval by ANATEL.

### ***Multimedia Communications Service Quality Management Regulations***

In June 2011, the President of Brazil issued Executive Decree No. 7,512/11, which mandated ANATEL to take the necessary regulatory measures to establish quality standards for broadband internet services. In compliance with such decree, on October 31, 2011, ANATEL published a resolution approving the Multimedia Communications Service Quality Management Regulations (*Regulamentação de Gestão da Qualidade do Serviço de Comunicação Multimídia*), or the Regulations, which identify network quality indicators and establish performance goals for multimedia communications service providers, including broadband internet service providers, with more than 50,000 subscribers. Such providers will be required to collect representative data using dedicated equipment installed at the site of each network connection and be subject to periodic measurements to ensure their compliance with the Regulations, including:

individual upload and download speeds of at least 40% of contracted speeds per measurement for at least 95% of all measurements;

average upload and download speeds of at least 80% of contracted speeds for all measurements; and

individual round-trip latencies for fixed-line connections of up to 80 milliseconds per measurement for at least 95% of the measurements.

To increase transparency, customers must be provided with specialized software at no cost to measure their own network quality, although such customer-generated measurements will not be included in official calculations. In addition to ensuring network quality standards, service providers must hire specialized companies to measure customer service and customer satisfaction indicators, including complaint resolution, customer service personnel



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competence, customer perceptions relating to billing and quality of technical support staff. Service providers must comply with the above-mentioned quality standards beginning on the thirteenth month following implementation of the Regulations. Failure to meet such standards will subject non-compliant service providers to sanctions.

*National Broadband Plan*

On June 30, 2011, we entered into a Term of Commitment (*Termo de Compromisso*) with ANATEL and the Ministry of Communications to formalize our voluntary commitment to adhere to the terms of the National Broadband Plan, created in May 2010 by Executive Decree No. 7,175/10 with the goal to make broadband access available at low cost, regardless of technology, throughout Brazil. Pursuant to the Term of Commitment, we are required to offer (1) broadband services with minimum upload and download capabilities to retail customers in certain sectors of Region I and II for a maximum price of R\$35 per month (or R\$29.90 in ICMS-exempt states), plus fees, and (2) access to our broadband infrastructure to certain wholesale customers, including small businesses and municipalities, in certain sectors of Region I and II for a maximum price of R\$1,253 per 2 Mbps per month and a one-time installation fee, while observing all quality standards under ANATEL regulations. Both retail and wholesale services are subject to certain network capacity limits and need only be provided at the demand of the customer. Pursuant to the Term of Commitment, we have offered the required services to all eligible retail and wholesale customers since the date of its execution and have gradually increased the capacities offered to wholesale customers since November 2011. We are obligated to provide the maximum capacities established by the Term of Commitment to eligible wholesale customers by June 30, 2015. In addition, the Term of Commitment requires that we:

provide one public internet access point for the first 20,000 inhabitants and one additional access point for each subsequent 10,000 inhabitants, with a limit of six access points, at a speed of 2 Mbps, in each municipality that has only satellite service, free of charge and upon demand of such municipality;

adequately advertise the services contemplated by the Term of Commitment and present to the Ministry of Communications semi-annual reports detailing our marketing efforts; and

make our best efforts to offer broadband services to retail customers at speeds of up to 5 Mbps, reaching the largest possible number of municipalities by 2015.

The Term of Commitment will expire on December 31, 2016.

*Legal Framework for the Use of the Internet (Internet Bill of Rights)*

In April 2014, President Dilma Rousseff approved the Legal Framework for the Use of the Internet (*Marco Civil da Internet*), or the Internet Framework, which establishes the principles, guarantees, rights and duties for the use of the Internet in Brazil. The bill sets forth a number of guidelines and rules to be observed by internet and application service providers, such as the protection of privacy, the protection of personal data, the preservation and guarantee of net neutrality, the liability for damages caused by content generated or published by third parties and the storage and disclosure of usage logs. Certain parts of the Internet Framework went into effect on June 23, 2014 and others will become effective on the adoption of implementing regulations.

Under the Internet Framework, a presidential decree will be enacted to regulate the law's provisions, and enacting specific rules regarding network traffic management techniques. The Brazilian Internet Steering Committee (*Comitê*

*Gestor da Internet*) and ANATEL will express their opinion on the decree after public hearings. Brazil's Ministry of Justice has also launched a public debate on the main themes related to this law.

### **Regulation of the Portuguese Telecommunications Industry**

As a telecommunications provider, PT Portugal is subject to a variety of regulations as well as general competition law and other laws. Such laws and regulations are promulgated and enforced to varying degrees by supranational regulators such as the European Commission, or EC, and national, state, regional and local authorities. This section describes the regulatory frameworks and key regulatory developments in the EU and Portugal.

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*European Commission.* The EC ensures that EU member states fully and correctly implement EU requirements in national law. The EC routinely monitors the status of EU member states in implementing EU directives. Most of the EU rules on competition and sector-specific regulation have the force of law in all EU member states and therefore apply to PT Portugal in Portugal. The Directorate-General for Competition of the EC is responsible for considering potential claims that PT Portugal's business activities or Portuguese government regulations are inconsistent with the key provisions of the Treaty of Lisbon relating to competition in the EU. Among other things, the Treaty of Lisbon prohibits (1) agreements or coordinated action between competitors that may affect trade between EU member states and have as their objective or effect the prevention, restriction or distortion of competition within the EU, and (2) any abuse of a market-dominant position within the EU that may affect trade between EU member states. The Directorate-General for Competition enforces these rules in cooperation with the national competition authorities. In addition, national courts have jurisdiction over violations of EU competition law. The Directorate General for Communications Networks, Content & Technology (DG Connect) of the EC is responsible for, among others, coordinating the regulatory framework for competition and growth over the entire range of issues in the telecommunications field: economic analysis, impact assessment, policy development, regulatory compliance.

*ANACOM.* The National Communications Authority (*Autoridade Nacional das Comunicações*), or ANACOM, is the Portuguese telecommunications regulator. It advises the Portuguese government on telecommunications policy and legislation and monitors compliance with concessions, licenses and permits granted to telecommunications networks and services providers in Portugal. The Portuguese government has substantially increased the autonomy of ANACOM and has allowed it to become a more effective and independent regulatory body. ANACOM acts on complaints against PT Portugal by PT Portugal's competitors, PT Portugal's customers and other interested parties. ANACOM can impose fines on PT Portugal if PT Portugal does not meet its obligations under the law or ANACOM's determinations. ANACOM's decisions are subject to judicial review.

*Portuguese Competition Authority.* PT Portugal's activities are also overseen by the Portuguese Competition Authority (*Autoridade da Concorrência*), which is responsible for enforcement of competition law in Portugal. The Portuguese Competition Authority is also responsible for considering complaints relating to PT Portugal's business practices or other business arrangements. The Portuguese Competition Authority's decisions are subject to judicial review.

*ERC.* The Regulatory Entity for Social Communication (*Entidade Reguladora para a Comunicação Social*), or ERC, is the independent regulatory authority for the Portuguese media. The ERC's primary responsibilities are the regulation and supervision of all entities that undertake media activities in Portugal. The ERC is a legal entity endowed with administrative and financial autonomy. The ERC oversees compliance with respect to fundamental rights such as freedom of the press, right to information, independence from political and economic power and freedom of speech. It is also responsible for monitoring compliance by all companies operating in the media sector with standards for media and broadcast content, as well as for promoting the proper and effective functioning of the market where such companies operate. The ERC's

decisions may affect, among others, news agencies, periodicals, radio and television operators, and radio and television distribution operators.

***European Union Regulatory Framework and Relevant Markets***

The EU regulatory framework for electronic communications networks and services consists of:

five directives governing procedures, authorizations, access, universal service and data protection;

two regulations: one concerning the Body of European Regulators for Electronic Communications, or BEREC, and one other concerning roaming on public mobile communications networks; and

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the EC Recommendation on Relevant Markets, a recommendation on relevant product and service markets within the electronic communications sector subject to ex ante regulation under a common regulatory framework for electronic communications networks and services, which is subject to periodic revision. EU directives, regulations and recommendations, which adopt competition law principles such as market dominance for the designation of significant market power and the definitions of relevant product and geographic markets (which may be subject to ex ante regulation), have involved constant changes and refinements to this framework. The framework focuses on issues such as reinforcing consumer rights, encouraging competitive conditions among operators to increase consumer choice, promoting investment in new communications infrastructure (such as by freeing spectrum for the provision of broadband services), and ensuring network security and integrity. Under this framework, obligations can be imposed on operators having significant market power in any of the relevant markets identified by the EC. Because PT Portugal is active in all of these markets, these regulatory measures have affected and will continue to affect PT Portugal's businesses and operations.

*Relevant Markets in Portugal*

Within the EU framework, in the first round of analysis initiated in 2004, ANACOM identified 15 retail and wholesale markets in Portugal under the initial EC Recommendation on Relevant Markets published in 2003. In 2007, the revision of revised the EC Recommendation on Relevant Markets was published, reducing the list of relevant markets to the seven markets (one retail market and six wholesale markets). In October 2014, a second revision of the EC Recommendation on Relevant Markets was published, further reducing the list of relevant markets to the following five wholesale markets:

Call termination on individual public telephone networks provided at a fixed location (Market 1) (formerly Market 3 under the 2007 EC Recommendation on Relevant Markets and Market 9 under the 2003 EC Recommendation on Relevant Markets);

Call termination on individual mobile networks (Market 2) (formerly Market 7 under the 2007 EC Recommendation on Relevant Markets and Market 16 under the 2003 EC Recommendation on Relevant Markets);

Wholesale local access provided at a fixed location (Market 3a) (formerly Market 4 (wholesale unbundled access to local metallic loops) under the 2007 EC Recommendation on Relevant Markets and Market 11 under the 2003 EC Recommendation on Relevant Markets);

Wholesale central access provided at a fixed location for mass-market products (Market 3b) (formerly Market 5 (wholesale broadband access) under the 2007 EC Recommendation on Relevant Markets and Market 12 under the 2003 EC Recommendation on Relevant Markets); and

Wholesale high-quality access provided at a fixed location (Market 4) (formerly Market 6 (wholesale leased lines terminating segments) under the 2007 EC Recommendation on Relevant Markets and Market 14 under the 2003 EC Recommendation on Relevant Markets).

*Generally Applicable Regulations*

*Authorizations and Licenses*

The EU prohibits any limitation on the number of new entrants in telecommunications markets, except as required to ensure efficient use of radio frequencies. Pursuant to Directive 2002/20/EC (Authorisation Directive) which is part of the EU framework, an operator must have a general authorization for the provision of electronic communications networks or services. A license for individual rights of use can be required for the use of radio frequencies or numbering resources. The objective of this authorization regime is to provide flexibility in the licensing framework.

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Portuguese mobile telephone service licenses are issued by ANACOM and are valid for 15 years .. These licenses authorize the use of radio spectrum and the installation of base stations, base station controllers and control switching centers and require the licensee to construct networks capable of reaching at least 75% of Portugal's population within a specified period of time. Charges for the provision of mobile telephone services are not subject to regulation.

ANACOM also issues UMTS licenses, which are the European version of the globally accepted technical standards for 3G mobile communications. The broadband capacity of the frequency spectrum allocated under the 3G licenses enables operators to supply video and Internet content to mobile telephones at higher transmission speeds.

Companies are not required to have a license to provide data communications services and Internet access. Instead, it is sufficient to register their intended services with ANACOM under its service registration scheme.

*Regulation on the Settlement and Collection of Regulatory Fees*

Under ANACOM rules, all telecommunications providers are subject to the payment of a regulatory fee for the provision of electronic communications networks and services, through which the administrative regulatory costs of ANACOM are covered. This fee is calculated as a percentage of the revenue generated by each provider of electronic communications networks and services and is revised annually. The final contributory percentage was set at 0.4674% for 2012, 0.5575% for 2013 and 0.5999% for 2014.

*Rights of Way Regime*

PT Portugal is subject to a rights-of-way regime in Portugal under which each municipality may establish a fee, up to a maximum of 0.25% of each wireline services bill, to be paid by the customers of those wireline operators whose network infrastructures are located in that municipality. PT Portugal's exemption from municipal taxes is currently being challenged in court. See Legal Proceedings Claims for Municipal Taxes and Fees in PT Portugal's Portuguese Telecommunications Business.

With respect to the roll-out of optical fiber networks, Portuguese law establishes a legal framework for the construction of and access to infrastructure suitable for the accommodation of electronic communications networks and the construction of infrastructure for telecommunications in housing developments, urban settlements and concentrations of buildings. The law addresses access to the public domain, expropriation and the constitution of public easements, and sets forth several obligations designed to allow electronic communications operators to install and develop electronic communications networks.

*EU Regulations Relating to NGA Rollout Costs*

Between April and July 2012, the EC held a public consultation on the reduction of NGA roll-out costs, highlighting the need for more coordination, information and transparency between the different stakeholders. According to the EC, 80% of the investment costs in NGA networks relate to the deployment of civil infrastructure (such as trenching and laying of ducts), and up to 30% of these costs are due to inefficiencies. The EC is of the opinion that the NGAs and the Member States may intervene at this level, making infrastructure sharing mandatory, including infrastructure of utility companies. The EC published the report on this public consultation in November 2012 and proposed a draft regulation in March 2013. In November 2013, the Industry, Research and Energy, or ITRE, Committee of the European Parliament proposed a number of amendments to the EC's proposal, proposing that the measures to reduce the cost of broadband deployment should be addressed through an EU directive rather than a regulation, thus giving the Member States more flexibility to adjust specific local or national rules on this matter.

Negotiations between the European Parliament and the European Council took place in early 2014. In April 2014, the European Parliament plenary adopted the measures proposed in these negotiations to reduce the costs of deploying high-speed broadband networks with no substantial amendments to the final report published by the ITRE Committee of the European Parliament in March 2014. The directive was adopted in May 2014. Member States are required to transpose the directive into national law by January 1, 2016 and these national laws will enter into force



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by July 1, 2016. The impact of this directive in Portugal will be limited since Portugal adopted most of the measures contemplated by this directive in 2009.

*Proposed EC Single Telecom Market Legislative Package*

The EC, the European Parliament and the European Council are finalizing the plans for regulation implementing a single telecommunications market formerly called the Connected Continent legislation in order to stimulate the provision of cross-border European services.

The draft legislation, in its initial wording, addressed such diverse matters as a single European authorization and convergence of regulatory remedies, a standard EU wholesale broadband access product, the harmonization of spectrum authorization procedures, net neutrality and transparency, international mobile roaming and international calls, and consumer protection. Of these matters, only net neutrality and roaming are still under consideration, and the current proposals depart considerably from the initial proposals.

In its latest formulation, the legislative package advanced by the Latvian Presidency and discussed with the EC and the European Parliament on April 15, 2015 provides, among other things:

net neutrality.

the phasing out of retail roaming surcharges, based on the introduction of a basic roaming allowance, or BRA, under which providers may not levy any surcharge in comparison to the domestic retail prices for regulated mobile communications. Under this proposal:

the BRA must be available for at least seven days per year and include a minimum daily consumption of five minutes calls made, five minutes calls received, five SMS sent and 10 Mb of data.

surcharges for traffic outside the BRA shall not exceed the maximum wholesale charges for regulated roaming calls made, regulated SMS and regulated data.

The proposal also moves up the deadline for the EC to complete a review of the EU wholesale roaming market to the end of 2017, which was previously set for mid-2018, and adds a provision stressing that the latest regulation is an interim step towards ending roaming surcharges entirely. As of the date of this annual report, the negotiation of this legislative package has not concluded.

*Number Portability and Carrier Selection*

Number portability allows a subscriber to change service providers without having to change telephone numbers. Under ANACOM regulations, PT Portugal is required to allow number portability for both fixed line and mobile services within one working day, other than in exceptional circumstances. Because PT Portugal has been deemed to be a fixed line network operators with significant market power, ANACOM regulations require that PT Portugal offer call-by-call carrier selection for long distance and international calls. Call-by-call carrier selection enables customers to select the carrier of their calls by dialing a code connecting them to the selected carrier. Carrier pre-selection allows customers to select the carrier that will be their default carrier. This removes the need for customers to dial any code to

connect to their selected carrier when making long distance or international calls.

*Network Security*

In December 2011, ANACOM approved a draft decision on the circumstances, format, and procedures applicable to reports regarding security breaches or loss of integrity with a significant impact on the functioning of electronic communications networks and services available to the public. This decision also sets forth the conditions under which ANACOM considers there is a public interest in disclosing information regarding those events to the public. Under this decision, PT Portugal was required to implement all the necessary measures to comply with this decision by June 2014, which required implementing new procedures and adapting information systems to produce the relevant information to notify to ANACOM.

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### *Implementation of the Centralized Information System by ANACOM*

The current Portuguese legal framework anticipates the implementation of a Centralized Information System, or SIC, to be managed and operated by ANACOM, the main objective of which will be to make available information on infrastructure appropriate for the installation of electronic communications networks based on information provided by the Portuguese government, autonomous regions, municipalities, publicly held companies, concessionaires, other entities owning or using infrastructure in the public domain, and electronic communications network operators.

Through the SIC, ANACOM and market participants will be able to access information on procedures and conditions that determine the allocation of rights of way, information on construction announcements relating to new pipelines and other infrastructure suited for use by electronic communications networks, complete and georeferenced information of all infrastructure suitable for use by electronic communications networks that is owned by governmental entities or by electronic communications companies, and information on applicable procedures and conditions of access and use for each of these infrastructures.

Because PT Portugal has reference offers under which it is required to provide a substantial amount of information to operators that wish to use its ducts, poles and associated infrastructure, PT Portugal is closely monitoring the implementation of the SIC and is seeking to avoid the implementation of additional obligations to provide competitive information regarding its ducts and associated infrastructure.

### *Regulation of the Wholesale Market for Telecommunications Services*

#### *Designation of Carriers with Significant Market Power*

In 2009, after the review of the 2007 EC Recommendation on Relevant Markets, ANACOM conducted a market analysis to determine the regulatory obligations that should be imposed on operators with significant market power in the provision of services in Markets 3a and 3b (at that time, Markets 4 and 5). ANACOM has segmented Markets 3a and 3b between C (competitive) areas and NC (non competitive) areas. PT Portugal is obligated to provide a wholesale local loop unbundling reference offer (in relation to Market 3a) throughout Portugal and to provide a wholesale broadband (bitstream) reference offer (in relation to Market 3b) only in NC areas. Although PT Portugal is not required to provide a reference offer for the provision of services in Market 3b in areas designated C, PT Portugal maintains a reference offer for these services.

In February 2012, ANACOM approved a draft decision related to the definition of Market 3a and Market 3b, the evaluation of significant market power, and the imposition, maintenance, modification or suppression of regulatory obligations. ANACOM proposed to maintain the national scope of Market 3a and the geographic segmentation in Market 3b, which is divided into unregulated C areas and regulated NC areas, and to include high-speed broadband networks (e.g., FTTH networks) in Market 3b in order to require operators with significant market power to provide access to these networks. Under this draft decision, PT Portugal would continue to be considered to have significant market power in Market 3a and Market 3b in non-competitive areas.

In 2009, ANACOM found PT Portugal to have significant market power in Market 4 (at that time, Market 6) and segmented the transit segments in this market between C and NC routes. In Market 4, ANACOM included Ethernet connections and imposed the retail-minus rule over Ethernet solutions. PT Portugal has no significant market power on the C routes.

In addition to PT Portugal, in 2009 all other fixed line operators in Portugal were determined to have significant market power in Market 1 and Market 2 (at that time, Markets 3 and 7).

In August 2014, ANACOM issued a final decision following its re-analysis of certain retail markets that had been included in the 2003 EC Recommendation on Relevant Markets, but were no longer included in the 2014 EC Recommendation on Relevant Markets, withdrawing the existing retail regulation of those markets. In the same final decision, following its re-analysis of the wholesale market for call origination on the fixed telephone network provided at a fixed location (Market 2 under the 2007 EC Recommendation on Relevant Markets and Market 8

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under the 2003 EC Recommendation on Relevant Markets), or Market 2/2007, ANACOM decided to continue to fully regulate Market 2/2007, including regulation of carrier pre-selection and wholesale line rental obligations.

### *Market 3a Reference Offers (Unbundling the Local Loop)*

The EC requires fixed line network operators found to have significant market power in Market 3a to make the local loops between their customers and the local switches on their networks available to competitors. This allows these competitors to connect their networks to the copper local loop of the relevant fixed line network operator and use the local loop to provide services directly to the customers of the competitor without the competitor investing in the local loop or rely upon the relationship of the relevant fixed line network operator with the customers of the competitor. Under this regulation, PT Portugal is required to maintain a reference offer for unbundled access to its local loops and related facilities and to meet reasonable requests for unbundled access to its local loops and related facilities under transparent, fair and non-discriminatory conditions. The prices that PT Portugal includes in its reference offer must be cost-oriented. The conditions under which unbundled access to PT Portugal's local loops are provided are set forth in a published reference offer in accordance with terms established by ANACOM. This reference offer covers all of PT Portugal's main distribution framework buildings in which technical and space conditions permit co-location. Co-location means providing space and technical facilities to competitors to the extent necessary to reasonably accommodate and connect the relevant equipment of the competitor.

Under the February 2012 draft ANACOM decision concerning access obligations in Market 3a, in addition to the obligation of granting unbundled access to copper loops and subloops and to ducts and poles at the national level, ANACOM intended to impose a geographically differentiated obligation to provide wholesale customers with virtual access to optical fiber networks (advanced bitstream). This obligation would not be imposed in 17 municipalities that were considered to have conditions that permit other network operators to invest in optical fiber networks. The draft decision required PT Portugal to demonstrate to ANACOM that the difference between PT Portugal's retail prices and the prices of the offers made available to other operators in Market 3a would not result in a margin squeeze. This review was not concluded, due to (1) the changes that took place in the Portuguese market during 2013 (e.g., the merger between ZON and Optimus and investments initiated by Vodafone and Altice to expand their optical fiber and cable networks), and (2) the publication in September 2013 of the EC's recommendation on NGA non-discrimination and costing methodologies.

In 2014, the publicly funded rural NGAs started their operations. Also, in June 2014, PT Portugal and Vodafone reached a commercial co-investment agreement on FTTH which will ensure the expansion of the total fiber footprint in Portugal and the existence of at least three different NGA operators competing across that geography. In light of these developments, we believe the impetus to impose specific fiber regulation on PT Portugal has been substantially reduced. We expect ANACOM to commence a new consultation on Markets 3a and 3b during 2015.

### *Market 4 and Market 13/2003 Reference Offers*

PT Portugal's Leased Lines Reference Offer (*oferta de referência de circuitos alugados*), or ORCA, sets forth the characteristics and the technical and commercial conditions associated with the provision of leased circuits by PT Portugal in the wholesale markets. PT Portugal's Ethernet Accesses Reference Offer (*oferta de referência de circuitos Ethernet*), or ORCE, sets forth the characteristics and the technical and commercial conditions associated with the provision of Ethernet circuits by PT Portugal in the wholesale markets.

Following a 2010 decision by ANACOM on leased line markets, the retail leased line market was deregulated. However, for Market 4 and the wholesale market for leased lines trunk segments (Market 13 under the 2003 EC Recommendation on Relevant Markets), or Market 13/2003, on routes designated NC, in which PT Portugal has been

declared an operator with significant market power, ANACOM decided to make Ethernet circuits subject to a retail-minus rule (which remains undefined by ANACOM).

In July 2012, ANACOM approved a final draft decision amending PT Portugal's ORCA and ORCE to reduce the wholesale prices under these reference offers, and provided the draft decision to the EC (which has stated it had no comment on the decision), BEREC and the national regulatory authorities of other Member States of the EU. PT

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Portugal has challenged this decision before the courts, arguing that the decision was illegal because ANACOM's decision was not supported by real data.

In December 2014, ANACOM commenced a public consultation on the re-analysis of Market 4. As a result of this re-analysis, PT Portugal may be subjected to significant price reductions in its wholesale leased lines business on its Continente Açores Madeira routes. As of the date of this annual report, a final decision ANACOM with respect to this re-analysis is pending.

### *Market 2 Termination Rates*

The regulation of Market 2 establishes a price control obligation on wholesale voice call termination services. Following EC recommendations on the regulatory treatment of fixed and mobile termination rates in the EU, this price control results in a cost-oriented price cap determined by a BU-LRIC cost model.

In April 2012, ANACOM set the termination rates to be applied in Market 2. In accordance with ANACOM's decision, the cost model for mobile termination set the maximum prices to be applied by the three Portuguese mobile operators considered to have significant market power at 0.0127 per minute, to be billed per second from the first second and independent of the origin of the call.

ANACOM has proposed a further decrease of the maximum termination rate to 0.0083 in 2015. A draft decision regarding mobile termination rates is currently pending, and comments may be submitted until mid-May 2015.

### *Interconnection Regulation*

#### *The Interconnection Framework*

The EU Access and Interconnection Directive requires that interconnection services be made available in a non-discriminatory manner. The EU Access and Interconnection Directive encourages commercial negotiations among operators but requires national regulatory authorities to establish mechanisms for effective dispute resolution. Under the EU Access and Interconnection Directive, all telecommunications companies with significant market power in the call origination or termination markets must:

make interconnection access to their networks available to other network operators;

not discriminate between interconnection customers;

provide to those requesting interconnection the information and technical specifications necessary for them to interconnect their networks;

offer interconnection prices that are transparent and cost-oriented and do not discriminate between interconnection customers; and

maintain a separate accounting system for interconnection activities.

The EU Access and Interconnection Directive established the general conditions for access and interconnection among telecommunications operators in competitive markets. It guarantees the rights of new entrants to obtain interconnection from telecommunications operators with significant market power. ANACOM is entitled to review and modify PT Portugal's proposed interconnection rates and arrangements in its reference interconnection offer. ANACOM has established an overall interconnection framework based on cost and consistent with the EU legal framework for both wireline and mobile services.

*Wireline Interconnection*



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ANACOM regulates services in Market 1 within the scope of market analysis and significant market power designations. ANACOM has declared that PT Portugal has significant market power in these markets. As a result, PT Portugal is subject to price controls in these markets that follow EC recommendations on the regulatory treatment of fixed and mobile termination rates in the EU, resulting in a cost-oriented price cap determined by a BU-LRIC cost model.

In March 2013, ANACOM published a draft decision regarding Market 1 proposing to set an average symmetrical FTR of 0.001091 per minute from October 1, 2013 to July 1, 2014, corresponding to the average FTR of the countries that had already defined their call termination rates at a fixed location based on the pure BU-LRIC cost models recommended by the EC.

In July 2013, ANACOM notified the EC of a draft decision on the same lines as the draft decision that it submitted to a public consultation in March 2013, but proposing therein an average termination rate of 0.001114 per minute, which resulted from an update to the benchmark. In the draft decision notified to the EC, ANACOM imposed on PT Portugal an obligation to submit, within 12 months, a proposal for access and IP interconnection.

However, in August 2013, ANACOM decided to withdraw its draft decision as a consequence of the serious doubts raised by the EC, particularly regarding the inexistence of a symmetric obligation of IP interconnection imposed upon all operators with significant market power. Having taken into consideration the EC comments, in August 2013, ANACOM imposed provisional and urgent measures that determined the maximum average prices to be applied by the operators designated as having significant market power in Market 1 should be:

On October 1, 2013: 0.001114 per minute (the prices to be applied by PT Portugal in the three interconnection levels were calculated taking into account the weight of traffic in each level, so that, globally, this average price is reached).

From July 1, 2014: the maximum average prices will be set using a pure LRIC cost model, As of the date of this annual report, the pure LRIC cost model has not been finalized.

Some operators interpreted this decision in different ways, recreating situations of tariff asymmetry, which led ANACOM to adopt new and urgent provisional measures in November 2013, with effect from December 1, 2013, clarifying that if operators choose to define a simplified tariff with only one price level, that price cannot be higher than the average reference price, and that if they choose a structured tariff, with various levels of interconnection, they must provide a local interconnection price level, so that it is possible to deliver on that level the termination traffic to all customers of the operator.

In July 2014, ANACOM commenced a consultation to review Market 1 that includes a symmetric obligation to ensure IP interconnection, and on the implementation of the pure LRIC model, proposing to set a fixed symmetric termination rate of 0.00068. As of the date of this annual report, ANACOM's decision following this consultation is pending.

***Retail Rate Regulation***

*Tariffs for Mobile Telephone Services*

*Mobile Origination Tarriffs*

In January 2012, the Portuguese Competition Authority completed an analysis on mobile rates for originating calls, finding origination rates to be excessive and stating that mobile operators must reduce their rates to the level of their costs by July 2012 or face the possibility of being sanctioned. All three mobile network operators in Portugal decided to reduce their mobile origination rates to between 0.07 and 0.0975 per minute and PT Portugal does not expect any subsequent action from the Portuguese Competition Authority.

*Roaming Tariffs*

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The EC regulates the roaming charges that may be charged in the wholesale and retail markets in Europe. These regulations extend to data and SMS messaging. In July 2012, the previous roaming regulations were replaced by new regulations, known as Roaming III, which will expire in June 2022. In addition to setting maximum voice roaming rates (subject to a glide path) that may be charged with respect to the wholesale market, retail market, data and SMS, Roaming III also features (1) extended transparency and consumer-protection measures that go beyond the EU territory, (2) a cap on retail data roaming communications, (3) the introduction of an obligation for mobile operators in the wholesale market to provide reasonable network access in order to allow roaming services and (4) the decoupling of roaming services from other services, while enabling a consumer to use the same number.

On July 1, 2013, new price caps, that were valid until July 2014, entered into force:

For voice calls, at the retail level: 0.24/min for outgoing calls and 0.07/min for incoming calls. At the wholesale level: 0.10 for incoming calls;

For outgoing SMS: 0.08 (retail) and 0.02 (wholesale); and

For data traffic: 0.45/MB (retail) and 0.15/MB (wholesale).

As of July 1, 2014 the price caps, valid until June 30, 2017 (retail level) and June 30, 2022 (wholesale level), if not revised before, were:

For voice calls, at the retail level: 0.19/min for outgoing calls and 0.05/min for incoming calls. At the wholesale level: 0.05 for incoming calls;

For outgoing SMS, 0.06 (retail) and 0.02 (wholesale); and

For data traffic: 0.20/MB (retail) and 0.05/MB (wholesale).

In March 2013, BEREC published its guidelines on the interpretation and implementation of Roaming III, except with regard to Articles 3, 4 and 5 concerning the wholesale access and the separate sale of roaming services. Issues concerning wholesale access had already been subject of specific guidelines, published in September 2012, and the separate roaming services (single IMSI and LBO Local break-out) sale was also the subject of specific guidance published in July 2013.

In addition, the EC's proposed Single Telecom Market legislation could lead to the elimination of roaming charges for calls within the EU.

***Regulations Applicable to Pay-TV Operators and Providers of Video-on-Demand Services***

In September 2012, Portuguese Law No. 55/2012, the Cinema Law, became effective. The Cinema Law establishes principles for the promotion, development and protection of the art of cinema and cinematographic and audio-visual activities, and imposes obligations on television distributors and operators of video-on-demand services. The Cinema

Law was amended on May 19, 2014 by Portuguese Law No. 28/2014. Under the amended Cinema Law, Pay-TV operators must pay a fee to the Portuguese government of 2.00 euros per subscriber per year until 2019, when this fee will be reduced to 1.75 euros per subscriber per year. Under the amended Cinema Law, ANACOM will contribute an amount equal to 75% of the amount paid by the Pay-TV operators to the financing of cinema and audiovisual productions.

In August 2013, the Portuguese Cinema and Audiovisual Institute (*Instituto do Cinema e do Audiovisual*), or ICA, adopted regulations under the Cinema Law that, among other things, establishes the obligations of the providers of on demand audiovisual media services (1) to invest 1% of video-on-demand services revenues in film production, (2) to report to ICA on or prior to June 30 of each year the video-on-demand services revenues earned in the prior year, (3) to report to ICA on or prior to January 31 of the year following the year to which the investment relates: (a) the title, type and genre of each creative national film work that was the object of an investment; (b) the identification of the independent producers, author and other rights holders of such works; (c) the amount and type

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of investment made in each work; and (d) the demonstration of the actual costs with the creation of an area devoted to national works.

### ***Regulations Applicable to Providers of Internet and Cloud Computing Services***

#### ***Internet Access***

As a result of past ANACOM decisions, PT Portugal offers two access regimes to ISPs: (1) the Reference Offer for Internet Access, which includes two alternative pricing methods, primarily a monthly flat rate and a per minute origination charge, and under which the connection of the ISP's infrastructure to PT Portugal's fixed line network is based on DSS1 signaling, and (2) the Reference Interconnection Offer, which includes a pricing method based on call origination, under which the connection of the ISP's infrastructure to PT Portugal's fixed line network is based on Signaling System No. 7 (SS7) protocols. The ISPs determine which regime will apply to their arrangements to connect with PT Portugal's fixed line network.

#### ***Internet and Related Services***

Various regulatory developments may affect PT Portugal's internet business. A Data Protection Directive was adopted by the EC in 2006, imposing data-retention obligations on operators. The law implementing this directive requires internet service providers and other electronic communications providers to preserve data for a specified period of time and imposes other obligations in this area.

#### ***Cloud Computing***

In September 2012, the EC issued a review of cloud computing in Europe with the goal of enabling and facilitating its adoption throughout all sectors of the economy, thereby cutting information and communications technology, or ICT, costs and boosting productivity, growth and jobs. The EC put forward a set of measures that it stated were key to promoting cloud computing and ensuring users' rights.

In December 2012, the Directorate-General for Justice organized a workshop on cloud computing contracts, with the purpose of exploring stakeholders' experiences and views on cloud computing contracts with the EC. The EC and stakeholders discussed possible future developments of the market, issues relating to cloud computing contracts, based on existing practice, the economic impact of these issues in cloud computing contracts and the possible ways forward. The EC considered the workshop a first step to find precise feasible mandate for an expert group that was formed in September 2013 to address cloud computing issues pertaining to fair and balanced contract terms, trust of customers and users and increased legal certainty.

### ***Universal Service Concession Regime***

#### ***Universal Service Concessions***

Under the Portuguese regulatory framework, the Portuguese Ministry of Finance, Economy and Employment periodically conducts public tenders to designate universal service providers for the following functions:

connection to a public telecommunications network at a fixed location and the provision of public telephone services;

publicly available telephones (payphones); and

comprehensive directory and directory inquiry services.

Upon the completion of these public tenders, concessions to provide universal services are granted for each service for three geographic regions: North, Center and South and Islands. Universal service providers are obligated to provide access to the fixed line telephony and telephony services, under a technological neutrality rule and subject to price cap control of CPI-2.75%.

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In the most recent public tender:

NOS was designated as universal service provider for connection to a public telecommunications network at a fixed location and the provision of public telephone services. NOS' concession has a term that expires in June 2019. PT Portugal was the universal service provider for these services from 1995 to May 2014.

PT Portugal was designated as universal service provider for publicly available telephones. PT Portugal's concession has a term that expires in April 2019.

Because no bids were presented in the public tender for comprehensive directory and directory inquiry services, the Portuguese government initiated a direct award procedure for a concession to provide these services for a period of 12 months, with the possibility of such period being extended for an additional six months. PT Portugal was awarded a concession to provide these services that expired in February 2015 and was renewed until August 2015.

*Compensation Fund for Universal Service Providers*

Under the Portuguese Law No. 35/2012, each telecommunications provider is required to contribute to a compensation fund for universal service providers according to its share of the revenues of the Portuguese telecommunications sector. This fund is used to compensate the universal service providers for the net costs of providing the services under the universal service obligation. The contributions depend on the amount of the Net Costs of the Universal Service, or NCUS, calculated by ANACOM. ANACOM has not yet calculated the NCUS for 2012, 2013 or 2014.

**Environmental and Other Regulatory Matters in Brazil**

As part of our day-to-day operations, we regularly install ducts for wires and cables and erect towers for transmission antennae. We may be subject to federal, state and/or municipal environmental licensing requirements due to the installation of cables along highways and railroads, over bridges, rivers and marshes and through farms, conservation units and environmental preservation areas, among other places. As of the date of this annual report, we have been required to obtain environmental licenses for the installation of transmission towers and antennae in several municipalities with no material impact on our operations. However, there can be no assurances that other state and municipal environmental agencies will not require us to obtain environmental licenses for the installation of transmission towers and antennae in the future and that such a requirement would not have a material adverse effect on the installation costs of our network or on the speed with which we can expand and modernize our network.

We must also comply with environmental legislation regarding the management of solid waste. According to resolutions adopted by the National Environmental Council (*Conselho Nacional do Meio Ambiente*), companies responsible for the treatment and final disposal of solid industrial waste, special waste and solid urban waste are subject to environmental licensing. Should the waste not be disposed of in accordance with standards established by environmental legislation, the company generating such waste may be held jointly and severally liable with the company responsible for waste treatment for any damage caused. Also, in all states where we operate, we have implemented management procedures promoting the recycling of batteries, transformers and fluorescent lamps.

In addition, we are subject to ANATEL regulations that impose limits on the levels and frequency of the electromagnetic fields originating from our telecommunications transmissions stations.

We believe that we are in compliance with ANATEL standards as well as with all applicable environmental legislation and regulations. We are currently not involved in any administrative or judicial proceeding involving material liability for environmental damage.

**Disclosure Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act**

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 added Section 13(r) to the Exchange Act. Section 13(r) requires an issuer to disclose in its annual or quarterly reports filed with the SEC



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whether the issuer or any of its affiliates has knowingly engaged in certain activities, transactions or dealings with the Government of Iran, relating to Iran or with designated natural persons or entities involved in terrorism or the proliferation of weapons of mass destruction during the period covered by the annual or quarterly report. Disclosure is required even when the activities were conducted outside the United States by non-U.S. entities and even when such activities were conducted in compliance with applicable law.

In December 2011, we entered into a roaming agreement with MTN Irancell. Pursuant to such roaming agreement, our customers are able to roam in MTN Irancell's network (outbound roaming) and customers of MTN Irancell are able to roam in our network (inbound roaming). For outbound roaming, we pay MTN Irancell roaming fees for use of their network by our customers, and for inbound roaming MTN Irancell pays us roaming fees for use of our network by its customers.

Our inbound and outbound roaming services with MTN Irancell were launched commercially in October and November 2012, respectively. During 2014, we recorded revenues of US\$2,311 and expenses of US\$660 in connection with this roaming agreement.

Prior to our acquisition of PT Portugal in May 2014, MEO entered into roaming agreements with MTN Irancell. Pursuant to such roaming agreement, our customers are able to roam on the Iranian network (outbound roaming), and customers of such Iranian operators are able to roam on MEO's network (inbound roaming). For outbound roaming, we pay the Iranian operator roaming fees for use of its network by our customers, and for inbound roaming the Iranian operator pays MEO roaming fees for use of its network by the Iranian operator's customers.

In 2014, in connection with the above mentioned roaming agreements entered into with MTN Irancell, MEO recorded gross revenues of 813 and operating costs of 6,831, corresponding to a net loss after tax of 4,634. In addition to these transactions, MEO also incurred expenses amounting to 2,431 in 2014 with the Mobile Company of Iran, corresponding to a net loss after tax of 1,872.

We do not maintain any bank accounts in Iran. All payments in connection with our international roaming agreements are effected through our bank accounts in London and Lisbon.

The purpose of all of these agreements is to provide our customers with coverage in areas where we do not own networks. For that purpose, we intend to continue maintaining these agreements.

We also provide telecommunications services in the ordinary course of business to the Embassy of Iran in Lisbon, Portugal. We recorded gross revenues and net profits of less than 10,000 from these services in 2014. As one of the primary providers of telecommunications services in Lisbon, Portugal, we intend to continue providing such services, as we do to the embassies of many other nations.

**ITEM 4A.UNRESOLVED STAFF COMMENTS**

Not applicable.

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**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

*The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements as of December 31, 2014 and 2013 and for the three years ended December 31, 2014, which are included in this annual report, as well as with the information presented under the sections entitled Presentation of Financial and Other Information and Item 3. Key Information Selected Financial Information.*

*The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth in Forward-Looking Statements and Item 3. Key Information Risk Factors.*

**Overview**

We are an integrated telecommunications service provider, with operations in Brazil, Portugal, Africatel and Asia. In May 2014, we acquired all of the operating assets then held by PT SGPS, except interests held directly or indirectly in TmarPart and our company, and all of PT SGPS liabilities as of the date of the acquisition. As a result, we hold significant interests in telecommunications companies in Portugal as well as Angola, Cape Verde, Namibia, São Tomé and Príncipe in Africa and Timor Leste in Asia. In 2014, we recorded net operating revenue of R\$28,247 million and net loss of R\$4,406 million.

On December 9, 2014, we entered into the PTP Share Purchase Agreement under which we have agreed to sell all of the share capital of PT Portugal to Altice Portugal. As a result, we record our operations in Portugal as discontinued operations in our financial statements. We expect to complete the sale of these operations during the second quarter of 2015.

On September 17, 2014, our board of directors authorized our management to take the necessary measures to market our shares in Africatel, representing 75% of the share capital of Africatel. As a result, we record our interest in Africatel as held-for-sale. Due to the many risks involved in the ownership of these interests, particularly our interest in Unitel, we cannot predict when a sale of these assets may be completed.

Our results of operations and financial condition have been and will be significantly influenced in future periods by the corporate reorganization of our company, TNL, Telemar and Coari described under Item 4. Information on the Company Our Recent History and Development Corporate Reorganization of TNL, Telemar and Our Company, the Oi capital increase including the acquisition of PT Portugal described under Item 4. Information on the Company Our Recent History and Development Oi Capital Increase and Acquisition of PT Portugal, the PT Exchange described under Item 4. Information on the Company Our Recent History and Development Rio Forte Defaults and PT Exchange, and our pending disposition of the Portuguese business of PT Portugal described under Item 4. Information on the Company Our Recent History and Development Proposed Sale of PT Portugal. In addition, our results of operations for the years ended December 31, 2014, 2013 and 2012 and our financial condition as of December 31, 2014 and 2013 have been influenced, and our future results of operations and financial condition will continue to be influenced, by a variety of factors, including:

the rate of growth of Brazilian GDP, which grew by an estimated 0.1% in 2014, and grew by 2.3% in 2013 and 0.9% in 2012, which we believe affects demand for our services and, consequently, our net operating revenue;

the number of our fixed lines in service, which declined to 15.8 million as of December 31, 2014 (excluding fixed-line customers of our discontinued operations) from 16.9 million as of December 31, 2013, and the percentage of our fixed-line customers that subscribe to our alternative plans which increased to 84.5% as of December 31, 2014 from 80.5% as of December 31, 2013;

the number of our mobile customers, which increased to 50.9 million as of December 31, 2014 (excluding fixed-line customers of our discontinued operations) from 50.2 million as of December 31, 2013;

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the number of our fixed-line customers that subscribe to our broadband services, which remained stable at 5.9 million as of December 31, 2014 (excluding fixed-line customers of our discontinued operations) and December 31, 2013;

the number of our Pay-TV customers, which increased to 1.2 million as of December 31, 2014 (excluding fixed-line customers of our discontinued operations) from 0.8 million as of December 31, 2013;

the increased competition in the Brazilian market for telecommunications services, which affects the amount of the discounts that we offer on our service rates and the quantity of services that we offer at promotional rates;

inflation rates in Brazil, which were 5.72% in 2014 and 4.90% in 2013, as measured by the IST, and the resulting adjustments to our regulated rates in Brazil, as well as the effects of inflation on our *real*-denominated debt that is indexed to take into account the effects of inflation or bears interest at rates that are partially adjusted for inflation;

our compliance with our quality of service obligations under the General Plan on Quality Goals and our network expansion and modernization obligations under the General Plan on Universal Service Goals and our concession agreements, the amount of the fines assessed against us by ANATEL for alleged failures to meet these obligations and our success in challenging fines that we believe are assessed in error;

changes in the *real*/U.S. dollar exchange rate, including the 13.4% depreciation of the *real* against the U.S. dollar during 2014 and the 14.6% depreciation of the *real* against the U.S. dollar during 2013, which has affected our financial expenses as a result of exchange variations on our indebtedness denominated in U.S. dollars, and the cost in *reais* of a substantial portion of the network equipment that we purchase for our capital expenditure projects, the prices of which are denominated in U.S. dollars or are U.S. dollar-linked; and

the level of our outstanding indebtedness, fluctuations in LIBOR and benchmark interest rates in Brazil, principally the CDI rate and the TJLP rate, which affects our interest expenses on our floating rate debt. Our financial condition and liquidity is influenced by a variety of factors, including:

our ability to generate cash flows from our operations;

prevailing Brazilian and international interest rates, which affect our debt service requirements;

our ability to borrow funds from Brazilian and international financial institutions and to sell our debt securities in the Brazilian securities markets, which is influenced by a number of factors discussed below;

the success of our program to monetize non-core assets;

our capital expenditure requirements, primarily relating to a variety of projects designed to expand and upgrade our data transmission networks, our mobile services networks, our voice transmission networks, our information technology equipment and our telecommunications services infrastructure; and

the requirement under the Brazilian Corporation Law and our by-laws that we pay dividends on an annual basis in an amount equal to at least 25% of our adjusted net income, unless our board of directors deems it inconsistent with our financial position.

**Corporate Reorganization**

On February 27, 2012, the shareholders of TNL, Telemar, Coari and Brasil Telecom approved a series of transactions including:

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a split-off (*cisão*) and merger of shares (*incorporação de ações*) under Brazilian law in which:

Telemar transferred its shares of Coari to Coari;

Coari assumed a portion of the liabilities of Telemar, which became joint and several liabilities of Telemar and Coari or obligations of Coari guaranteed by Telemar;

Coari issued one common share and/or one preferred share to the holders of Telemar common and preferred shares (other than the shares of holders who exercised their withdrawal rights with respect to such shares) in exchange for each of their common and preferred shares of Telemar, respectively; and

Coari retained the Telemar shares exchanged for Coari shares and as a result, Telemar became a wholly-owned subsidiary of Coari;

a merger (*incorporação*) under Brazilian law of Coari with and into our company, with our company as the surviving company, which we refer to as the Coari merger, in which:

each issued and then outstanding share of Brasil Telecom held by Coari and all Coari shares held in treasury were cancelled;

each issued and then outstanding common share of Coari was converted automatically into 51.149 common shares of Brasil Telecom;

each issued and then outstanding preferred share of Coari was converted automatically into 3.904 common shares of Brasil Telecom and 40.034 preferred shares of Brasil Telecom;

Coari ceased to exist; and

Telemar became a wholly-owned subsidiary of Brasil Telecom; and

a merger (*incorporação*) under Brazilian law of TNL with and into our company, with our company as the surviving company, which we refer to as the TNL merger, in which:

each TNL share held in treasury prior to the TNL merger was cancelled, and each issued and then outstanding share of Brasil Telecom held by TNL was cancelled, other than 2,464,787 common shares of Brasil Telecom, which were transferred to the treasury of Brasil Telecom;

each issued and then outstanding common share of TNL (other than common shares held by shareholders who exercised their withdrawal rights with respect to such common shares) was converted automatically into 23.122 common shares of Brasil Telecom;

each issued and then outstanding preferred share of TNL was converted automatically into 1.879 common shares of Brasil Telecom and 19.262 preferred shares of Brasil Telecom; and

TNL ceased to exist.

In addition, on February 27, 2012, our shareholders approved:

the issuance and distribution of (1) one Class B redeemable preferred share of our company to the holder of each of our common shares, and (2) one Class C redeemable preferred share of our company to the holder of each of our preferred shares; and

the redemption of each Class B redeemable preferred share and Class C redeemable preferred share at a redemption price equal to R\$25.43282 per share, or an aggregate of R\$1,502 million.

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Holders of Telemar common shares, class A preferred shares and class B preferred shares and holders of TNL preferred shares as of the close of trading on May 23, 2011, the date prior to the publication of the Relevant Fact that first announced the split-off and share exchange and the TNL merger were entitled to withdrawal rights in connection with the split-off and share exchange and the TNL merger. Shareholders who exercised these withdrawal rights with respect to the Telemar shares were entitled to receive R\$74.37 per share and shareholders who exercised these withdrawal rights with respect to the TNL preferred shares were entitled to receive R\$28.93 per share. As of March 29, 2012, the expiration of the period for the exercise of these withdrawal rights, holders of 1,020,215 Telemar common shares, 17,856,585 Telemar class A preferred shares, 47,714 Telemar class B preferred shares and 20,446,097 TNL preferred shares had validly exercised their withdrawal rights for an aggregate cost to our company of R\$1,999 million.

**Oi Capital Increase and Acquisition of PT Portugal**

On October 1, 2013, we entered into a memorandum of understanding, or the Memorandum of Understanding, with PT SGPS, AG Telecom, LF Tel, PASA, EDSP, Bratel Brasil, BES and Ongoing, in which we and they agreed to the principles governing a series of transactions, including a business combination involving three principal components:

A capital increase of our company that was concluded on May 5, 2014 in which we issued 121,674,063 of our common shares and 280,483,641 of our preferred shares for an aggregate amount of R\$8,250 million in cash, and 104,580,393 of our common shares and 172,025,273 of our preferred shares to PT SGPS in exchange for the contribution by PT SGPS to our company of all of the shares of its subsidiary PT Portugal.

A proposed merger of shares under Brazilian law, a Brazilian transaction in which, subject to the approvals of the holders of voting shares of our company and TmarPart, (1) each issued and then outstanding common share of our company not owned by TmarPart was to be converted automatically into one TmarPart common share, (2) each issued and then outstanding preferred share of our company not owned by TmarPart was to be converted automatically into 0.9211 TmarPart common shares, and (3) we were to become a wholly-owned subsidiary of TmarPart; this proposed merger of shares was subsequently abandoned.

a proposed merger (*incorporação*) under Portuguese and Brazilian law of PT SGPS with and into TmarPart, with TmarPart as the surviving company in which the shareholders of PT SGPS were to receive an aggregate number of TmarPart shares equal to the number of TmarPart shares held by PT SGPS immediately prior to the merger; this proposed merger was subsequently abandoned.

In May 2014, we completed the Oi capital increase in which we issued:

121,674,063 of our common shares and 280,483,641 of our preferred shares for an aggregate of R\$8,250 million; and

104,580,393 of our common shares and 172,025,273 of our preferred shares to PT SGPS in exchange for the contribution by PT SGPS to us of all of the outstanding shares of PT Portugal.



For more information about the Oi capital increase, see Item 4. Information on the Company Our Recent History and Development Oi Capital Increase and Acquisition of PT Portugal. For more information about the assets and businesses of PT Portugal acquired in the Oi capital increase, see Item 4. Information on Our Company Operations in Portugal and Item 4. Information on Our Company Operations in Africa.

### **Rio Forte Defaults and PT Exchange**

Subsequent to the acquisition of PT Portugal on May 5, 2014, we discovered that (1) PT Portugal had subscribed to 200 million principal amount of commercial paper of Rio Forte that matured in July 2014, and (2) PTIF, which has been a wholly-owned subsidiary of PT Portugal at all times since May 5, 2014, had subscribed to

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697 million principal amount of commercial paper of Rio Forte that matured in July 2014. As a result of our acquisition of PT Portugal as part of the Oi capital increase, we became the creditor under this commercial paper.

On July 15 and 17, 2014, Rio Forte defaulted on the commercial paper held by PT Portugal and PTIF. On September 8, 2014, we, TmarPart, PT SGPS, PT Portugal and PTIF entered into the PT Exchange Agreement and the PT Option Agreement. Under the PT Exchange Agreement, PT Portugal and PTIF agreed to transfer the defaulted Rio Forte commercial paper to PT SGPS and PT SGPS agreed to deliver to PT Portugal and PTIF an aggregate of 47,434,872 of our common shares and 94,869,744 of our preferred shares, representing 16.9% of our outstanding share capital, including 17.1% of our outstanding voting capital prior to giving effect to the exchange.

On March 24, 2015, PT Portugal assigned its rights under the PT Exchange Agreement and the PT Option Agreement to PTIF. On March 27, 2015, PT Portugal assigned all of its rights and obligations under the Rio Forte commercial paper that it owned to PTIF. On March 30, 2015, the transactions contemplated by the Exchange Agreement were completed through the transfer of Rio Forte commercial paper in the aggregate amount of 897 million to PT SGPS in exchange for 47,434,872 of our common shares and 94,869,744 of our preferred shares.

Under the PT Option Agreement, PTIF has granted to PT SGPS an option to acquire 47,434,872 of our common shares and 94,869,744 of our preferred shares.

For more information about the PT Exchange and the PT Option, see Item 4. Information on the Company Our Recent History and Development Rio Forte Defaults and PT Exchange.

**Proposed Sale of PT Portugal**

Based on a reevaluation of our business strategy following these events, we determined that it was in the best interest of our company to dispose of PT Portugal and we commenced a sale process which led to the execution on December 9, 2014 of a Share Purchase Agreement among Oi, Altice Portugal and Altice. Under the PTP Share Purchase Agreement, we have agreed to sell all of the share capital of PT Portugal to Altice Portugal for a purchase price equal to the enterprise value of PT Portugal of 6,900 million, subject to adjustments based on the financial debt, cash and working capital of PT Portugal on the closing date, plus an additional earn-out amount of 500 million in the event that the consolidated revenues of PT Portugal and its subsidiaries (as of the closing date) for any single year between the year ending December 31, 2015 and the year ending December 31, 2019 is equal to or exceeds 2,750 million.

The closing under the PTP Share Purchase Agreement is conditioned on, among other things:

The completion of a PT Portugal reorganization in a manner that will result in our retaining:

100% of the share capital of PTIF;

100% of the share capital of PT Participações, which will hold the direct and indirect interests that we currently hold in Africatel TPT;

100% of the share capital of PTII;

100% of the share capital of CVTEL; and

100% of the share capital of Carrigans.

The release of PT Portugal from its obligations under a variety of debt instruments to which it is a party. Altice has informed us that on April 20, 2015, the European Commission declared the purchase and sale of PT Portugal was cleared on the condition that Altice sells its interest in Cabovisão and Oni Telecom. The European Commission also rejected the request previously made by the Portuguese Competition Authority to analyse and review the transaction. On the same date, the Portuguese Insurance and Pension Funds Supervisory Authority also issued a decision of non-opposition to the indirect acquisition by Altice Portugal of a qualifying holding in PT Portugal's subsidiary Previsão Sociedade Gestora de Fundos de Pensões, S.A.

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Although some of the conditions to the closing under the PTP Share Purchase Agreement are beyond our control, we expect that the closing of this sale will occur during the second quarter of 2015. For more information on the proposed sale of PT Portugal and the PTP Share Purchase Agreement, see Item 4. Information on the Company Our Recent History and Development Proposed Sale of PT Portugal.

## **Financial Presentation and Accounting Policies**

### ***Presentation of Financial Statements***

We have prepared our consolidated financial statements as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012 in accordance with Brazilian GAAP, which differs in certain important respects from U.S. GAAP. Differences between Brazilian GAAP and U.S. GAAP where applicable to our company are summarized in note 30 to our audited consolidated financial statements included in this annual report.

### ***Business Segments and Presentation of Segment Financial Data***

As a result of our acquisition of PT Portugal, we have consolidated the results of PT Portugal and its subsidiaries into our financial statements as from May 5, 2014. Following our acquisition of PT Portugal, we implemented a new organizational structure that we believe reflects our business activities and corresponds to our principal services. As a result, we had two business units and reported our results in two corresponding segments to reflect this organizational structure:

*Telecommunications in Brazil* This segment includes our services in Brazil, Africa and Asia, including operations that were reported as part of our Fixed-Line and Data Transmission Services, Mobile Services and Other Services segments in prior periods. Prior to our acquisition of PT Portugal, we accounted for our operations under three segments: Fixed-Line and Data Transmission Services, Mobile Services, and Other Services. As a result of our implementation of our new organizational structure, our three previously existing segments have been combined into our Telecommunications in Brazil segment.

*Telecommunications in Portugal* This segment included our services in Portugal, consisting of the operations conducted by PT Portugal's subsidiaries PT Comunicações, Meo, PT Inovação e Sistemas and PT Data Center, which, as a result of our acquisition of all of the outstanding share capital of PT Portugal on May 5, 2014, we have consolidated as from May 5, 2014. As a result of our decision to sell our Portuguese operations, we now account for these operations as discontinued operations and no longer report results of this segment.

Following our decision to sell PT Portugal, we have reclassified the operations conducted by our Telecommunications in Portugal segment as discontinued operations and as of and for the year ended December 31, 2014 report only one segment our Telecommunications in Brazil segment. Within our Telecommunications in Brazil segment, our management assesses revenue generation based on customer segmentation into the following categories:

Residential Services, focused on the sale of fixed telephony services, including voice services, data communication services (broadband), and Pay-TV;

Personal Mobility, focused on the sale of mobile telephony services to post-paid and pre-paid customers that include voice services and data communication services; and

SMEs/Corporate, which includes corporate solutions offered to our small, medium-sized, and large corporate customers, including voice services and corporate data solutions.

We evaluate and manage business segment performance based on information prepared in accordance with Brazilian GAAP, and, accordingly, the segment data included in this Management's Discussion and Analysis of Financial Condition and Results of Operations of Oi section is presented under Brazilian GAAP.

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**Table of Contents*****Critical Accounting Policies and Estimates***

Our critical accounting policies and estimates described in note 2(c) to our consolidated financial statements. In preparing our consolidated financial statements, we relied on estimates and assumptions derived from historical experience and various other factors that we deemed reasonable and relevant. Critical accounting policies are those that are important to the portrayal of our consolidated financial position and results of operations and require management's subjective and complex judgments, estimates and assumptions. The application of these critical accounting policies often requires judgments made by management regarding the effects of matters that are inherently uncertain with respect to our results of operations and the carrying value of our assets and liabilities. Our results of operations and financial position may differ from those set forth in our consolidated financial statements, if our actual experience differs from management's assumptions and estimates. In order to provide an understanding of our critical accounting policies, including some of the variables and assumptions underlying the estimates, and the sensitivity of those assumptions and estimates to different parameters and conditions, we set forth below a discussion of our critical accounting policies relating to:

revenue recognition and trade receivables;

provision for doubtful accounts;

depreciation of property, plant and equipment;

impairment of long-lived assets;

provisions;

fair value of derivative financial instruments and other financial instruments;

deferred income taxes and social contribution;

employee benefits; and

amortization of intangible assets.

***Revenue Recognition and Trade Receivables***

Our revenue recognition policy is significant because our revenue is a material component of our results of operations. Management's determination of price, collectability and the rights to receive certain revenues for the use of our network are based on judgments regarding the nature of the fee charged for services rendered, the price for certain services delivered and the collectability of those revenues. Should changes in conditions cause management to

conclude that these criteria are not met for certain transactions, the amount of accounts receivable could be adversely affected. In addition, for certain categories of revenue we rely upon revenue recognition measurement guidelines set by ANATEL.

Revenues are generally recognized on an accrual basis. Revenues from local fixed-line, long-distance and post-paid mobile calls and data transmission services are recognized when services are provided. Services provided and not billed at the end of each month are estimated and recorded on an accrual basis. Late-payment interest is recognized upon the issuance of the first bill following the payment of the overdue bill.

Revenues from pre-paid mobile cards are recognized based on the use of the respective credits. Revenue from the sale of public telephone cards is recognized when the credits are effectively consumed by customers. Revenues related to the sale of mobile handsets and accessories are accounted for when the goods are delivered and accepted by the customer.

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Revenues from the usage of our network by other telecommunications service providers are recorded based on a formal document of declared traffic and services rendered, the Traffic Exchange Declaration (*Documento de Declaração de Tráfego e Prestação de Serviço*), or DETRAF, issued by an independent, outsourced clearinghouse.

We consider revenue recognition to be a critical accounting policy, because of the uncertainties caused by different factors such as the complex information technology required, high volume of transactions, fraud and piracy, accounting regulations, management's determination of collectability and uncertainties regarding our right to receive certain revenues (mainly revenues for use of our network). Significant changes in these factors could cause us to fail to recognize revenues or to recognize revenues that we may not be able to realize in the future, despite our internal controls and procedures. We have not identified any significant need to change our revenue recognition policy.

*Provision for Doubtful Accounts*

Our provision for doubtful accounts is established in order to recognize probable losses on accounts receivable and takes into account limitations we impose to restrict the provision of services to customers with past-due accounts and actions we take to collect delinquent accounts. We include government entities, corporate customers and other telecommunications service providers in the basis for our calculation of the provision for doubtful accounts. For additional information regarding our provision for doubtful accounts, see note 9 to our consolidated financial statements.

We have entered into agreements with certain customers to collect past-due accounts receivable, including agreements allowing customers to settle their delinquent accounts in installments. The amounts that we actually fail to collect in respect of these accounts may differ from the amount of the allowance established, and additional allowances may be required.

*Depreciation of Property, Plant and Equipment*

We depreciate property, plant and equipment using the straight-line method at rates we judge compatible with the useful lives of the underlying assets. The depreciation rates of our most significant assets are presented in note 14 to our consolidated financial statements. The useful lives of assets in certain categories may vary based on whether they are used primarily to provide fixed-line or mobile services. We review the estimated useful lives of the assets taking into consideration technical obsolescence and a valuation by outside experts.

Given the complex nature of our property, plant and equipment, the estimates of useful lives require considerable judgment and are inherently uncertain, due to rapidly changing technology and industry practices, which could cause early obsolescence of our property, plant and equipment. If we materially change our assumptions of useful lives and if external market conditions require us to determine the possible obsolescence of our property, plant and equipment, our depreciation expense, obsolescence write-off and consequently net book value of our property, plant and equipment could be materially different.

*Impairment of Long-Lived Assets*

We test property, plant and equipment items and intangible assets for impairment whenever (1) we decide to discontinue activities in which such assets are used, or (2) there is evidence that future operating results will not be sufficient to ensure their realization.

Assets with finite useful lives are tested for impairment whenever events or changes in circumstances indicate that the asset might be impaired. We test asset with indefinite useful lives (goodwill) for impairment at least annually.



Impairment losses, if any, are recognized in an amount by which the carrying amount of an asset exceeds its recoverable value. Recoverable value is the higher of fair value less cost to sell and the value in use. These calculations require the use of judgments and assumptions. The determination of fair values and discounted future operating cash flows requires that we make certain assumptions and estimates with respect to projected cash inflows

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and cash outflows related to future revenue, costs and expenses. These assumptions and estimates may be influenced by different external and internal factors, such as economic trends, industry trends and interest rates, changes in business strategies, and changes in the type of services and products sold by our company. The use of different assumptions and estimates could significantly change our consolidated financial statements.

We have not recorded any impairment of our long-lived assets during the three years ended December 31, 2014.

### *Provisions*

We recognize provisions for losses in labor, tax and civil proceedings, as well as administrative proceedings. The recognition of a provision is based on the assessment of the risk of loss made for each proceeding, which includes assessing available evidence and recent decisions.

We classify our risk of loss in legal proceedings as remote, possible or probable. Provisions recorded in our consolidated financial statements in connection with these proceedings reflect reasonably estimated losses at the relevant date as determined by our management after consultation with our general counsel and the outside legal counsel. As discussed in note 21 to our consolidated financial statements, we record as a liability our estimate of the costs of resolution of such claims, when we consider our losses probable. We continually evaluate the provisions based on changes in relevant facts, circumstances and events, such as judicial decisions, that may impact the estimates, which could have a material impact on our results of operations and shareholders' equity. While management believes that the current provision is adequate, it is possible that our assumptions used to estimate the provision and, therefore, our estimates of loss in respect of any given contingency will change in the future based on changes in the relevant situation. This may therefore result in changes in future provisioning for legal claims. For more information regarding material pending claims against our company, see Item 8. Financial Information Legal Proceedings and note 21 to our consolidated financial statements.

### *Fair Value of Derivative Financial Instruments and Other Financial Instruments*

We recognize derivative financial instruments at fair value based on future cash flow estimates associated with each instrument contracted. The financial assets available for sale related to our investment in Unitel have been valued at fair value according to the operating assets used as basis in the valuation related to the Oi capital increase. Our estimates of future cash flows may not necessarily be indicative of the amounts that could be obtained in the current market. The use of different assumptions to measure the fair value could have a material effect on the amounts obtained and not necessarily be indicative of the cash amounts that we would receive or pay to settle such transactions.

As a result of the execution of the agreement for the sale of PT Portugal, we valued this investment at its fair value, as the lower of its carrying amount and its fair value less costs to sell. The fair value calculation assumptions of the investment in PT Portugal are subject to the adjustments usually adopted in similar transactions.

### *Deferred Income Taxes and Social Contribution*

Income taxes in Brazil are calculated and paid on a legal entity basis, and there are no consolidated tax returns. Accordingly, we only recognize deferred tax assets, related to tax loss carryforwards and temporary differences, if it is likely that they will be realized on a legal entity basis.

We recognize and settle taxes on income based on the results of operations determined in accordance with the Brazilian Corporation Law, taking into consideration the provisions of Brazilian tax law, which are materially

different from the amounts calculated for Brazilian GAAP and U.S. GAAP purposes. Under Brazilian GAAP and U.S. GAAP, we recognize deferred tax assets and liabilities based on the differences between the carrying amounts and the taxable bases of the assets and liabilities.

We regularly test deferred tax assets for impairment and recognize a provision for impairment losses when it is probable that these assets may not be realized, based on the history of taxable income, the projection of future taxable income, and the time estimated for the reversal of existing temporary differences. These projections require

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the use of estimates and assumptions. In order to project future taxable income, we need to estimate future taxable revenues and deductible expenses, which are subject to a variety of external and internal factors, such as economic trends, industry trends and interest rates, changes in business strategies, and changes in the type of services and products sold by our company. The use of different estimates and assumptions could result in the recognition of a provision for impairment losses for the entire or a significant portion of the deferred tax assets.

*Employee Benefits*

We record liabilities for employee benefits based on actuarial valuations which are calculated based on assumptions and estimates regarding discount rates, investment returns, inflation rates for future periods, mortality indices and projected employment levels relating to pension fund benefit liabilities. The accuracy of these assumptions and estimates will determine whether we have created sufficient reserves for the costs of accumulated pensions and healthcare plans, and the amount we are required to disburse each year to fund pension benefits. These assumptions and estimates are subject to significant fluctuations due to different external and internal factors, such as economic trends, social indicators, our capacity to create new jobs and our ability to retain our employees. All of these assumptions are reviewed at the end of each reporting period. If these assumptions and estimates are not accurate, we may be required to revise our reserves for pension benefits, which could materially impact our results of operations.

The Brazilian Accounting Pronouncements Committee has adopted amendments to CPC 33, *Employee Benefits*, that changed the accounting for defined benefit plans and termination benefits. This amendment eliminated the use of the corridor approach to recognizing actuarial gains and losses of defined benefit plans and required that actuarial gains and losses was recognized directly in the other comprehensive income component of shareholders' equity. This amendment became effective for periods ending on or after January 1, 2013. The revision of our accounting for defined benefit plans and termination benefits in compliance with this amendment had a negative impact on our shareholders' equity of R\$314 million (R\$207 million net of taxes) as of December 31, 2012.

*Amortization of Intangible Assets*

Intangible assets consist primarily of authorizations to provide personal mobile services and radio frequency licenses, licenses to use software and goodwill on the acquisition of investments, which is calculated based on expected future economic benefits.

Amortization of intangible assets, other than goodwill, is calculated under the straight-line method over (1) the effective term of the authorization to provide personal mobile services or of the radio frequency license, or (2) over a maximum period of five years in the case of software licenses.

We do not amortize goodwill in our consolidated statements of income and we are required to test goodwill for impairment at least on an annual basis.

**Principal Factors Affecting Our Financial Condition and Results of Operations***Effects of Investment in and Proposed Divestment of Portuguese Business of PT Portugal*

We have accounted for the acquisition of all of the shares of PT Portugal by our company in exchange for our common shares and preferred shares in the Oi capital increase under the purchase method of accounting as a result of which we have recorded the assets and liabilities of PT Portugal on our balance sheet based on the fair value of the identifiable assets acquired and liabilities assumed. We have prepared a purchase price allocation under which we adjusted the carrying values of certain of the assets and liabilities of PT Portugal.

The following table sets forth the adjustments to market value made in the context of the allocation of the fair values of identifiable assets and liabilities of PT Portugal.

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	Carrying Value	Adjustments to market value (in millions of <i>reais</i> )	Fair Value
List of residential segment customers	R\$ 40	R\$ 738	R\$ 778
List of personal mobile segment customers	94	1,642	1,736
List of corporate segment customers	37	665	701
Mobile licenses of the operations in Portugal	1,037	103	1,140
Adjustments of intangible assets to market value	R\$ 1,208	3,147	R\$ 4,355
Property, plant and equipment of operations in Portugal		608	
Adjustments to market value before taxes		3,755	
Effects of taxation		(1,012)	
Total adjustments to market value net of taxes		R\$ 2,743	

The following table shows the total acquisition price for, and the goodwill arising on, the acquisition of PT Portugal.

	(in millions of <i>reais</i> )
Equity instruments issued	R\$ 5,710
Fair value of the stake previously held by our company in Portugal Telecom	571
Non-controlling interests	1,478
Less: fair value of assets acquired and liabilities assumed	(2,816)
Goodwill determined on May 5, 2014	R\$ 10,575

For more information regarding the adjustments to market value of the assets and liabilities of PT Portugal and the goodwill we recorded on the completion of the acquisition of PT Portugal, see note 1 to our audited financial statements.

As a result of our decision to sell PT Portugal, the revenue and expenses of PT Portugal are presented in our income statement as discontinued operations. In addition, as a result of our decision to sell PT Portugal and its subsidiary Africatel, the assets and liabilities related to PT Portugal and Africatel were classified in our balance sheet as assets held for sale and liabilities of assets held for sale, respectively.

We recorded a loss from discontinued operations for 2014 of R\$4,415 million, consisting of a loss from discontinued operations of R\$250 million and an allowance for impairment loss at fair value of the PT Portugal investment and divestiture-related expenses of R\$4,164 million.

We recorded net operating revenue of discontinued operations of R\$5,082 million for the period from our acquisition of PT Portugal on May 5, 2014 through December 31, 2014. Our profit on discontinued operations before financial expenses and taxes was R\$390 million, or 7.7% of net operating revenue of discontinued operations. Financial

expenses of our discontinued operations were R\$694 million and we recorded an income tax and social contribution benefit on our discontinued operations was R\$54 million. As a result, the loss for our discontinued operations for the year ended December 31, 2014 was R\$250 million, or 4.9% of net operating revenue of discontinued operations.

In connection with the classification of the reclassification of the assets and liabilities related to PT Portugal and Africatel, we recorded an impairment loss as part of our loss from discontinued operations for 2014 on the investment in PT Portugal, in the amount of R\$4,164 million resulting from the recognition of this asset at its fair value less expenses to sell. The sale price used to determine the impairment loss allowance corresponds to the

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unadjusted purchase price of R\$22,267 million ( 6,900 million) and liabilities on retirement and other benefits assumed by PT Portugal, amounting to R\$3,872 million ( 1,200 million).

***Effects of Investment in Rio Forte Commercial Paper and PT Exchange***

In preparing the purchase price allocation with respect to our acquisition of PT Portugal, we recognized the write-off of all commercial paper of Rio Forte owned by PT Portugal and PTIF on the date of acquisition and recorded as other assets a right to compensation receivable of R\$2,763 million from PT SGPS, reflecting the face value of this commercial paper.

On March 24, 2015, PT Portugal assigned its rights under the PT Exchange Agreement and the PT Option Agreement to PTIF. On March 27, 2015, PT Portugal assigned all of its rights and obligations under the Rio Forte commercial paper that it owned to PTIF. On March 30, 2015, the transactions contemplated by the Exchange Agreement were completed through the transfer of Rio Forte commercial paper in the aggregate amount of 897 million to PT SGPS in exchange for 47,434,872 of our common shares and 94,869,744 of our preferred shares.

***Rate of Growth of Brazil's Gross Domestic Product and Demand for Telecommunications Services***

As a Brazilian company with a substantial portion of our operations in Brazil, we are affected by economic conditions in Brazil. Brazilian GDP grew by an estimated 0.1% in 2014, and grew by 2.3% in 2013 and 0.9% in 2012. While we believe that growth in Brazil's GDP stimulates demand for telecommunications services, we believe that demand for telecommunications services is relatively inelastic in periods of economic stagnation and that the effect on our revenues of low growth or a recession in Brazil would not be material under foreseeable scenarios. However, a substantial and prolonged deterioration of economic conditions in Brazil could have a material adverse effect on the number of subscribers to our services and the volume of usage of our services by our subscribers and, as a result, our net operating revenue.

Based on information available from ANATEL, the number of fixed lines in service in Brazil increased from 39.6 million as of December 31, 2004 to 45.0 million as of December 31, 2014, the latest date for which such information has been made available by ANATEL, and the number of mobile subscribers in Brazil increased from 65.6 million as of December 31, 2004 to 280.7 million as of December 31, 2014. Although the demand for telecommunications services has increased substantially during the past ten years, the tastes and preferences of Brazilian consumers of these services have shifted.

During the three-year period ended December 31, 2014, the number of mobile subscribers in Brazil has grown at an average rate of 5.0% per year while the number of fixed lines in service in Brazil during the three-year period ended December 31, 2014, has declined by an average rate of 1.5% per year. As the incumbent provider of fixed-line services and a provider of mobile services in our service areas, we are both a principal target and a beneficiary of this trend. During the three-year period ended December 31, 2014, the number of our mobile subscribers in Region II has grown at an average rate of 22.2% per year from 8.1 million at December 31, 2011 to 9.9 million at December 31, 2014 and the number of mobile subscribers in Region I has grown at an average rate of 13.3% per year from 27.1 million as of December 31, 2011 to 30.7 million at December 31, 2014, while the number of our fixed lines in service in Region II has declined by an average rate of 21.2% per year from 5.2 million at December 31, 2011 to 4.1 million at December 31, 2014 and the number of fixed lines in service in Region I of our subsidiary Telemar has declined by an average rate of 26.0% per year from 10.0 million at December 31, 2011 to 7.4 million at December 31, 2014.

***Demand for Our Telecommunications Services***



*Demand for Our Local Fixed-Line Services*

Brazil's fixed-line penetration level is now similar to that of other countries with similar per capita income, and, as has happened in such other countries, the fixed-line telecommunications customer base has remained stable. Demand for local fixed-line services of our company has reached a plateau in recent years. Because the number of customers our company terminating their fixed-line services has exceeded new activations during this period, the

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number of our fixed lines in service in Region II declined by 0.8 million between December 31, 2011 and December 31, 2014 and the number of fixed lines in service in Region I of Telemar declined by 1.9 million. In addition, the new fixed lines that we have activated between December 31, 2011 and December 31, 2014 generally represent customers that have changed addresses or low-income customers from whom we generate revenues at a rate below our average revenue per customer.

We have sought to combat the general trend in the Brazilian telecommunications industry of substitution of mobile services in place of local fixed-line services by offering a variety of bundled plans that include mobile services, broadband services and *Oi TV* subscriptions to our fixed-line customers. As a result of these service offerings, we expect that the rate of decline in number of our fixed lines in service will be reduced. As of December 31, 2014, 7.6% of our fixed lines in service also subscribed for ADSL service. As of December 31, 2014, 43.1% of our local fixed-line customers subscribed for bundled service packages, which accounted for 27.5% of our post-paid mobile subscribers as each fixed-line subscriber may include multiple mobile devices in a bundled plan.

We are required under ANATEL regulations and our concession contracts to offer a basic service plan to our fixed-line residential customers that permits 200 minutes of usage of our fixed-line network to make local calls. A basic plan customer pays a monthly fee for this service, and when the customer makes local calls in excess of this limit, we charge the customer for the excess minutes on a per-minute basis. We offer alternative local fixed-line plans that include significantly larger numbers of minutes and charge higher monthly fees for these plans, although these monthly fees represent a discount from the amount that the customer would be charged under our basic plan if the customer used the number of minutes included in the alternative plan. As the number of our customers selecting these alternative plans has grown in response to our marketing and promotional efforts, we have recorded increased revenues for monthly subscription fees, offset by corresponding declines in revenues for the use of excess minutes. Subscribers to our alternative fixed-line plans represented 82.0% of our fixed lines in service as of December 31, 2014 as compared to 77.3% of the fixed lines in service of our company and Telemar as of December 31, 2011. We believe that our alternative local fixed-line plans contribute to a net increase in our local fixed-line revenue as many subscribers of our alternative fixed-line plans do not use their full monthly allocations of local minutes.

The substantial increase in the number of mobile service users in Brazil has also negatively impacted the use of our public telephones. As the incumbent local fixed-line service provider in Region I and Region II, we are required under ANATEL regulations and our concession contracts to meet specified targets with respect to the availability of public telephones throughout our concession area. However, as a larger portion of the population of Region I and Region II uses mobile handsets to make calls when not in proximity to a fixed-line telephone, use of public telephones of our company and Telemar declined by 85% from 2011 to 2014.

*Demand for Our Mobile Services*

Our customer base for mobile services has grown from 45.5 million at December 31, 2011 to 50.2 million at December 31, 2014. We believe that the primary reason that our customer base for mobile services has been the success of our marketing and promotion campaigns.

The market for mobile services is extremely competitive in each of the regions that we serve. During 2014, the average monthly churn rate of our mobile services segment was 4.1% per month. As a result, (1) we incur selling expenses in connection with marketing and sales efforts designed to retain existing mobile customers and attract new mobile customers, and (2) from time to time the discounts that we offer in connection with our promotional activities lead to charges against our gross operating revenue from mobile services. In addition, competitive pressures have in the past required us to introduce service plans under which the monthly and per-minute rates that we charge our mobile customers are lowered, reducing our average revenue per customer.

We expect our overall mobile services business to continue to grow in terms of its customer base, traffic volumes and revenues from value-added services. However, due to market saturation, we expect future growth in our mobile services business to occur at lower rates than we have historically achieved.

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**Table of Contents***Demand for Our Data Transmission Services*

Our broadband services customer base (including the broadband customers of Telemar prior to the corporate reorganization) has grown from 4.9 million at December 31, 2011 to 5.9 million as of December 31, 2014, primarily as a result of (1) our marketing and promotional campaigns, (2) the growth in the number of households in our fixed-line service areas that own personal computers, and (3) a shift in consumer preferences that has led an increasing number of our fixed-line customers to value the data transmission speeds available through our broadband services. We expect the number of our fixed-line customers that subscribe to our broadband services to continue to increase in the near term.

*Effects of Expansion of Mobile Data Transmission Services*

In December 2007, we acquired the authorizations and radio frequency licenses necessary for us to commence the offering of 3G services throughout Region II and TNL PCS acquired the authorizations and radio frequency licenses necessary for us to commence the offering of 2G services in the State of São Paulo and 3G services throughout Region I and Region III. In June 2012, we acquired the authorizations and radio frequency licenses necessary for us to commence the offering of 4G services throughout Brazil. During 2012, 2013 and 2014, we undertook extensive capital expenditure projects to install the network equipment necessary to expand our offerings of these services.

In 2014, our mobile data transmission services, consisting of 2G, 3G and 4G services to mobile handsets and mini-modems, captured approximately 702,000 net additions (calculated based on the number of subscribers at the end of a period less the number of subscribers at the beginning of that period). We increased the number of municipalities in which we offered 4G services to 45, covering 30.6% of the population of Brazil, as of December 31, 2014 from 24 municipalities, covering 23.1% of the population of Brazil, as of December 31, 2013, and we increased the number of municipalities in which we offered 3G services to 1,011, covering 69.4% of the population of Brazil, as of December 31, 2014 from 891 as of December 31, 2013. We expect that these services will generate significant additions to our mobile customer base and lead to long-term increases in our revenues and operating income before financial income (expenses) and taxes.

The aggregate cost of our 3G authorizations and radio frequency licenses and our 2G authorizations and radio frequency licenses in Region III was R\$3,766 million, which we will pay to ANATEL in installments through 2023. The cost of our 4G authorizations and radio frequency licenses was R\$368 million, which we will pay to ANATEL in installments through 2020.

During 2014, 2013 and 2012, Oi Mobile invested R\$1,351 million, R\$1,392 million and R\$971 million, respectively, in the network equipment necessary to offer these services, which has increased in our depreciation expenses. We financed the purchase and installation of our network equipment through loans and vendor financing.

Under our 3G radio frequency licenses, we are required to meet certain service expansion obligations that will require capital expenditures through 2016. Under our 4G radio frequency licenses, we are required to meet certain service expansion obligations that will require capital expenditures through 2019. If we are unable to fund these capital expenditures through our operating cash flows, we may incur additional indebtedness or vendor financing obligations, which would increase our outstanding indebtedness and financial expenses.

*Effects of Divestment of Non-Core Assets*

Beginning in 2012, we entered into various transactions to monetize non-essential assets and acquire the services related to these assets at more favorable financial terms, with an aim to reduce future capital expenditures and

maintenance expenses.

In December 2012, we sold our wholly-owned subsidiary Sumbe to São Paulo SPE Locação de Torres Ltda. for R\$516 million. Sumbe owned approximately 1,200 communications towers and rooftop antennae used in our mobile services business. Contemporaneously with the sale of Sumbe, we entered into an operating lease agreement with a

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term of 15 years with Sumbe permitting us to continue to use space on these communications towers and rooftop antennae for our mobile services business

In August 2013, we completed the assignment of the right to use 4,226 fixed-line communications towers that formed part of our infrastructure for commercial operations by companies whose core operations consist of providing transmission tower and radiofrequency management and maintenance services. Upon the completion of these assignments, we received proceeds of approximately R\$1,087 million. We have entered into agreements to lease the communications towers from the assignees for 20-year terms (renewable for another 20 years), effective upon completion of the assignments.

In November 2013, we completed the assignment of the right to use 2,113 fixed-line communications towers that formed part of our infrastructure for commercial operations by companies whose core operations consist of providing transmission tower and radiofrequency management and maintenance services. Upon the completion of these assignments, we received proceeds of approximately R\$687 million. We have entered into agreements to lease the communications towers from the assignees for 20-year terms (renewable for another 20 years), effective upon completion of the assignments.

In December 2013, we and our subsidiary BrTI sold all of our equity interests in GlobeNet (other than Brasil Telecom de Venezuela S.A.) to BTG Pactual YS Empreendimentos e Participações. On January 17, 2014, the sale was concluded for an aggregate amount of R\$1,779 million (based on the U.S. dollar-*real* exchange rate on January 15, 2014), resulting in a gain of approximately R\$1,497 million after deducting the book value of the assets and related costs of approximately R\$1,497 million. GlobeNet's principal assets consist of 22,500 kilometers of fiber optic submarine cables, composed of two rings of protected submarine cables, linking connection points between the United States, Bermuda, Colombia and Brazil. As part of this transaction, GlobeNet will supply guaranteed submarine cable capacity to us and our subsidiaries at a fixed price for a term of 13 years.

In March 2014, we sold all of our equity interests in Caryopoceae, our wholly-owned subsidiary, to SBA Torres Brasil, Ltda. for R\$1,525 million. Caryopoceae owned 2,007 mobile telecommunications towers and rooftop antennae used in our mobile services business. Contemporaneously with the sale of this subsidiary, we entered into an operating lease with a 15-year term (renewable for another five years) with Caryopoceae permitting us to continue to use space on these communications towers for our mobile services business.

In December 2014, we sold all of our equity interests in Tupã Torres, our wholly-owned subsidiary, to SBA Torres Brasil, Ltda. for R\$1,172 million. Tupã Torres owned 1,641 mobile telecommunications towers and rooftop antennae used in our mobile services business. Contemporaneously with the sale of Tupã Torres, we entered into an operating lease with a 15-year term (renewable for another five years) with Tupã Torres permitting us to continue to use space on these communications towers for our mobile services business.

As a result of these transactions, we have received cash related to these transactions and recorded gains on disposals of these assets of R\$2,399 million during 2014, R\$1,497 million during 2013 and R\$200 million during 2012. As a result of these transactions, the amount of property and equipment that we record has been reduced, and consequently we will no longer record depreciation and amortization expenses relating to these assets, nor will we be required to maintain these assets. As a result of our entering lease and other agreements to continue to use these assets in the provision of our services, we expect our lease and related expenses to increase in future periods.

***Effects of Investments in Africatel***

At the time of our acquisition of PT Portugal, PT Portugal held indirectly 75% of the outstanding share capital of Africatel which held 25% of the outstanding share capital of Unitel. Our management considers this a non-controlling stake in Unitel which does not grant our company significant influence over the financial, operating and strategic policies of Unitel since we do not elect enough members of the board of directors of Unitel to allow us to be involved in the decision-making process of these policies, including decisions on dividend and other distributions, material business relations, appointment of officers or managers, or the provision of key technical information. Accordingly, upon the acquisition of PT Portugal, we recognized this investment as an available-for-sale financial asset recognized at fair value. The fair value of the investment in Unitel of R\$4,089 million was determined based on the valuation report prepared by Banco Santander on the valuation of PT SGPS operating

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assets that was used as the basis for the valuation of PT Portugal as part of the Oi capital increase using a series of estimates and assumptions, including the cash flows projections for a four-year period, the choice of a growth rate to extrapolate the cash flows projections, and definition of appropriate discount rates.

As a result of our decision to sell Africatel, the assets and liabilities related to Africatel, including its investment in Unitel and the accounts receivable relating to declared and unpaid dividends of Unitel, were classified in our balance sheet as assets held for sale and liabilities of assets held for sale, respectively.

As at December 31, 2014, the fair value of our investment in Unitel was determined using a methodology identical to the one adopted by Banco Santander (Brasil) in preparing the valuation of PT Portugal as part of the Oi capital increase, using updated the material estimates and assumptions, and also taking into consideration the events described in Item 3. Key Information Risk Factors Risks Relating to Our African and Asian Operations. Based on this determination, we did not record any impairment loss relating to this investment.

***Effects of Competition on the Rates that We Realize and the Discounts We Record***

The Brazilian telecommunications industry is highly competitive. The competitive environment is significantly affected by key trends, including the convergence of technology and services enables telecommunications service providers that were previously limited to providing a single service to provide services in other industry segments, such as in the case of broadband services provided by cable television service providers and by mobile service providers (using 3G and 4G technology) and in the case of traditional fixed-voice services transmitted by mobile telecommunications service providers.

In response to these competitive pressures, (1) we may offer our services at rates below the rate caps established by ANATEL, and (2) from time to time we offer our services with promotional discounts or offer additional complimentary services with the purchase of some of our services. We record the services sold at the rates established under our service plans or at rates approved by ANATEL and record the amount of these services represented by the promotional discounts or delivered on a complimentary basis as discounts and returns in our income statement.

***Effects of Adjustments to Our Regulated Rates and Inflation***

Telecommunications services rates are subject to comprehensive regulation by ANATEL. Our rates for local fixed-line services, domestic long-distance services, mobile services, interconnection to our fixed-line network, and EILD and SLD services are subject to regulation by ANATEL. We are required to obtain ANATEL approval prior to offering new alternative fixed-line or mobile plans. The rates established or approved by ANATEL for our services act as caps on the prices that we charge for these services, and we are permitted to offer these services at a discount from the rates approved by ANATEL. After ANATEL establishes or approves rate caps for these services, these rate caps are subject to annual adjustment based on the rate of inflation, as measured by the IST. Rate caps for local fixed-line plans are adjusted by inflation, as measured by the IST, less an amount that serves as a proxy for productivity gains achieved by our company and the local fixed-line services industry as a whole.

Because substantially all of our cost of services and operating expenses are incurred in *reais* in Brazil, these rate increases act as a natural hedge against inflation and, as a result, our operating margins have not been materially affected by inflation. However, because these rate adjustments are only made on an annual basis, in periods of severe inflation, we may not be able to pass our increased costs through to our customers as incurred.

A significant portion of our *real*-denominated debt bears interest at the TJLP or the CDI rate, which are partially adjusted for inflation, and the ICPA rate, an inflation index, and, as a result, inflation results in increases in our



interest expenses and debt service obligations.

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***Effects of Claims by ANATEL that Our Company Has Not Fully Complied with Our Quality of Service and Other Obligations***

As a fixed-line service provider, we must comply with the provisions of the General Plan on Quality Goals. As a public regime service provider, we must comply with the network expansion and modernization obligations under the General Plan on Universal Service Goals and our concession agreements. Our personal mobile services authorizations set forth certain network expansion obligations and targets and impose obligations on us to meet quality of service standards. In addition, we must comply with regulations of general applicability promulgated by ANATEL, which generally relate to quality of service measures.

If we fail to meet quality goals established by ANATEL under the General Plan on Quality Goals, fail to meet the network expansion and modernization targets established by ANATEL under the General Plan on Universal Service Goals and our concession agreements, fail to comply with our obligations under our personal mobile services authorizations or fail to comply with our obligations under other ANATEL regulations, we may be subject to warnings, fines, intervention by ANATEL, temporary suspensions of service or cancellation of our concessions and authorizations.

On an almost weekly basis, we receive inquiries from ANATEL requiring information from us on our compliance with the various service obligations imposed on us by our concession agreements. If we are unable to respond satisfactorily to those inquiries or comply with our service obligations under our concession agreements, ANATEL may commence administrative proceedings in connection with such noncompliance. We have received numerous notices of commencement of administrative proceedings from ANATEL, mostly due to our inability to achieve certain targets established in the General Plan on Quality Goals and the General Plan on Universal Service Goals.

At the time that ANATEL notifies us it believes that we have failed to comply with our obligations, we evaluate the claim and, based on our assessment of the probability of loss relating to that claim, may establish a provision. We vigorously contest a substantial number of the assessments made against us. As of December 31, 2014, the total estimated contingency in connection with all pending administrative proceedings brought by ANATEL against us in which we deemed the risk of loss as probable totaled R\$1,104 million and we had recorded an aggregate provision related to these proceedings in the same amount.

In December 2013, ANATEL approved Resolution No. 629/2013 under which a Term of Conduct Adjustment (*Termos de Ajustamento de Conduta*) was adopted permitting telecommunications concessionaires to request that their obligations to pay certain fines to ANATEL be satisfied through capital expenditure investments in their networks. Under this regulation, concessionaires must submit a proposal to ANATEL detailing corrective measures it plans to take (without reference to additional costs or investments) and proposed additional projects (including the actions and investments we will undertake). We are currently negotiating our proposal with ANATEL in order to balance the our financial health with regulatory obligations. We expect a decision from ANATEL regarding our proposal by November 2015.

During 2014, we recorded provisions related to administrative proceedings brought by ANATEL in the amount of R\$60 million. Our provisions related to administrative proceedings brought by ANATEL generally have been sufficient to pay all amounts that we were ultimately required to pay with respect to claims brought by ANATEL.

***Effects of Fluctuations in Exchange Rates between the Real and the U.S. Dollar and the Euro***

Substantially all of our cost of services and operating expenses in Brazil are incurred in *reais*. As a result, the appreciation or depreciation of the *real* against the U.S. dollar does not have a material effect on our operating

margins. However, the costs of a substantial portion of the network equipment that we purchase for our capital expenditure projects are denominated in U.S. dollars or are U.S. dollar-linked. This network equipment is recorded on our balance sheet at its cost in *reais* based on the applicable exchange rate on the date the transfer of ownership, risks and rewards related to the purchased equipment occurs. As a result, depreciation of the *real* against the U.S. dollar results in this network equipment being more costly in *reais* and leads to increased depreciation expenses. Conversely, appreciation of the *real* against the U.S. dollar results in this network equipment being less costly in *reais* and leads to reduced depreciation expenses.

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Our consolidated indebtedness denominated in U.S. dollars and euros represented 35.0% and 6.7%, respectively, of our consolidated outstanding indebtedness at December 31, 2014, excluding debt obligations of PT Portugal that have been classified as liabilities of assets held for sale but are expected to remain obligations of our company following the completion of our sale of PT Portugal. As a result, when the *real* appreciates against the U.S. dollar or the euro:

the interest costs on our indebtedness denominated in U.S. dollars or euros declines in *reais*, which positively affects our results of operations in *reais*;

the amount of our indebtedness denominated in U.S. dollars or euros declines in *reais*, and our total liabilities and debt service obligations in *reais* decline; and

our net interest expenses tend to decline as a result of foreign exchange gains that we record.

A depreciation of the *real* against the U.S. dollar has the converse effects.

In order to mitigate the effects of foreign exchange variations, we have established a hedging policy under which our exposure to foreign exchange variations is subject to limits set by our board of directors. In compliance with this policy, we typically enter into derivative transactions to swap the foreign exchange rate variation for variations of the CDI. At December 31, 2014, we had entered into hedging transactions in respect of 100.0% of our consolidated indebtedness affected by exchange rate variations. The purpose of these hedging transactions is to seek to match the currency of our debt with that of our revenues to mitigate foreign exchange risk.

***Effect of Level of Indebtedness and Interest Rates***

At December 31, 2014, our total outstanding indebtedness on a consolidated basis was R\$33,295 million, excluding debt obligations of PT Portugal in the amount of R\$18,893 million that have been classified as liabilities of assets held for sale but are expected to remain obligations of our company following the completion of our sale of PT Portugal. The level of our indebtedness results in significant interest expenses that are reflected in our income statement. Financial expenses of our continuing operations consist of interest expense, exchange variations of U.S. dollar- and other foreign currency-denominated debt, foreign exchange losses or gains, and other items as set forth in note 6 to our consolidated financial statements. In 2014, we recorded financial expenses of our continuing operations of R\$5,891 million on a consolidated basis, of which R\$2,933 million consisted primarily of interest expenses on loans and debentures payable to third parties and R\$1,464 million consisted of losses from monetary correction and exchange differences on third-party loans and financings. In addition, we recorded financial expenses of our discontinued operations of R\$694 million. Part of the financial expenses of our continuing operations were offset by income from derivative transaction of R\$427 million and by financial income related to cash maintained offshore to provide a natural hedge of R\$34 million. As we hedged our foreign currency denominated debt against exchange rate fluctuations, the cost of such indebtedness is linked to fluctuations in the CDI rate rather than the exchange rate. The interest rates that we pay depend on a variety of factors, including prevailing Brazilian and international interest rates and risk assessments of our company, our industry and the Brazilian economy made by potential lenders to our company, potential purchasers of our debt securities and the rating agencies that assess our company and its debt securities.

Standard & Poor's, Moody's and Fitch maintain ratings of our company and our debt securities. Any ratings downgrades in the future would likely result in increased interest and other financial expenses relating to loans and

financings, including debt securities, and could adversely affect our ability to obtain such financing on satisfactory terms or in amounts required by us.

*Seasonality*

We do not have material seasonal operations.

**Table of Contents****Recent Developments*****Amendments to Debentures***

On February 12, 2015, the holders of our 5th Issuance of Non-Convertible into Shares, Unsecured Debentures, in Two Series, for Public Distribution, and our 9th Issuance of Simple, Non-Convertible, Unsecured Debentures, in Two Series, for Public Distribution held meetings at which they waived compliance with the applicable covenants under those instruments necessary for us to complete PT Portugal reorganization. In addition, the holders of our 5th Issuance of Non-Convertible into Shares, Unsecured Debentures, in Two Series, for Public Distribution approved an change in the covenants relating to financial ratios to permit our company to incur a debt to EBITDA ratio of up to 6.0 during each of the four fiscal quarters ending in 2015 if before or after the actual transfer of PT Portugal to Altice it is necessary for Oi to include the indebtedness of PT Portugal and its subsidiaries debts in the calculation of total gross debt under the instrument governing these debentures. In addition, Oi has negotiated similar waivers and temporary amendments to financial ratio covenants with lenders under certain of its other debt agreements.

***PT Exchange***

On March 30, 2015, we transferred Rio Forte commercial paper in the aggregate amount of 897 million to PT SGPS in exchange for 47,434,872 of our common shares and 94,869,744 of our preferred shares. For more details regarding the PT Exchange, see Item 4. Information on the Company Our Recent History and Development Rio Forte Defaults and PT Exchange.

***Consent Solicitation Regarding PT Portugal Notes***

On April 9, 2015, we commenced a consent solicitation in which we are seeking the consent of the holders of PT Portugal's 6.25% Notes due 2016 to the substitution, in place of PT Portugal, of PTIF as issuer and principal obligor under these notes in order to satisfy one of the conditions to closing under the PTP Share Purchase Agreement. If the consent is granted by the holders of the notes, the notes will also be amended to grant to the holders of these notes an option to redeem their notes at specified prices based on the date of the closing of the sale of PT Portugal. A meeting of holders of the notes to consider the proposed consent held on May 4, 2015 was adjourned for lack of a quorum and is currently scheduled to be reconvened on May 19, 2015.

**Results of Operations**

The following discussion of our results of operations is based on our consolidated financial statements prepared in accordance with Brazilian GAAP. In the following discussion, references to increases or decreases in any period are made by comparison with the corresponding prior period, except as the context otherwise indicates.

***Year Ended December 31, 2014 Compared with Year Ended December 31, 2013***

The following table sets forth the components of our consolidated income statement, as well as the percentage change from the prior year, for the years ended December 31, 2014 and 2013.

	<b>Year ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>% Change</b>
<b>(in millions of reais, except percentages)</b>			

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Net operating revenue	R\$ 28,247	R\$ 28,422	(0.6)
Cost of sales and services	(15,230)	(15,259)	(0.2)
Gross profit	13,017	13,163	(1.1)
Operating income (expenses)			
Equity in earnings of joint ventures	(6)	(18)	(66.9)
Selling expenses	(5,612)	(5,572)	0.7
General and administrative expenses	(3,751)	(3,582)	4.7

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	Year ended December 31,		
	2014	2013	% Change
	(in millions of <i>reais</i> , except percentages)		
Other operating income (expenses), net	2,026	1,295	56.5
Operating income before financial income (expenses) and taxes	5,675	5,286	7.3
Financial income	1,345	1,375	(2.2)
Financial expenses	(5,891)	(4,650)	26.7
Financial expenses, net	(4,547)	(3,274)	38.8
Income of before taxes	1,128	2,012	(43.9)
Income tax and social contribution	(1,120)	(519)	115.7
Net income from continuing operations	8	1,493	(99.5)
Let loss from discontinued operations	(4,415)		n.m.
Net income (loss)	R\$ (4,406)	R\$ 1,493	(395.1)

**Net Operating Revenue**

The following table sets forth the components of our net operating revenue, as well as the percentage change from the prior year, for the years ended December 31, 2014 and 2013.

	Year ended December 31,		
	2014	2013	% Change
	(in millions of <i>reais</i> , except percentages)		
Residential	R\$ 9,995	R\$ 10,303	(3.0)
Personal mobility	9,011	9,290	(3.0)
SME/Corporate	8,312	8,455	(1.7)
Other services and businesses (1)	929	374	148.4
<b>Net operating revenue</b>	<b>R\$ 28,247</b>	<b>R\$ 28,422</b>	<b>(0.6)</b>

(1) Other services and businesses includes the net operating revenue of Africatel from the date of our acquisition of PT Portugal on May 5, 2014 through December 31, 2014.

Net operating revenue declined by 0.6% during 2014, principally due to (1) a 3.0% decline in net operating revenue from residential services, (2) a 3.0% decline in net operating revenue from personal mobility services, and (3) a 1.7% decline in net operating revenue from SME/Corporate services. These effects were partially offset by 148.4% increase in net operating revenue from other services and businesses primarily as a result of our consolidation of the results of Africatel as from May 5, 2014, which generated net operating revenue of R\$635 million.



*Net Operating Revenue from Residential Customer Services*

Net operating revenue from residential customer services represented 35.4% of our net operating revenue for the year ended December 31, 2014. Residential customer services includes fixed telephony services, including voice services, data communication services (broadband), and Pay-TV. Net operating revenue from residential services declined by 3.0%, primarily due to (1) the 6.7% decline in the number of fixed-line customers; and (2) the decline in fixed-mobile tariffs. These effects were partially offset by the 5.1% increase in the average monthly net residential revenue per user (calculated based on the total revenue for the year divided by the monthly average customer base for the year divided by 12) to R\$74.0 in 2014 from R\$70.4 in 2013, primarily due to the increase in broadband and Pay-TV revenues.

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*Net Operating Revenue from Residential Fixed-Line Services.* Net operating revenue from residential fixed-line services declined by 6.1%, primarily due to:

a 4.9% decline in net operating revenue from local fixed-line services, principally as a result of a 6.7% decline in the average number of residential fixed lines in service to 11.0 million during 2014 from 11.8 million during 2013, as a result of the general trend in the Brazilian telecommunications industry to substitute mobile services in place of local fixed-line services; and

a 14.7% decline in net operating revenue from long-distance, primarily as a result of (1) aggressive discounting campaigns undertaken by our competitors, (2) the effects of the 6.7% decline in the number of residential fixed-line customers, and (3) the increase in the proportion of fixed line customers that subscribe to alternative plans, which include long-distance fixed line minutes as part of the monthly subscription fee.

*Net Operating Revenue from Broadband Services.* Net operating revenue from residential broadband services increased by 3.2%, primarily as a result of a 3.2% increase in the average net operating revenue per subscriber. The average number of our residential ADSL subscribers remained stable at 5.2 million in 2014 and 2013. As of December 31, 2014, our ADSL customer base represented 37.2% of our total fixed lines in service as compared to 33.9% as of December 31, 2013.

*Net Operating Revenue from Pay-TV Services.* Net operating revenue from residential Pay-TV services increased by 11.3%, primarily as a result of the increase in the number of our residential Pay-TV subscribers to 1.2 million during 2014 from 0.9 million during 2013.

*Net Operating Revenue from Personal Mobility Services*

Net operating revenue from personal mobility services represented 31.9% of our net operating revenue for the year ended December 31, 2014. Personal mobility services include sales of mobile telephony services to post-paid and pre-paid customers that include voice services and data communication services. Net operating revenue from personal mobility services declined by 3.0%, primarily as a result of the reduction in VU-M interconnection tariffs. This effect was partially offset by an increase in pre-paid recharge revenues, mobile data revenue and sales of handsets.

*Net Operating Revenue from Mobile Telephony Services.* Net operating revenue from mobile telephony services increased by 3.0%, primarily due to (1) a 0.7% increase in the number of our pre-paid mobile customers to 41.3 million during 2014 from 41.1 million during 2013, primarily as a result of an increase in pre-paid recharge revenue and mobile data revenue primarily as a result of our launches of new promotions that include bonus minutes, packages of data services and credits for use for our text messaging services, and (2) 6.4% increase in the number of our post-paid mobile customers to 7.1 million during 2014 from approximately 6.7 million during 2013, primarily as a result of the success of commercial and operational initiatives focused on increasing sales of our premium services, such as data services and value added services, that are available to subscribers of our plans. These effects were partially offset by a 5.9% decline in the average monthly net mobile revenue per user to R\$18.7 in 2014 from R\$20.4 in 2013.

*Net Operating Revenue from Interconnection to Our Mobile Network.* Mobile interconnection revenue declined by 34.8% in 2014, primarily as a result of the reduction in VU-M interconnection tariffs in February 2014.

*Net Operating Revenue from Sales of Handsets and Accessories.* Net operating revenue from sales of handsets and accessories increased by 50.7% as a result of our strategy of selling premium mobile devices, such as smart phones, as part of our efforts to acquire new high value customers and retain existing ones.

*Net Operating Revenue from SME/Corporate Services*

Net operating revenue from SME/corporate services represented 29.4% of our net operating revenue for the year ended December 31, 2014. SMEs/Corporate services include corporate solutions offered to our small, medium-sized, and large corporate customers, including voice services and corporate data solutions. Net operating revenue

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from SME/corporate services declined by 1.7%, primarily as a result of (1) the decrease in fixed-mobile and mobile interconnection tariffs, and (2) a 4.0% decline in the number of SME/corporate customers to 7.9 million during 2014 from 8.2 million during 2013. These effects were partially offset by the increase in revenues from IT and data corporate services.

*Net Operating Revenue from SME Services.* Net operating revenue from SME services increased by 1.0%, primarily as a result of an increased demand for these services.

*Net Operating Revenue from Corporate Services.* Net operating revenue from corporate services declined by 2.9%, primarily as a result of (1) the decrease in fixed-mobile and mobile interconnection tariffs, and (2) the 4.0% decline in the average number of our corporate customers.

**Gross Profit**

As a result of the 0.6% decline in net operating revenue in 2014, coupled with a decline in cost of sales and services of only 0.2% in 2014, our consolidated gross profit declined by 1.1% to R\$13,017 million in 2014 from R\$13,163 million in 2013. As a percentage of net operating revenue, gross profit declined to 46.1% in 2014 from 46.3% in 2013.

**Operating Expenses**

Under the Brazilian Corporation Law, we are required to segregate cost of sales and services from operating expenses in the preparation of our income statement. However, in evaluating and managing our business, we prepare reports in which we review the elements included in cost of sales and services and operating expenses classified by nature, as presented in note 5 of our financial statements. We believe that this classification improves our ability to understand results and trends in our business and that financial analysts and other investors who review our performance rely on this classification in performing their own analysis. Therefore, we have presented the discussion below of our operating expenses based on the classification of operating expenses presented in note 5 of our financial statements.

The following table sets forth the components of our operating expenses, as well as the percentage change from the prior year, for the years ended December 31, 2014 and 2013.

	<b>Year Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>% Change</b>
	<b>(in millions of reais, except percentages)</b>		
Third-party services	R\$ 6,259	R\$ 6,117	2.3
Depreciation and amortization	4,535	4,278	6.0
Rental and insurance	3,120	2,120	47.2
Personnel	2,829	2,534	11.6
Interconnection	2,690	3,966	(32.2)
Network maintenance services	1,923	2,328	(17.4)
Taxes and other income (expenses)	1,630	1,510	7.8
Provisions (reversals)	779	657	18.6
Costs of handsets and accessories	730	515	41.7
Advertising and publicity	674	557	21.2
Allowance for doubtful accounts	649	923	(29.6)
Other operating income (expenses), net	(3,246)	(2,370)	37.0

Total cost of sales and services	R\$ 22,572	R\$ 23,136	(2.4)
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Operating expenses declined by 2.4% in 2014, principally due to:

a 32.2%, or R\$1,276 million, decline in interconnection costs;

a 37.0%, or R\$876 million, increase in other net operating income (expenses), net;

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a 17.4%, or R\$405 million, decline in network maintenance services costs; and

a 29.6%, or R\$273 million, decline in the allowance for doubtful accounts.

The effects of these factors were partially by the increase in expenses below:

a 47.2%, or R\$1,000 million, increase in rental and insurance costs;

an 11.6%, or R\$295 million, increase in personnel expenses;

a 6.0%, or R\$257 million, increase in depreciation and amortization costs;

a 41.7%, or R\$215 million, increase in costs of handsets and accessories;

a 2.3%, or R\$142 million, increase in third-party service costs;

an 18.6%, or R\$122 million, increase in provisions (reversals);

a 7.8%, or R\$120 million, increase in taxes and other expenses; and

a 21.2%, or R\$118 million, increase in advertising and publicity expenses.

*Third-Party Services*

Third-party service costs increased by 2.3%, primarily as a result of the increase in expenses on Pay-TV content and the implementation of IT projects for the 2014 FIFA World Cup. The effects of these expenditures were partially offset by a decline in expenses on consulting services and lower call center costs as a result of more efficient sales processes.

*Depreciation and Amortization*

Depreciation and amortization costs increased by 6.0% in 2014, primarily as a result of the growth of our 4G network, which has increased the amount of our amortizable license costs and depreciable property, plant and equipment.

*Rental and Insurance*

Rental and insurance costs increased by 47.2% in 2014, primarily as a result of (1) an increase in rental costs relating to our network infrastructure as a result of our sale of non-strategic assets, including GlobeNet, fixed-line communications towers and mobile communications towers, (2) an increase in rental expenses relating to our leasing of capacity on the SES-6 satellite in order to provide our own head-end DTH services within Brazil, and (3) annual

contractual adjustments under our other rental agreements.

*Personnel*

Personnel expenses (including employee benefits and social charges and employee and management profit sharing) increased by 11.6% in 2014, primarily as a result of an increase in the number of our employees as a result of our internalizing a portion of our plant maintenance operations in 2013, and increases in the compensation of some of our employees as a result of the renegotiation of some of our collective bargaining agreements at the end of 2013.

*Interconnection*

Interconnection costs declined by 32.2%, primarily as a result of the 25% decline in VU-M interconnection tariffs that was mandated for February 2014 and the decline in off-net mobile voice traffic, which reflects the success of our offers that incentivize on-net traffic.

*Network Maintenance Services*

Network maintenance services costs declined by 17.4% in 2014, primarily as a result of (1) our internalizing a portion of our plant maintenance operations in 2013; and (2) actions taken to support our commitment to enhance efficiency and productivity and procedures that we adopted to reduce costs.

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### *Taxes and Other Expenses*

Taxes and other expenses increased by 7.8% in 2014, primarily as a result of a R\$60 million increase in PIS and COFINS taxes recorded on the increased distributions of interest on shareholders equity received from some of our subsidiaries.

### *Provisions (Reversals)*

Provisions increased by 18.6% in 2014, primarily as a result of a R\$116 million increase in labor provisions in 2014, compared to a R\$154 million reversal of labor provisions in 2013, principally due to our revision of the methodology used to calculate the provisions for losses in labor lawsuits. These effects were partially offset by a decline in provision for civil claims to R\$340 million in 2014 from R\$528 million in 2013, primarily due to revision in 2014 of the methodology we use to calculate the provisions for losses in civil lawsuits (principally, lawsuits involving the financial participation agreements), including statistical techniques as a result of the greater experience that we have accumulated in this matter.

### *Costs of Handsets and Accessories*

Costs of handsets and accessories increased by 41.7% in 2014, primarily as a result of the increase in sale of smartphones as part of our strategic initiative to increase our mobile data communications revenue.

### *Advertising and Publicity*

Advertising and publicity expenses increased by 21.2% in 2014, primarily as a result of increased costs of advertising campaigns related to our Oi TV service, and costs of advertising campaigns related to our sponsorship of the 2014 FIFA World Cup.

### *Allowance for Doubtful Accounts*

Allowance for doubtful accounts declined by 29.6% in 2014, primarily as a result of the improvement of our credit policy as part of measures we adopted to lower our churn rate and improve the quality of our customer base. During the year ended December 31, 2014, allowance for doubtful accounts represented 2.3% of our net operating revenue compared to 3.2% in 2013.

### *Other Operating Income (Expenses), Net*

Other operating income (expenses), net increased by 37.0% to R\$3,246 million in 2014 from R\$2,370 million in 2013. The principal components of other operating income (expenses), net in 2014 were:

a R\$2,399 million gain, net of transaction expenses, relating to the sale of Caryopoceae and Tupã Torres which owned an aggregate of 3,648 mobile communications towers used in our mobile services business;

a R\$355 million reversal of allowance arising from our review of the methodology used to calculate allowances for losses on corporate processes; and



a R\$476 million reversal of the allowance relating to the Brazilian government's tax refinancing program as a result of our settlement of a portion of our obligations for principal, interest and fines utilizing tax loss carryforwards.

The principal components of other operating income (expenses), net in 2013 were:

a R\$1,497 million gain, net of transaction expenses, relating to the sale of GlobeNet;

a R\$330 million reversal of accrued profit sharing;

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a R\$201 million reversal of allowance arising from our review of the methodology used to calculate provisions for losses on labor claims; and

a R\$173 million gain, net of transaction expenses, related to the sale of a property.

***Operating Income before Financial Income (Expenses) and Taxes***

As a result of the foregoing, our consolidated operating income before financial income (expenses) and taxes increased by 7.3% to R\$5,675 million in 2014 from R\$5,287 million in 2013. As a percentage of net operating revenue, operating income before financial income (expenses) and taxes increased to 20.1% in 2014 from 18.6% in 2013.

***Financial Expenses, Net***

***Financial Income***

Financial income declined by 2.2% to R\$1,345 million in 2014 from R\$1,375 million in 2013, primarily due to:

a 36.2% decline in other financial income to R\$162 million in 2014 from R\$254 million in 2013;

a 59.0% decline in dividends received to R\$32 million in 2014 from R\$78 million in 2013; and

a 53.4% decline in exchange rate gains on foreign investments to R\$32 million during 2014 from R\$70 million during 2013, primarily as a result of a decrease in our balances invested in foreign currencies and the 13.4% depreciation of the *real* against the U.S. dollar during 2014 compared to the 14.6% depreciation of the *real* against the U.S. dollar during 2013.

The effects of these factors was partially offset by (1) a 27.3% increase in income from short-term investments to R\$355 million during 2014 from R\$279 million during 2013, primarily as a result of an increase in the average amount of our short-term investments, and (2) a 9.8% increase in interest and inflation adjustments on other assets to R\$762 million during 2014 from R\$695 million during 2013, primarily as a result of an increase in average amount of our other assets.

***Financial Expenses***

Financial expenses increased by 26.7% to R\$5,891 from R\$4,650 million in 2013, primarily due to:

a 63.1% decline in gains on derivatives transactions to R\$427 million during 2014 from R\$1,159 million during 2013, primarily as a result of the 13.4% depreciation of the *real* against the U.S. dollar and the stability of the *real* against the Euro during 2014 compared to the 14.6% depreciation of the *real* against the U.S. dollar and the 19.7% depreciation of the *real* against the Euro during 2013;

a 19.6% increase in interest on loans payable to third parties and interest on debentures to R\$2,933 million during 2014 from R\$2,452 million during 2013, primarily as a result of an increase in the average amount of our loans payable to third parties and debentures;

a 31.8% increase in interest and inflation adjustments on other liabilities to R\$812 million during 2014 from R\$616 million during 2013, primarily as a result of an increase in average amount of our other liabilities; and

a 99.9% increase in withholding income tax on financial transactions and charges R\$386 million during 2014 from R\$193 million during 2013, primarily as a result of our incurrence of these expenses in connection with the Oi capital increase.

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The effects of these factors were partially offset by a 27.2% decline in inflation adjustment and exchange differences on third party borrowing to R\$1,465 million during 2014 from R\$2,013 million during 2013, primarily as a result of the 13.4% depreciation of the *real* against the U.S. dollar and the stability of the *real* against the Euro during 2014 compared to the 14.6% depreciation of the *real* against the U.S. dollar and the 19.7% depreciation of the *real* against the Euro during 2013.

**Income Tax and Social Contribution**

The composite corporate statutory income tax and social contribution rate was 34% in each of 2014 and 2013. Income tax and social contribution expense increased by 115.7 % to R\$1,120 million from R\$519 million in 2013. Our effective tax rate was 93.1% in 2014 and 29.0% in 2013. The table below sets forth a reconciliation of the composite corporate statutory income tax and social contribution rate to our effective tax rate for each of the periods presented.

	<b>Year Ended December 31,</b>	
	<b>2014</b>	<b>2013</b>
Composite corporate statutory income tax and social contribution rate	34.0%	34.0%
Tax effects of equity method	0.2	0.3
Tax effects of permanent exclusions (additions)	63.1	(7.1)
Tax incentives (SUDENE)	(3.0)	(1.5)
Utilization of tax loss carryforwards	0.0	(1.3)
Tax effects of unrecognized deferred tax assets	3.9	4.6
Tax effects of differentiated tax rates	(0.6)	
Tax effects of recognized deferred tax assets	(4.4)	
Effective rate	93.1%	29.0%

Our effective tax rate was 93.1% in 2014, primarily as a result of the tax effect of permanent exclusions related to (1) the settlement of principal, fines and interest in amount of R\$443 million payable to the Brazilian government's tax refinancing program through the use of tax loss carryforwards as permitted by Article 2 of Law 12996/2014 and Article 33 of Law 13043/2014, and (2) the write-off of R\$266 million of tax credits related to potential loss on the shares of PT SGPS held Telemar, which increased our effective tax rate by 63.1%.

Our effective tax rate was 29.0% in 2013, primarily as a result of (1) the tax effect of permanent additions, primarily as a result of the net effects of permanent exclusion (additions) of prescribed dividends, nondeductible fines, tax incentives and sponsorships, which decreased our effective tax rate by 7.1%, (2) the tax effect of tax incentives provided by the Superintendency for the Development of the Northeast Region of Brazil (*Superintendência de Desenvolvimento do Nordeste*), or the SUDENE, resulting from a reduction in the basis of calculation of profit in the regions promoted by the SUDENE, which reduced our effective tax rate by 1.5%, (3) the tax effect of our utilization of tax loss carryforwards, which reduced our effective tax rate by 1.3%. The effects of these factors were partially offset by the tax effect of unrecognized deferred tax assets regarding legal entities that are not eligible to recognize tax credits on tax loss carryforwards, which increased our effective tax rate by 4.6%.

**Net Income from Continuing Operations**

Our net income from continuing operations declined by 99.5% to R\$8 million in 2014 from R\$1,493 million in 2013. As a percentage of net operating revenue, net income from continuing operations declined to 0.0% in 2014 from 5.3% in 2013.

***Net Loss from Discontinued Operations***

Net loss from discontinued operations consisted of (1) the allowance for loss in the amount of R\$4,164 million on the investment of PT Portugal resulting from the recognition of assets of PT Portugal at fair value, less selling expenses, and (2) loss from discontinued operations of PT Portugal in the amount of R\$250 million. The sales price used to determine the allowance for loss corresponds to purchase price under the PTP Share Purchase Agreement of

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R\$22,267 million ( 6,900 million) and liabilities on retirement and other benefits assumed by PT Portugal, amounting to R\$3,872 million ( 1,200 million).

**Net Income**

As a result of the foregoing, we recorded a consolidated net loss of R\$4,406 million during 2014 compared to consolidated net income of income R\$1,493 million in 2013. As a percentage of net operating revenue, our net loss was 15.6% during 2014 compared to net income of 5.3% in 2013

**Year Ended December 31, 2013 Compared with Year Ended December 31, 2012**

The following table sets forth the components of our consolidated income statement, as well as the percentage change from the prior year, for the years ended December 31, 2013 and 2012.

	<b>Year ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>% Change</b>
	<b>(in millions of reais, except percentages)</b>		
Net operating revenue	R\$ 28,422	R\$ 25,161	13.0
Cost of sales and services	(15,259)	(12,670)	20.4
Gross profit	13,163	12,491	5.4
Operating income (expenses)			
Equity in earnings of joint venture	(18)	(13)	37.8
Selling expenses	(5,572)	(4,841)	15.1
General and administrative expenses	(3,582)	(2,993)	19.7
Other operating income (expenses), net	1,295	116	1,018.7
Operating income before financial income (expenses) and taxes	5,287	4,760	11.1
Financial income	1,375	2,275	(39.6)
Financial expenses	(4,650)	(4,491)	3.5
Financial expenses, net	(3,274)	(2,216)	47.8
Income before taxes	2,012	2,544	(20.9)
Income tax and social contribution	(519)	(759)	(31.6)
Net income	R\$ 1,493	R\$ 1,785	(16.4)

**Net Operating Revenue**

The following table sets forth the components of our net operating revenue, as well as the percentage change from the prior year, for the years ended December 31, 2013 and 2012.

	<b>Year ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>% Change</b>
	<b>(in millions of reais, except percentages)</b>		
Residential	R\$ 10,303	R\$ 8,941	15.2
Personal mobility	9,290	8,010	16.0
SME/Corporate	8,455	7,695	9.9
Other	374	515	(27.2)
<b>Net operating revenue</b>	<b>R\$ 28,422</b>	<b>R\$ 25,161</b>	<b>13.0</b>

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Net operating revenue increased by 13.0% during 2013, principally due to (1) a 15.2% increase in net operating revenue from residential services, (2) a 16.0% increase in net operating revenue from personal mobility services, and (3) a 9.9% increase in net operating revenue from SME/Corporate services.

*Net Operating Revenue from Residential Customer Services*

Net operating revenue from residential customer services represented 36.3% of our net operating revenue for the year ended December 31, 2013. Net operating revenue from residential services increased by 15.2%, primarily due to our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which generated net operating revenue from residential services of R\$6,978 million during 2013 compared to R\$5,586 million during the ten-month period ended December 31, 2012 (the period of 2012 during which we consolidated the results of Telemar and its subsidiaries), the effects of which were partially offset by a 0.9% decline in net operating revenue from residential services of our legacy operations.

The average monthly net residential revenue per user (calculated based on the total revenue for the year divided by the monthly average customer base for the year divided by 12) generated by our residential services increased by 6.0% to R\$70.4 in 2013 from R\$66.4 in 2012.

*Net Operating Revenue from Residential Fixed-Line Services.* Net operating revenue from residential fixed-line services increased by 7.2%, primarily due to our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which generated net operating revenue from residential fixed-line services of R\$4,276 million during 2013 compared to R\$3,769 million during the ten-month period ended December 31, 2012 (the period of 2012 during which we consolidated the results of Telemar and its subsidiaries), the effects of which were partially offset by a 4.2% decline in net operating revenue from residential fixed-line services of our legacy operations.

The average number of our fixed-line residential customers increased by 8.7% to 12.1 million during 2013 from 11.2 million during 2012, primarily as a result of the inclusion in our customer base of 9.0 million fixed-line residential customers of Telemar and its subsidiaries as from February 27, 2012. The average number of our fixed-line residential customers of our legacy operation remained stable at 3.8 million in 2013 and 2012.

Net operating revenue from residential fixed-line services of our legacy operations declined as a result of:

a 3.6% decline in net operating revenue from local fixed-line services of our legacy operations to R\$2,009 million during 2013 from R\$2,084 during 2012, principally as a result of the general trend in the Brazilian telecommunications industry to substitute mobile services in place of local fixed-line services; and

a 12.3% decline net operating revenue from long-distance of our legacy operations, primarily as a result of (1) aggressive discounting campaigns undertaken by our competitors, and (2) the increase in the proportion of fixed line customers that subscribe to alternative plans, which include long-distance fixed line minutes as part of the monthly subscription fee.

*Net Operating Revenue from Broadband Services.* Net operating revenue from residential broadband services increased by 26.4%, primarily due to (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which generated net operating revenue from residential broadband services of R\$1,398 million during 2013 compared to R\$1,066 million during the ten-month period ended



December 31, 2012, and (2) a 10.3% increase in net operating revenue from residential broadband services of our legacy operations.

The average number of our broadband residential customers, including customers that subscribe to our broadband SME/Corporate services, increased by 21.1% to 5.9 million during 2013 from 4.9 million during 2012, primarily as a result of (1) the inclusion in our customer base of 2.9 million broadband residential customers of Telemar and its subsidiaries as from February 27, 2012.

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Net operating revenue from residential broadband services of our legacy operations increased as a result of an 8.5% increase in the average number of ADSL subscriptions to approximately 2.3 million during 2013 from approximately 2.1 million during 2012, and a 0.8% increase in the average net operating revenue per subscriber.

As of December 31, 2013, our ADSL customer base represented 33.9% of our total fixed lines in service as compared to 30.4% as of December 31, 2012.

*Net Operating Revenue from Pay-TV Services.* Net operating revenue from residential Pay-TV services increased by 109.3%, primarily due to our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which generated net operating revenue from residential Pay-TV services of R\$672 million during 2013 compared to R\$321 million during the ten-month period ended December 31, 2012.

The number of our Pay-TV residential customers increased by 136.2% to approximately 829 thousand during 2013 from approximately 351 thousand during 2012, primarily as a result of our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization.

*Net Operating Revenue from Personal Mobility Services*

Net operating revenue from personal mobility services represented 32.7% of our net operating revenue for the year ended December 31, 2013. Net operating revenue from personal mobility services increased by 16.0%, primarily due to (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which generated net operating revenue from personal mobility services of R\$7,589 million during 2013 compared to R\$6,333 million during the ten-month period ended December 31, 2012, and (2) a 1.4% increase in net operating revenue from personal mobility services of our legacy operations.

The average monthly net revenue per user (calculated based on the total revenue for the year divided by the monthly average customer base for the year divided by 12) generated by our personal mobility services declined by 7.7% to R\$20.4 in 2013 from R\$22.1 in 2012.

*Net Operating Revenue from Mobility Telephony Services.* Net operating revenue from mobility telephony services increased by 20.4%, primarily due to (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which generated net operating revenue from mobility telephony services by R\$5,341 million during 2013 compared to R\$4,317 million during the ten-month period ended December 31, 2012, and (2) a 8.2% increase in net operating revenue from mobility telephony services of our legacy operations primarily as a result of 8.2% increase in the average number of our pre-paid and post-paid mobile customers of our legacy operations, principally due to the success of commercial and operational initiatives focused on increasing sales of our premium services, such as data services and value added services markets, that are available to subscribers of our plans.

The average number of our pre-paid mobile customers increased by 17.3% to 41.5 million during 2013 from 35.3 million during 2012, primarily as a result of (1) the inclusion in our customer base of 32.5 million pre-paid customers of Telemar and its subsidiaries as from February 27, 2012, and (2) our launch of new promotions that include bonus minutes for long distance calls, packages of data services and credits for use for our text messaging services.

The average number of our post-paid mobile customers, including customers that subscribe to our post-paid SME.Corporate services, increased by 36.7% to approximately 8.4 million during 2013 from approximately 6.1 million during 2012, primarily as a result of (1) the inclusion in our customer base of 4.7 million post-paid

customers of Telemar and its subsidiaries as from February 27, 2012, and (2) the success of commercial and operational initiatives focused on increasing sales of our premium services, such as data services and value added services markets, that are available to subscribers of our plans.

*Net Operating Revenue from Interconnection to Our Mobile Network.* Mobile interconnection revenue increased by 4.6%, primarily due to our consolidation of the results of Telemar and its subsidiaries as from February

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27, 2012 due to the corporate reorganization, which generated net operating revenue from mobile interconnection revenue by R\$1,720 million during 2013 compared to R\$1,554 million during the ten-month period ended December 31, 2012. This effect was partially offset by a 14.3% decrease in mobile interconnection revenue of our legacy operations primarily as a result of the reduction in VU-M interconnection rates beginning in February 2013 as mandated under the General Plan on Competition Targets tariffs.

*Net Operating Revenue from Sales of Handsets and Accessories.* Net operating revenue from sales of handsets and accessories increased by 11.8% primarily due to our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which generated net operating revenue from sales of handsets and accessories by R\$527 million during 2013 compared to R\$469 million during the ten-month period ended December 31, 2012.

*Net Operating Revenue from SME/Corporate Services*

Net operating revenue from SME/corporate services represented 29.7% of our net operating revenue for the year ended December 31, 2013. Net operating revenue from SME/corporate services increased by 9.9%, primarily due to our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which generated net operating revenue from SME/Corporate services of R\$5,282 million during 2013 compared to R\$4,426 million during the ten-month period ended December 31, 2012, the effects of which were partially offset by a 2.9% decline in net operating revenue from SME/corporate services of our legacy operations.

*Net Operating Revenue from SME Services.* Net operating revenue from SME services increased by 8.0%, primarily due to our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which generated net operating revenue from SME services of R\$1,627 million during 2013 compared to R\$1,415 million during the ten-month period ended December 31, 2012, the effects of which were partially offset by a 0.9% decline in net operating revenue from SME services of our legacy operations primarily as a result of the decline in the average number of our fixed-line SME customers of our legacy operations.

*Net Operating Revenue from Corporate Services.* Net operating revenue from corporate services increased by 11.0%, primarily due to our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which generated net operating revenue from corporate services of R\$3,656 million during 2013 compared to R\$3,002 million during the ten-month period ended December 31, 2012, the effects of which were partially offset by a 4.0% decline in net operating revenue from corporate services of our legacy operations, primarily as a result of the decrease in the average number of our fixed-line corporate customers of our legacy operations.

***Gross Profit***

As a result of the 13.0% increase in net operating revenue in 2013, coupled with the 20.4% increase in cost of sales and services in 2013, our consolidated gross profit increased by 5.4% to R\$13,163 million in 2013 from R\$12,491 million in 2012. As a percentage of net operating revenue, gross profit declined to 46.3% in 2013 from 49.6% in 2012.

***Operating Expenses***

Under the Brazilian Corporation Law, we are required to segregate cost of sales and services from operating expenses in the preparation of our income statement. However, in evaluating and managing our business, we prepare reports in which we review the elements included in cost of sales and services and operating expenses classified by nature, as presented in note 5 of our financial statements. We believe that this classification improves our ability to understand results and trends in our business and that financial analysts and other investors who review our performance rely on

this classification in performing their own analysis. Therefore, we have presented the discussion below of our operating expenses based on the classification of operating expenses presented in note 5 of our financial statements.

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The following table sets forth the components of our operating expenses, as well as the percentage change from the prior year, for the years ended December 31, 2013 and 2012.

	<b>Year Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>% Change</b>
	<b>(in millions of reais, except percentages)</b>		
Third-party services	R\$ 6,117	R\$ 5,347	14.4
Depreciation and amortization	4,278	3,221	32.8
Rental and insurance	2,120	1,603	32.3
Personnel	2,534	2,238	13.2
Interconnection	3,966	3,915	1.3
Network maintenance services	2,328	2,029	14.7
Taxes and other income (expenses)	1,510	586	157.7
Provisions (reversals)	657	400	64.4
Costs of handsets and accessories	515	507	1.6
Advertising and publicity	557	443	25.6
Allowance for doubtful accounts	923	503	83.6
Other operating income (expenses), net	(2,370)	(390)	507.8
<b>Total cost of sales and services</b>	<b>R\$ 23,136</b>	<b>R\$ 20,401</b>	<b>13.4</b>

Operating expenses increased by 13.4% in 2013, principally due to:

a 32.8%, or R\$1,058 million, increase in depreciation and amortization costs;

a 157.7%, or R\$924 million, increase in taxes and other expenses;

a 14.4%, or R\$770 million, increase in third-party services costs;

a 83.6%, or R\$517 million, increase in rental and insurance costs;

an 83.6%, or R\$420 million, increase in allowance for doubtful accounts;

a 14.7%, or R\$299 million, increase in network maintenance services;

a 13.2%, or R\$296 million, increase in personal expenses;

a 64.4%, or 257 million, increase in provisions (reversals);

a 25.6%, or 114 million, increase in advertising and publicity; and

a 1.3%, or 51 million, increase in interconnection.

The effects of these factors was partially offset by a 507.8%, or R\$1,980 million increase in other operating income (expenses), net.

#### *Third-Party Services*

Third-party services costs increased by 14.4% in 2013, primarily as a result of our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012, which incurred third-party services costs of R\$4,722 million during 2013 compared to R\$3,780 million during the ten-month period ended December 31, 2012, the effects of which were partially offset by an 8.9% decline in third-party services costs of our legacy operations, primarily as a result of the decline in our sales commission expenses primarily due to our efforts to improve our franchise commission policy which resulted in the restructuring of the franchise network based on sales efficiency and quality, resulting in a reduction in the total number of franchisees.

#### *Depreciation and Amortization*

Depreciation and amortization costs increased by 32.8% in 2013, primarily as a result of (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012, which incurred depreciation and amortization costs of R\$3,369 million during 2013 compared to R\$2,150 million during the ten-month period ended December 31, 2012, and (2) the commencement of 4G services by our legacy operations and the growth of this

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network, which has increased the amount of amortizable license costs and depreciable property, plant and equipment of our legacy operations.

*Rental and Insurance*

Rental and insurance costs increased by 32.2% in 2013, primarily as a result of (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012, which incurred rental and insurance costs of R\$1,895 million during 2013 compared to R\$1,256 million during the ten-month period ended December 31, 2012, and (2) an increase in real estate rental and network infrastructure leasing costs of our legacy operations as a result of our sales of non-strategic assets which we now rent or lease.

*Personnel*

Personnel expenses (including employee benefits and social charges and employee and management profit sharing) increased by 13.2% in 2013, primarily as a result of (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012, which incurred personnel costs of R\$1,361 million during 2013 compared to R\$1,248 million during the ten-month period ended December 31, 2012, (2) a 19.3% increase in personnel costs and expenses of our legacy operations, principally due to an increase in the number of employees of our call center, and increases in the compensation of some employees of our legacy operations as a result of the renegotiation of some of our collective bargaining agreements at the end of 2012.

*Interconnection*

Interconnection costs increased by 1.3% in 2013, primarily as a result of our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012, which incurred Interconnection costs of R\$2,909 million during 2013 compared to R\$2,711 million during the ten-month period ended December 31, 2012, the effects of which were partially offset by a 12.2% decline in interconnection costs of our legacy operations, primarily due to a decrease in the VU-M rates charged by mobile providers beginning in February 2013 as mandated under the General Plan on Competition Targets.

*Network Maintenance Services*

Network maintenance services costs increased by 14.7% in 2013, primarily as a result of (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012, which incurred network maintenance services costs of R\$1,596 million during 2013 compared to R\$1,303 million during the ten-month period ended December 31, 2012, and (2) our negotiations with third-party network maintenance providers focused on improving the quality of the broadband network of our legacy operations to permit us to improve the services that we provide to our customers.

*Taxes and Other Expenses*

Taxes and other expenses increased by 157.7% in 2013, primarily as a result of (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012, which incurred taxes and other expenses of R\$1,107 million during 2013 compared to R\$254million during the ten-month period ended December 31, 2012, (2) an increase in ICMS, PIS and COFINS taxes due to an increase in other revenues; and (3) late-payment charges of R\$102 million during 2013 compared to R\$3 million during the ten-month period ended December 31, 2012.

*Provisions (Reversals)*



Provisions (reversals) increased by 64.4% in 2013, primarily as a result of our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012, which incurred provisions/reversals of R\$470 million during 2013 compared to R\$173 million during the ten-month period ended December 31, 2012.

*Advertising and Publicity*

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Advertising and publicity expenses increased by 25.6% in 2013, primarily as a result of (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012, which incurred advertising and publicity expenses of R\$419 million during 2013 compared to R\$307 million during the ten-month period ended December 31, 2012, and (2) an increase in expenditures on our advertising campaigns to launch to promote the *Oi Galera* mobile campaign and expenditures on advertising campaigns to promote Oi at Rock in Rio.

*Allowance for Doubtful Accounts*

Allowance for doubtful accounts increased by 83.6% in 2013, primarily as a result of (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012, which incurred allowance for doubtful accounts expenses of R\$703 million during 2013 compared to R\$335 million during the ten-month period ended December 31, 2012, and (2) an increase in the percentage of accounts receivable of our legacy operations that we record as a provision based on an increase in the rate of delinquency of our fixed-line customers.

*Other Operating Income (Expenses), Net*

Other operating income (expenses), net increased to R\$2,370 million in 2013 from R\$390 million in 2012. The principal components of other operating income (expenses), net in 2013 were:

a R\$1,497 million gain, net of transaction expenses, relating to the sale of GlobeNet;

a R\$330 million reversal of accrued profit sharing;

a R\$201 million reversal of allowance arising from our review of the methodology used to calculate provisions for losses on labor claims; and

a R\$173 million gain, net of transaction expenses, related to the sale of a property.

The principal components of other operating income (expenses), net in 2012 were gains from our sales of non-strategic assets.

***Operating Income before Financial Income (Expenses) and Taxes***

As a result of the foregoing, our consolidated operating income before financial income (expenses) and taxes increased by 11.1% to R\$5,287 million in 2013 from R\$4,760 million in 2012. As a percentage of net operating revenue, operating income before financial income (expenses) and taxes declined to 18.6% in 2013 from 18.9% in 2012.

***Financial Expenses, Net***

*Financial Income*

Financial income declined by 39.6% to R\$1,375 million in 2013 from R\$2,275 million in 2012, primarily due to:

an 89.3% decline in exchange rate gains on foreign investments to R\$70 million during 2013 from R\$650 million during 2012, primarily as a result of a decrease in our balances invested in foreign currencies and the 14.6% depreciation of the *real* against the U.S. dollar during 2013 compared to the 8.9% depreciation of the *real* against the U.S. dollar during 2012; and

a 45.9% decline in income from short-term investments to R\$279 million during 2013 from R\$515 million during 2012, primarily as a result of a decrease in the average amount of our short-term investments.

*Financial Expenses*

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Financial expenses increased by 3.5% to R\$4,650 million in 2013 from R\$4,491 million in 2012, primarily due to:

an 18.7% increase in interest on loans payable to third parties and interest on debentures to R\$2,452 million during 2013 from R\$2,066 million during 2012, primarily as a result of an increase in the average amount of our loans payable to third parties and debentures, principally as a result of our consolidation of the indebtedness of Telemar and its subsidiaries as from February 27, 2012; and

a 26.2% increase in interest and inflation adjustments on other liabilities to R\$616 million during 2013 from R\$488 million during 2012, primarily as a result of (1) an increase in interest and inflation adjustments of our legacy operations primarily due to an increase in average amount of its other liabilities, and (2) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012, which recorded interest and inflation adjustments of R\$285 million during 2013 compared to R\$242 million during the ten-month period ended December 31, 2012.

The effects of these factors were partially offset by a 23.0% increase in gains on derivatives transactions to R\$1,159 million during 2013 from R\$942 million during 2012, primarily as a result of the 14.6% depreciation of the *real* against the U.S. dollar and the 19.7% depreciation of the *real* against the Euro during 2013 compared to the 8.9% depreciation of the *real* against the U.S. dollar and the 10.7% depreciation of the *real* against the Euro during 2012.

**Income Tax and Social Contribution**

The composite corporate statutory income tax and social contribution rate was 34% in each of 2013 and 2012. Income tax and social contribution expense declined by 31.6% to R\$519 million in 2013 from R\$759 million in 2012. Our effective tax rate was 29.0 % in 2013 and 29.9% in 2012. The table below sets forth a reconciliation of the composite corporate statutory income tax and social contribution rate to our effective tax rate for each of the periods presented.

	<b>Year Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Composite corporate statutory income tax and social contribution rate	34.0%	34.0%
Tax effects of equity method	0.3	0.2
Tax effects of interest on shareholders' equity		0.2
Tax effects of permanent exclusions (additions)	(7.1)	0.5
Tax incentives (SUDENE)	(1.5)	(6.1)
Utilization of tax loss carryforwards	(1.3)	0.0
Tax effects of unrecognized deferred tax assets	4.6	1.6
Tax effects of recognized deferred tax assets		(0.3)
<b>Effective rate</b>	<b>29.0%</b>	<b>29.9%</b>

Our effective tax rate was 29.0% in 2013, primarily as a result of (1) the tax effect of permanent additions, primarily as a result of the net effects of permanent exclusion (additions) of prescribed dividends, nondeductible fines, tax incentives and sponsorships, which decreased our effective tax rate by 7.1%, (2) the tax effect of tax incentives provided by the SUDENE, resulting from a reduction in the basis of calculation of profit in the regions promoted by

the SUDENE, which reduced our effective tax rate by 1.5%, (3) the tax effect of our utilization of tax loss carryforwards, which reduced our effective tax rate by 1.3%. The effects of these factors were partially offset by the tax effect of unrecognized deferred tax assets regarding legal entities that are not eligible to recognize tax credits on tax loss carryforwards, which increased our effective tax rate by 4.6%.

Our effective tax rate was 29.9% in 2012, primarily as a result of tax incentives provided by the SUDENE resulting from a reduction in the basis of calculation of profit in the regions promoted by SUDENE, which lowered our effective tax rate by 6.1%. These effects of this incentive was partially offset by (1) the tax effect of unrecognized deferred tax assets regarding legal entities that are not eligible to recognize tax credits on tax loss carryforwards, which increased our effective tax rate by 1.6%, and (2) the tax effect of permanent additions,

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primarily as a result of the net effects of permanent exclusion (additions) of prescribed dividends, nondeductible fines, tax incentives and sponsorships, which increased our effective tax rate by 0.5%.

### ***Net Income***

Our consolidated net income declined by 16.4% to R\$1,493 million in 2013 from R\$1,785 million in 2012. As a percentage of net operating revenue, net income declined to 5.3% in 2013 from 7.1% in 2012.

### **Liquidity and Capital Resources**

Our principal cash requirements consist of the following:

working capital requirements;

servicing of our indebtedness;

capital expenditures related to investments in operations, expansion of our networks and enhancements of the technical capabilities and capacity of our networks; and

dividends on our shares, including in the form of interest attributable to shareholders' equity.

Unless our board of directors deems it inconsistent with our financial position, payment of dividends is mandatory under our by-laws and, consequently, may give rise to significant cash requirements in future periods.

Our principal sources of liquidity have traditionally consisted of the following:

cash flows from operating activities;

short-term and long-term loans;

sales of debt securities in domestic and international capital markets; and

during 2012, 2013 and 2014, sales of non-core assets.

During 2014, cash flow generated by operations was used primarily for investing activities, for working capital requirements and to service our outstanding debt obligations. As of December 31, 2014, our consolidated cash and cash equivalents and cash investments amounted to R\$2,621 million. As of December 31, 2014, we had working capital of R\$6,730 million. We believe that our working capital is sufficient for our requirements during 2015.

### **Cash Flow**

***Cash Flows from Operating Activities***

Our primary source of operating funds is cash flow generated from our operations. Net cash provided by operating activities was R\$5,531 million during 2014, including cash flow from discontinued operations of R\$1,878 million, R\$7,035 million during 2013 and R\$3,910 million during 2012. We consider cash flows provided by our operating activities to be sufficient for our expected cash requirements related to operations. However, we generally finance our investments in property, plant and equipment through the use of bank loans, vendor financing, capital markets and other forms of financing.

***Cash Flows Used in Investing Activities***

Investing activities used net cash of R\$4,303 million during 2014, including cash used by discontinued operations of R\$2,813 million, R\$6,770 million during 2013 and R\$6,495 million during 2012.

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During 2014, investing activities of our continuing operations for which we used cash primarily consisted of (1) investments of R\$5,370 million in purchases of property, plant and equipment and intangible assets, primarily related to the expansion of our data communications network, the acquisition of our 4G authorization and the implementation of projects to meet ANATEL's regulatory requirements, and (2) net judicial deposits (consisting of deposits less redemptions) of R\$938 million, primarily related to provisions for labor, taxes and civil contingencies. During 2014, investing activities generated cash flows of (1) R\$4,454 million from the sale of permanent assets, primarily consisting of the net proceeds of our sales of GlobeNet, Caryopoceae, and Tupã Torres, and (2) R\$357 million from the acquisition of PT Portugal, net of cash and cash equivalents of assets classified as held-for sale.

During 2013, investing activities for which we used cash primarily consisted of (1) investments of R\$5,976 million in purchases of property, plant and equipment and intangible assets, primarily related to the expansion of our data communications network, the acquisition of our 4G authorization and the implementation of projects to meet ANATEL's regulatory requirements, and (2) net judicial deposits (consisting of deposits less redemptions) of R\$735 million, primarily related to provisions for labor, taxes and civil contingencies.

During 2012, investing activities for which we used cash primarily consisted of (1) investments of R\$5,330 million in purchases of property, plant and equipment and intangible assets, primarily related to the expansion of our data communications network, the acquisition of our 4G authorization and the implementation of projects to meet ANATEL's regulatory requirements, and (2) net judicial deposits (consisting of deposits less redemptions) of R\$1,662 million, primarily related to provisions for labor, taxes and civil contingencies.

***Cash Flows from Financing Activities***

Financing activities used net cash of R\$1,175 million during 2014, including cash used by discontinued operations of R\$5,533 million, R\$2,299 million during 2013, and provided net cash of R\$975 million in 2012.

During 2014, our principal sources of borrowed funds consisted of (1) R\$1,300 million aggregate principal amount under a revolving credit facility that we entered into with a syndicate financials institution during December 2012, (2) R\$836 million aggregate principal amount borrowed under a credit facility with the Brazilian National Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*), or BNDES that we entered into in December 2012, (3) US\$104 million aggregate principal amount under an export credit facility that Telemar entered into with Export Development Canada, or EDC, during July 2012, and (4) US\$98 million aggregate principal amount under an export credit facility that Oi entered into with the Office National Du Ducreire/Nationale Delcrededienst, the Belgian national export credit agency, or ONDD, during March 2013. In addition, we generated cash (net of issue premium and related costs) of R\$7,827 million through our sale of common shares and preferred shares for cash in the Oi capital increase.

During 2014, in addition to the R\$5,533 million used by discontinued operations, we used cash to (1) repay R\$5,054 million principal amount of our outstanding loans and financings and derivatives, (2) to make installment payments under the tax refinancing plan in the aggregate amount of R\$870 million, and (3) to make installment payments relating to our permits and concessions in the aggregate amount of R\$205.

During 2013, our principal sources of borrowed funds consisted of (1) R\$1,500 million aggregate principal amount of non-convertible debentures issued in March 2013, (2) R\$873.5 million aggregate principal amount borrowed under a R\$5.4 billion credit facility with BNDES that we entered into in December 2012, (3) US\$96 million aggregate principal amount borrowed under an export credit facility that Telemar entered into with EDC in July 2012, and (4) US\$37 million aggregate principal amount borrowed under an export credit facility that Telemar entered into with SEK in July 2011.



During 2013, we used cash to (1) repay R\$3,568 million principal amount of our outstanding loans and financings and derivatives, (2) to make installment payments relating to our permits and concessions in the aggregate amount of R\$711 million, (3) to pay dividends and interest on shareholders' equity in the aggregate amount of R\$1,280 million, and (4) to make installment payments under the tax refinancing plan in the aggregate amount of R\$174 million.

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During 2012, our principal sources of borrowed funds consisted of (1) the issuance of US\$1,500 million aggregate principal amount of 5.75% Senior Notes due 2022, (2) the issuance of R\$2,000 million aggregate principal amount of non-convertible debentures due 2020, and (3) R\$2,000 million aggregate principal amount borrowed under a R\$5.4 billion credit facility with BNDES that we entered into in December 2012. In addition, we consolidated cash and cash equivalents of R\$4,930 million as a result of the corporate reorganization.

During 2012, we used cash to (1) repay R\$4,980 million principal amount of our outstanding loans and financings and derivatives, (2) to pay dividends and interest on shareholders' equity in the aggregate amount of R\$2,405 million, (3) to pay R\$2,008 million to shareholders of TNL and Telemar who exercised their withdrawal rights in connection with the corporate reorganization, and (4) to pay R\$1,156 million for the redemption of class B and class C preferred shares issued as a bonus and distributed to shareholders of our common and preferred shares.

**Projected Sources and Uses of Cash**

We anticipate that we will be required to spend approximately R\$10.2 billion to meet our short-term contractual obligations and commitments during 2015 (excluding contractual obligations and commitments and budgeted capital expenditures of our discontinued operations), and an additional approximately R\$24.2 billion to meet our long-term contractual obligations and commitments in 2016 and 2017 (excluding contractual obligations and commitments and budgeted capital expenditures of our discontinued operations). We expect that we will meet these cash requirements for (1) our operating and maintenance activities through sales of our services, and (2) our debt service and capital expenditure commitments through a combination of cash generated from operating activities and cash generated by financing activities, including new debt financings and the refinancing of our existing indebtedness as it becomes due.

We have commitments from several financial institutions to provide us with financing in the future, including commitments from under two revolving credit facilities that we entered into in November 2011 and December 2012, an export credit facility that we entered into in July 2012 and unused commitments under various other credit facilities described under **Indebtedness**. We pay commitment fees to these financial institutions in connection with their commitments.

In November 2011, Oi, Oi Mobile, Telemar and TNL PCS entered together into a revolving credit facility with a syndicate of international institutions. As a result of the merger of TNL PCS with and into Oi Mobile in February 2014, Oi Mobile assumed all of TNL PCS's rights and obligations under this credit facility. Under this facility, up to US\$1 billion aggregate principal amount will be available for disbursement to the borrowers during the five-year term of this facility. As of December 31, 2014, there were no outstanding loans under this facility.

In January 2013, PT SGPS, PT Comunicações, S.A. and PTIF, as borrowers, entered into an export credit facility with the Bank of China, under which the Bank of China agreed to disburse loans in the aggregate principal amount of 100 million. As a result of a corporate reorganization of the subsidiaries of PT SGPS on May 5, 2014, PT Portugal assumed PT SGPS and PT Comunicações, S.A.'s obligations under this credit facility. The proceeds of this credit facility have been and will be used to fund equipment purchases and related service purchases pursuant to supply agreements with Huawei Technologies Co. Ltd. Loans under this credit facility bear interest at an average rate of EURIBOR plus 3% plus mandatory costs per annum, as defined therein. Interest on each of these loans is payable monthly, quarterly or semi-annually, as selected by the borrower, in arrears through maturity in January 2022. The outstanding principal amount of these loans is payable in 12 equal semi-annual installment commencing in November 2016. In connection with our acquisition of PT Portugal, in May 2014 we guaranteed all obligations under this loan agreement. As of December 31, 2014, there were no outstanding loans under this facility.

In October 2014, we entered into an export credit facility agreement with FINNVERA under which FINNVERA agreed to disburse loans in two tranches, in an aggregate principal amount of up to US\$232.7 million

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and US\$164.7 million. The proceeds of this export credit facility will be used to fund the supply and installation of fixed and wireless telecommunication infrastructure and related services. Loans under this export credit facility bear interest at an average rate of LIBOR plus 1.00% per annum. Interest on each of these loans is payable semi-annually in arrears through maturity in November 2022 or November 2023, depending on the tranche. The outstanding principal amount of these loans is payable in 17 equal semi-annual installments commencing in November 2014 or November 2015, depending on the tranche. As of December 31, 2014, there were no outstanding loans under this facility.

In December 2014, we entered into a credit facility with Banco do Nordeste do Brasil S.A., or BNB, under which BNB agreed to disburse loans in an aggregate principal amount of up to R\$371 million. The proceeds of this credit facility have been used for capital expenditures in our telecommunications infrastructure in the northeastern region of Brazil. Loans under this credit facility bear interest at 8.24% per annum, with a 15% discount available for timely payment of interest under these loans. Interest is payable quarterly in arrears from December 2014 through December 2016 and monthly in arrears thereafter through maturity in December 2022. The outstanding principal amount is payable in 72 equal monthly installments, commencing in January 2017. As of December 31, 2014, there were no outstanding loans under this facility.

**Contractual Commitments**

The following table summarizes our significant contractual obligations and commitments as of December 31, 2014:

	<b>Payments Due by Period</b>				<b>Total</b>
	<b>Less than One Year</b>	<b>One to Three Years</b>	<b>Three to Five Years</b>	<b>More than Five Years</b>	
	<b>(in millions of reais)</b>				
<b>Continuing operations:</b>					
Loans and financings (1)	R\$ 6,317	R\$ 15,891	R\$ 6,730	R\$ 3,900	R\$ 32,838
Debentures (2)	1,094	6,206	5,165	8	12,473
Unconditional purchase obligations (3)	1,737	758	343		2,838
Concession fees (4)	288	306	348	1,43	2,379
Usage rights (5)	676	686			1,362
Pension plan contributions (6)	129	388	258	517	1,292
Total contractual obligations and commitments from continuing operations	10,241	24,235	12,844	5,862	53,182
<b>Discontinued operations:</b>					
Financial obligations classified as liabilities of assets held for sale (7)	4,828	7,354	6,979	5,619	24,780
Unconditional purchase obligations (3)	140				140
Usage rights (5)	19	33			53
Operating lease obligations (8)	98	113	85	93	389
Post-retirement benefit payments of Portuguese operations (9)	499	868	722	1,376	3,465

Total contractual obligations and commitments discontinued operations	5,584	8,368	7,786	7,088	28,827
Total commitments	R\$ 15,825	R\$ 32,603	R\$ 12,288	R\$ 12,950	R\$ 82,009

- (1) Includes (1) estimated future payments of interest on our loans and financings, calculated based on interest rates and foreign exchange rates applicable at December 31, 2014 and assuming that all amortization payments and payments at maturity on our loans and financings will be made on their scheduled payment dates, and (2) estimated future cash flows on our derivative obligations, calculated based on interest rates and foreign exchange rates applicable as of December 31, 2014 and assuming that all payments on our derivative obligations will be made on their scheduled payment dates.
- (2) Includes estimated future payments of interest on our debentures, calculated based on interest rates applicable as of December 31, 2014 and assuming that all amortization payments and payments at maturity on our debentures will be made on their scheduled payment dates.
- (3) Consists of (1) obligations in connection with a business process outsourcing agreement, and (2) purchase obligations for network equipment pursuant to binding obligations which include all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.
- (4) Consists of estimated bi-annual fees due to ANATEL under our concession agreements expiring in 2025. These estimated amounts are calculated based on our results for the year ended December 31, 2014.
- (5) Consists of payments due to ANATEL and ANACOM for radio frequency licenses. Includes accrued and unpaid interest as of December 31, 2014.

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- (6) Consists of expected contributions to amortize the actuarial deficit of the BrTPREV plan.
- (7) Includes estimated future payments of interest on debt obligations of PT Portugal that have been classified as liabilities of assets held for sale but will remain obligations of our company following the completion of our sale of PT Portugal, calculated based on interest rates and foreign exchange rates applicable at December 31, 2014 and assuming that all amortization payments and payments at maturity on these debt obligations will be made on their scheduled payment dates.
- (8) Consists of obligations under contractual rental agreements and includes obligations related to leased lines and the rental of buildings. Operating leases are accounted for as a cost in the period that the corresponding expense is incurred.
- (9) Consists primarily of the undiscounted payments to be made by PT Comunicações related to salaries due to pre-retired and suspended employees, described below in Post-Retirement Benefits. The total amount relating to our Portuguese telecommunications business differs from the net accrued post-retirement liability recognized in our consolidated statement of financial position primarily because the latter amount relates to the discounted unfunded obligations. These obligations will be assumed by Altice in connection with the closing of the sale of PT Portugal.

We are also subject to contingencies with respect to tax, civil, labor and other claims and have made provisions for accrued liability for legal proceedings related to certain tax, civil, labor and other claims of R\$5,132 million as of December 31, 2014. See Item 8. Financial Information Legal Proceedings and note 21 to our consolidated financial statements.

**Indebtedness**

Under IFRS 5, as of December 31, 2014, we were required to classify all financial obligations of PT Portugal as liabilities of assets held for sale. We expect to complete the PT Portugal reorganization by June 9, 2015 which is expected to result in 100% of the share capital of PTIF and PT Participações being transferred from PT Portugal to Oi S.A. Upon the completion of this transfer, all financial obligations of PTIF and PT Participações and its subsidiaries are expected to be reclassified as indebtedness of our company.

On a consolidated basis, our *real*-denominated indebtedness as of December 31, 2014 was R\$21,191 million, our U.S. dollar-denominated indebtedness was R\$12,706 million, and our Euro-denominated indebtedness was R\$2,426 million. As of December 31, 2014, our *real*-denominated indebtedness bore interest at an average rate of 12.91% per annum, our Euro-denominated indebtedness bore interest at an average rate of 5.125% per annum, and our U.S. dollar-denominated indebtedness bore interest at an average rate of 5.08% per annum. As of December 31, 2014, 79.4% of our debt bore interest at floating rates, including the effect of swap operations.

***Short-Term Indebtedness***

Our short-term debt, consisting of the current portion of long-term loans and financings and debentures, was R\$4,464 million as of December 31, 2014. Under our financing policy, we generally do not incur short-term indebtedness, as we believe that our cash flows from operations generally will be sufficient to service our current liabilities.

***Long-Term Indebtedness***

Our principal sources of long-term debt are:

- fixed-rate notes issued in the international market;

debentures issued in the Brazilian market;

credit facilities with BNDES;

unsecured lines of credit obtained from Brazilian financial institutions;

credit facilities with international export credit agencies;

real estate securitization transactions; and

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credit facilities with a development bank.

Some of our debt instruments require that Oi and /or certain of its subsidiaries comply with financial covenants, semi-annually or quarterly. Under each of these debt instruments, the creditor has the right to accelerate the debt if, at the end of any applicable period we are not in compliance with the defined financial covenants ratios. We were in compliance with these financial covenants at December 31, 2014, and we believe that we will be able to comply with these financial covenants during 2015. In addition, we believe that our compliance with these financial covenants will not adversely affect our ability to implement our financing plans.

The instruments governing a substantial portion of our indebtedness contain cross-default or cross-acceleration clauses and the occurrence of an event of default under one of these instruments or under the financial obligations of PT Portugal classified as liabilities of assets held for sale could trigger an event of default under other indebtedness or enable the creditors under other indebtedness or under financial obligations of PT Portugal classified as liabilities of assets held for sale to accelerate that indebtedness or those obligations.

As of December 31, 2014, all of our debt instruments with BNDES were secured by pledges of certain of our accounts receivable.

The following discussion briefly describes certain of our significant financing transactions.

*Fixed-Rate Notes*

We have issued five series of fixed-rate debt securities in the international market. All of these securities pay interest semi-annually and annually in arrears. All of these securities pay interest semi-annually or annually in arrears.

The following table sets forth our outstanding fixed-rate debt securities as of December 31, 2014, the outstanding principal amount of these securities and their maturity dates.

Security	Outstanding Principal Amount (in millions)	Final Maturity
Oi 9.75% senior notes due 2016(1)	R\$ 1,100	September 2016
Oi 5.125% senior notes due 2017(2)	750	December 2017
Oi 9.500% senior notes due 2019(3)	US\$ 142	April 2019
Oi 5.500% senior notes due 2020(4)	US\$ 1,787	October 2020
Oi Brasil Holdings Coöperatief U.A. 5.75% senior notes due 2022(3)	US\$ 1,500	February 2022

- (1) These notes are denominated in *reais* and payments of principal and interest under these notes are payable in U.S. dollars at prevailing exchange rates at the time of payment.
- (2) These notes are fully and unconditionally guaranteed by Telemar Norte Leste S.A.
- (3) These notes are obligations of Oi's subsidiary Oi Brasil Holdings Coöperatief U.A. and are fully and unconditionally guaranteed by Oi S.A.

*Debentures*



We have issued several series of debentures in the Brazilian market. All of these securities pay interest annually or semi-annually in arrears. The table below sets forth our outstanding debentures as of December 31, 2014, the outstanding principal amount of these securities, the applicable interest rates, and their maturity dates.

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<b>Security</b>	<b>Outstanding Principal Amount (in millions of reais)</b>	<b>Interest Rate</b>	<b>Final Maturity</b>
Oi debentures due 2017	R\$ 400	CDI plus 0.94%	March 2017
Oi debentures due 2017	R\$ 1,000	CDI plus 1.00%	August 2017
Oi debentures due 2018	R\$ 2,350	CDI plus 1.15%	December 2018(1)
Oi debentures due 2019	R\$ 1,500	CDI plus 0.75%	March 2019
Oi debentures due 2020	R\$ 1,600	IPCA plus 6.20%	March 2020(2)
Oi debentures due 2020	R\$ 246	IPCA plus 7.98%	April 2020
Telemar debentures due 2021	R\$ 31	IPCA plus 0.50%	July 2021

- (1) The outstanding principal amount of these debentures is payable in three equal annual installments commencing in December 2016.
- (2) The outstanding principal amount of these debentures is payable in two equal annual installments commencing in March 2019.

*Credit Facilities with BNDES*

We and our subsidiaries have entered into a variety of credit facilities with BNDES. The proceeds of these credit facilities have been used for a variety of purposes, including funding our investment plans, funding the expansion of our telecommunications plant (voice, data and video), and making operational improvements to meet the targets established in the General Plan on Universal Service Goals and the General Plan on Quality Goals in effect at the time of these loans.

The following table sets forth selected information with respect to our BNDES credit facilities as of December 31, 2014.

<b>Facility</b>	<b>Outstanding Principal Amount (in millions of reais)</b>	<b>Interest Rate</b>	<b>Amortization Schedule</b>	<b>Final Maturity</b>
<b>Oi Mobile 2009 credit facility(1):</b>				
Floating-rate loans	459	TJLP plus 3.95%	Monthly(2)	December 2018
Fixed-rate loans	22	4.50%	Monthly(2)	December 2018
<b>Oi Mobile 2009 credit facility:</b>				
A loans	359	TJLP plus 3.95%	Monthly(2)	December 2018
B loans	9	4.50%	Monthly(2)	December 2018
<b>Telemar 2012 credit facility:</b>				
A loans	610	TJLP plus 4.08%	Monthly(3)	July 2021
B loans	129	2.50%	Monthly(3)	January 2021
D loans	150	TJLP plus 2.18%	Monthly(3)	January 2021
<b>Oi Mobile 2012 credit facility(4):</b>				
A loans	312	TJLP plus 4.08%	Monthly(3)	July 2021
B loans	80	2.50%	Monthly(3)	January 2021

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C loans	20	2.50%	Monthly(3)	January 2021
Oi 2012 credit facility:				
A loans	339	TJLP plus 4.08%	Monthly(3)	July 2021
B loans	58	2.50%	Monthly(3)	January 2021
C loans	169	2.50%	Monthly(3)	January 2021
Oi Mobile 2012 credit facility:				
A loans	90	TJLP plus 4.08%	Monthly(3)	July 2021

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- (1) On September 30, 2013, the obligations of Telemar under its 2009 Credit Facility and the obligations of Oi under its 2009 Credit Facility were assumed by TNL PCS, in each case with the consent of BNDES. As a result of the merger of TL PCS with and into Oi Mobile in February 2014, Oi Mobile assumed TNL PCS's obligations under this credit facility.
- (2) Amortization on this facility commenced in January 2012.
- (3) Amortization on this facility commences in August 2015.
- (4) As a result of the merger of TL PCS with and into Oi Mobile in February 2014, Oi Mobile assumed TNL PCS's obligations under this credit facility.

*Unsecured Lines of Credit*

In May 2008, Telemar entered into an unsecured line of credit with a Brazilian financial institution in the aggregate amount of R\$4,300 million to finance the acquisition of control of Oi. The loans under this line of credit originally bore interest at the rate of the CDI rate plus 1.30% per annum, payable semi-annually in arrears in May and November of each year, commencing in May 2010. As a result of the renegotiation of the terms and conditions of these loans in May 2011, these loans bear interest at the rate of the CDI rate plus 1.00% per annum from May 2011 to May 2014 and at the rate of CDI rate plus 1.83% per annum from May 2014 to May 2018. The principal of these loans is payable in seven equal annual installments, commencing in May 2010. As of December 31, 2014, the outstanding principal amount under this line of credit was R\$3,071 million.

In December 2012, Oi entered into a revolving credit facility with a syndicate of financial institutions. Under this facility, up to R\$1.5 billion aggregate principal amount will be available for disbursement to Oi during the three-year term of this facility. The loans under this credit facility bear interest at a rate of Inter-financial Deposits (*Depósitos Interfinanceiros*), as calculated by CETIP S.A. - Mercados Organizados, plus 1.10% per annum. Oi may receive up to 10 disbursements during the term of this credit facility, each with a minimum value of R\$300 million. Principal and interest for each disbursement are paid in accordance with the terms of each disbursement request. As of December 31, 2014, the outstanding principal amount under this credit facility was R\$1,300 million, which is due in December 2015.

*Credit Facilities with Export Credit Agencies**Credit Facilities with FINNVERA*

In June 2008, Telemar entered into an export credit facility agreement with FINNVERA under which FINNVERA agreed to disburse loans in the aggregate principal amount of up to US\$300 million. Disbursements of US\$192 million and US\$108 million under this export credit facility were received in 2008 and 2009, respectively. The proceeds of this export credit facility have been and will be used to fund equipment purchases related to Telemar's capital expenditures on its fixed-line and mobile telecommunications infrastructure. Loans under this export credit facility bear interest at an average rate of LIBOR plus 1.07% per annum. Interest on each of these loans is payable semi-annually in arrears through maturity in December 2018. The outstanding principal amount of these loans is payable in 17 equal semi-annual installments commencing in December 2010. As of December 31, 2014, the outstanding principal amount under this credit facility was US\$141 million.

In August 2009, Telemar entered into an export credit facility agreement with FINNVERA under which FINNVERA agreed to disburse loans in the aggregate principal amount of up to US\$500 million. Disbursements of US\$208 million, US\$27 million, US\$74 million, US\$97 million and US\$92 million under this export credit facility were received in February 2010, May 2010, February 2011, June 2011 and January 2012, respectively. The proceeds of this export credit facility have been and will be used to fund equipment purchases related to Telemar's capital expenditures on our fixed-line and mobile telecommunications infrastructure. Loans under this export credit facility bear interest at

an average rate of LIBOR plus 1.70% per annum. Interest on each of these loans is payable semi-annually in arrears through maturity in August 2019. The outstanding principal amount of these loans is payable in 17 equal semi-annual installments commencing in August 2011. As of December 31, 2014, the outstanding principal amount under this credit facility was US\$294 million.

In December 2011, Telemar entered into an export credit facility with FINNVERA under which FINNVERA agreed to disburse loans in the aggregate principal amount of up to US\$200 million. A disbursement of US\$188 under this export credit facility was received in December 2012. The proceeds of this export credit facility have been and will be used to fund equipment purchases related to Telemar's capital expenditures on our fixed-line and mobile telecommunications infrastructure. Loans under this facility bear interest at the rate of LIBOR plus 0.90% per annum, payable semi-annually in arrears. The principal amount of these loans is payable in 17 semi-annual

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installments commencing in February 2013. As of December 31, 2014, the outstanding principal amount under this credit facility was US\$153 million.

*Credit Facility with Nordic Investment Bank*

In July 2008, Telemar entered into a credit facility with Nordic Investment Bank under which Nordic Investment Bank disbursed loans in the aggregate principal amount of US\$250 million. The proceeds of this credit facility have been used to fund equipment purchases related to Telemar's infrastructure.

Under this credit facility, loans in the principal amount of US\$100 million (the A loan) and US\$150 million (the B loan) were disbursed in July 2008. The A loan bears interest at the rate of LIBOR plus 1.18% per annum and the B loan bears interest at the rate of LIBOR plus 0.80% per annum. Interest on each of these loans is payable semi-annually in arrears through maturity. The outstanding principal amount of the A loan is payable in 17 equal semi-annual installments commencing in July 2010, and the outstanding principal amount of the B loan is payable in 11 equal semi-annual installments commencing in July 2010. As of December 31, 2014, the outstanding principal amount under this credit facility was US\$74 million.

*Credit Facilities with China Development Bank*

In February 2009, Telemar entered into a credit facility agreement with China Development Bank Corporation, or China Development Bank, under which China Development Bank agreed to disburse loans in the aggregate principal amount of up to US\$300 million. Disbursements of US\$227 million and US\$52 million under this credit facility were received in 2009 and 2010, respectively. The proceeds of this credit facility have been and will be used to fund equipment purchases related to Telemar's capital expenditures on telecommunications infrastructure. Loans under this credit facility bear interest at a rate of LIBOR plus 2.5% per annum. Interest on each of these loans is payable semi-annually in arrears through maturity in February 2016. The outstanding principal amount of these loans is payable in 11 equal semi-annual installments commencing in April 2011 and terminating upon maturity in February 2016. As of December 31, 2014, the outstanding principal amount under this credit facility was US\$82 million.

In October 2009, Telemar entered into a credit facility agreement with China Development Bank under which China Development Bank agreed to disburse loans in the aggregate principal amount of up to US\$500 million. Disbursements of US\$94 million and US\$98 million under this credit facility were received in 2010 and 2011, respectively. The proceeds of this credit facility have been and will be used to fund equipment purchases related to Telemar's capital expenditures on telecommunications infrastructure. Loans under this credit facility bear interest at a rate of LIBOR plus 2.5% per annum. Interest on each of these loans is payable semi-annually in arrears through maturity in October 2016. The outstanding principal amount of these loans is payable in 11 equal semi-annual installments commencing in April 2012 and terminating upon maturity in October 2016. As of December 31, 2014, the outstanding principal amount under this credit facility was US\$88 million.

*Credit Facility with Crédit Agricole Corporate and Investment Bank*

In April 2010, Telemar entered into an export credit facility agreement with Crédit Agricole, as lender and facility agent, under which Crédit Agricole agreed to disburse loans in the aggregate principal amount of up to US\$220 million, in two tranches of US\$110 million each. Disbursements in the aggregate principal amount of US\$46 million and US\$31 million under the first tranche of this facility were received in July 2010 and February 2011, respectively, and a disbursements in the aggregate principal amount of US\$55 million and US\$89 million under the second tranche of this facility were received in May 2011 and February 2012, respectively. The proceeds of these disbursements have been and will be used to fund equipment purchases related to Telemar's capital expenditures on its fixed-line and

mobile telecommunications infrastructure. Loans under the first and second tranches of this facility bear interest at an average rate of LIBOR plus 1.40% per annum. Loans under the first tranche of this facility pay interest semi-annually in arrears through maturity in August 2019. Loans under the second tranche of this facility pay interest semi-annually in arrears through maturity in August 2020. The outstanding principal amount of these loans is payable in 17 equal semi-annual installments, commencing in August 2011 for the first tranche and in August 2012 for the second tranche. ONDD, the Belgian national export credit

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agency, is providing an insurance policy in connection with this facility. As of December 31, 2014, the outstanding principal amount under this credit facili