Oi Group
Annex 2.6 – Economic-Financial Report
Rio de Janeiro, September 5, 2016

Building a better working world

Index

1. General Considerations

This Economic-Financial Report ("Report") has the objective to assess the economic and financial feasibility, in the context of the Judicial Reorganization Plan ("Plan" or "JRP") of the companies under judicial reorganization, **OI S.A. – Under Judicial Reorganization** ("Oi" or "Company"), a publicly held corporation, registered with CNPJ/MF [National Corporate Taxpayer Register/Treasury Department] under no. 76.535.764/0001-43, with headquarters and principal place of business at Rua do Lavradio no. 71, Centro, in the City and State of Rio de Janeiro, ZIP: 20230-070; **TELEMAR NORTE LESTE S.A. – Under Judicial Reorganization** ("TNL" or "TMAR"), a privately held corporation, registered with CNPJ/MF under no. 33.000.118/0001-79, with headquarters and principal place of business at Rua do Lavradio no. 71, Centro, in the City and State of Rio de Janeiro, ZIP: 20230-070; **OI MÓVEL S.A. – Under Judicial Reorganization** ("OI MÓVEL"), a privately held corporation, registered with CNPJ/MF under no. 05.423.963/0001-11, with principal place of business in this city of Rio de Janeiro and headquarters in the City of Brasilia, Federal District, in Setor Comercial Norte, Quadra 3, Bloco A, Edifício Estação Telefônica, ground floor (part 2), ZIP: 70.713-900; **COPART 4 PARTICIPAÇÕES S.A. – Under Judicial Reorganization** ("COPART 4"), a privately held corporation, registered with CNPJ/MF under no. 12.253.691/0001-14, with headquarters and principal place of business at Rua Teodoro da Silva no. 701/709 B, 4th floor, Vila Isabel, in the City and State of Rio de Janeiro, ZIP: 20560-000; **COPART 5 PARTICIPAÇÕES S.A. – Under Judicial Reorganization** ("COPART 5"), privately held corporation, registered with CNPJ/MF under no. 12.278.083/0001-64, with headquarters and principal place of business at Rua Siqueira Campos no. 37, 2nd floor, Copacabana, in the City and State of Rio de Janeiro, ZIP: 22031-072; **PORTUGAL TELECOM INTERNATIONAL FINANCE B.V. – Under Judicial Reorganization** ("PTIF"), a private legal entity incorporated according to the Laws of the Netherlands, with headquarters in Amsterdam, Naritaweg 165, 1043 BW, and principal place of business in this city of Rio de Janeiro; and **OI BRASIL HOLDINGS COÖPERATIEF U.A. - Under Judicial Reorganization** ("OI COOP"), private legal entity incorporated according to the Laws of the Netherlands, with headquarters in Schipol, Schipol Boulevard 231, 1118 BH, and principal place of business in this city of Rio de Janeiro (with OI, TNL, OI MÓVEL, COPART 4, COPART 5, PTIF and OI COOP hereinafter jointly referred to as "Oi Group" or "Companies Under Reorganization").

This Report was prepared by Ernst & Young Assessoria Empresarial Ltda ("EY") solely and exclusively to serve as a support document to the development of the JRP of the Companies Under Reorganization, and should not overlap, modify or be confused with the terms of the JRP and should not be partitioned, divided or used partially by the Companies Under Reorganization and its representatives, by creditors or any other interested parties.

With the purpose of achieving this work's objective, procedures were applied based on the analysis of historical facts, socioeconomic and market information, as well as data and assumptions provided by the Oi Group, its employees, managers, advisors and further service providers ("Data and Information").

The conclusions presented here are the result of the Data and Information analysis, along with macroeconomic and market forecast, as well as on performance and results of future events, and are subject to the following considerations:

- The Report presented here involves matters of objective and subjective judgements, given the complexity of the analysis of the Data and Information and the various sources of information consulted;
- None of EY's partners or professionals detain financial interest in Oi Group. The fees established for the execution of this work were not based on reported results and have no connection with it;
- The development of this Report was based on information provided by the Oi Group. Such information was considered true, as it is not part of EY's scope of work any type of independent investigation and/or audit procedures. Thus, EY does not assume future responsibility for the accuracy of the Data and Information used in this Report;
- This Report was prepared with the purpose of evaluating the feasibility of the Companies Under Reorganization in the context of the JRP, EY has no responsibility towards any third party for any act or fact derived from its use for any purpose other than stated herein;
- This Report was developed at the request of Oi and should not be construed by any third party as a decision making tool for investments or opinions regarding the JRP;
- Some of the considerations outlined in this report are based on future events representing expectations of Oi Group, its advisors and further service providers, at the date of the analysis. Thus, the results presented in this Report are merely forecasts, reason why they may differ from the future figures;

Among the Data and Information used for the development of this Report, there is public information and information provided by the Oi Group, aiming to deliver the necessary details of its operations, investments, capital structure and cash generation capacity. This Report, subject to the assumptions stated herein, intends to provide a view of the financial capacity of the Companies Under Reorganization in the context of the JRP, to allow the assessment of their sustainability and the feasibility of their going concern.

2. Limitations

According to the law 11,101 of February 9, 2005, which regulates the judicial and extrajudicial reorganization, and the bankruptcy of the entrepreneur and of the business company, this Report evaluates the economic-financial feasibility of the Companies Under Reorganization in the context of the JRP, with certain limitation clauses.

Therefore, this Report, its conclusions and its annexes, should not be read or used without considering these clauses.

This Report, as well as the opinions and conclusions included, are of Oi's use in the context of the JRP. It should be noted that this report is constituted of 49 pages, and its appendices, which constitutes an inseparable part of this report and cannot, in any case, be handled separately, in which case no liability can be attributed to EY.

Any user and/or recipient of this document should be aware of the conditions and assumptions that guided this work, Brazil's market and economic conditions, as well as the market niche that the Oi Group is inserted.

The factors that may result in differences between the content of this Report and the content of the documents that have the same object of this work are exclusively due to the use of different sources of information and the application of different methodologies when processing data. EY has no responsibility for such differences.

The EY services for the development of this Report do not represent an audit, a review or any other type of attestation, in the way these expressions are identified by the Brazilian Accounting Council (*CFC – Conselho Federal de Contabilidade*). Therefore, we do not express any form of guarantee on accounting matters, financial statements, financial information, nor on internal controls of the Oi Group.

We will not issue a professional opinion on the application of the accounting principles in accordance with the International Standard on Related Services (ISRS 4410), nor its subsequent changes or interpretations. This Report does not constitute a legal opinion or advice.

We have not, by any matter, conducted a review or an independent investigation with the objective of identifying illegal acts or frauds.

EY has no responsibility for the study, analysis and presentation of costs and investments projected in the judicial reorganization scenario of Oi.

This work does not include the evaluation of the operating costs or potential improvement for Oi Group processes which may generate potential cost savings, operational or administrative enhancements.

The considerations presented in this Report are common practices in studies of this nature, which we believe we have, and are publicly recognized as having, meaningful knowledge and experience. The provided services are limited to such knowledge and experiences and do not represent an audit, advisory or tax related services, which can be provided by EY. Notwithstanding these limitations, the conclusion of this Report was not intended or written by EY to be used, and should not be used, by the recipient or any third party for the purpose of avoiding sanctions that may be imposed by the Brazilian tax law.

3. Contextualization

3.1 A Brief Background of the Sector

After 1972, a state-owned company that grouped several telecommunications operators throughout the country, Telebras, governed the Brazilian telecommunications sector, under the Law 5792, of July 11, 1972.

The privatization of Telebras occurred through an auction in 1998 and originated twelve separated companies, of which one was a long-distance operator (Embratel), three were fixed telephony operators (Telesp, Tele Centro Sul and Tele Norte Leste) and eight were mobile operators (Tele Celular Sul, Tele Centro Oeste Celular, Tele Leste Celular, Tele Nordeste Celular, Tele Norte Celular, Tele Sudeste Celular, Telesp Celular and Telemig Celular).

The telecommunications reform was driven by legislative changes that occurred in the 1990s – the Constitutional Amendment No. 8/1995 and the Federal Law No. 9,472/1997, referred to as the General Telecommunications Law ("LGT").

The Constitutional Amendment allowed the Brazilian federal government to provide telecommunications services not only directly, but also through authorization, concession or permit, removing the state exclusivity in these services.

The LGT has established the parameters that characterize the sector, having among its main objectives: (a) the growth and improvement of telecommunications services, (b) the deployment of the General Objective Plan towards a progressive universalization of telecommunications services, (c) ensuring the freedom of choice to the users about their service provider and (d) the creation of the National Telecommunications Agency (ANATEL).

ANATEL is a legal entity of public law, linked to the Ministry of Communications, administratively independent and financially autonomous. It is responsible for regulating and monitoring the telecommunications in Brazil. Among its duties conferred by the Law 9,472 / 1997, ANATEL is responsible for: (i) the deployment of the national telecommunications policy; (ii) representing Brazil in international telecommunications organizations; (iii) managing the radio spectrum and the use of orbits, expediting their standards; (iv) managing, monitoring and revising tariffs of services in the public system; (v) issuing or recognizing the certification of products, subject to the standards and rules established by it; and (vi) repressing violations of users' rights.

LGT also establishes two types of legal systems, public and private. The public system is driven by the government guidelines on aspects such as universal access to telephony, continuity of the service, price control and concession bidding. The private system has no control of prices or other obligations to which the public system is subject to, however, an authorization is required in order to provide the services. [1]

In order to regulate the provision of services under the public system, the General Plan of Grants ("PGO") was created under the Decree No. 6,654, grouping the Brazilian territory into four regions, as shown below.

Regions of the General Plan of Grants ("PGO")

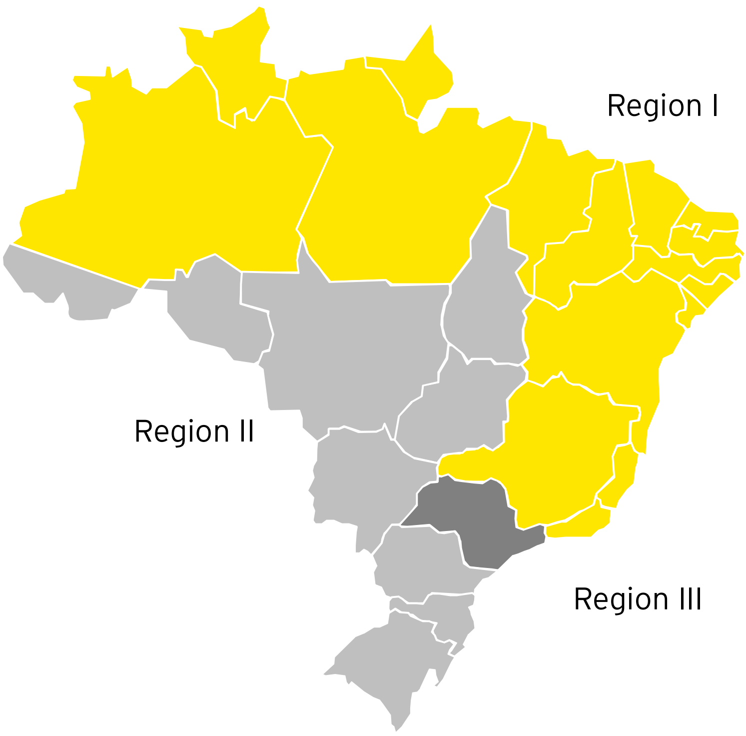

Figure 1. Source: ANATEL.

Region	Area
I	The States of Rio de Janeiro, Minas Gerais, Espírito Santo, Bahia, Sergipe, Alagoas, Pernambuco, Paraíba, Rio Grande do Norte, Ceará, Piauí, Maranhão, Pará, Amapá, Amazonas and Roraima
II	Distrito Federal and the States of Rio Grande do Sul, Santa Catarina, Paraná, Mato Grosso do Sul, Mato Grosso, Goiás, Tocantins, Rondônia and Acre
III	States of São Paulo
IV	All the Brazilian territory

Table 1. Source: ANATEL.

[1]Relatório Lafis – Telecom. May/2016.

Currently, there are discussions about certain measures to allow the revision of the General Telecommunications Law, highlighting the draft bill 3453/2015, which proposes the change of the concession regime to the authorization format. The main impacts of this bill are: (i) reduction of the investment obligations in old technologies, (ii) changes in the rules of reversibility of assets and (iii) extinction of the payment of concession fees.

3.2 Oi Group's History[2]

Among the companies involved in the demerger of Telebras, arose the Brazil Telecom Participacoes ("BrT Part"), a holding of companies providing fixed telephony services, initially providing intraregional long-distance services in Region II.

BrT Part provided fixed-line services through nine subsidiaries, each providing telecommunications services in their designated region. In February 2000, BrT Part implemented the merger with TELEPAR and in July of the same year, BrT Part acquired control of Companhia Riograndense de Telecomunicações.

In October 2001, BrT Serviços de Internet S.A., a provider of broadband internet services was created, and in December of the following year, in its owned subsidiary, Oi Móvel to provide Personal Mobile Service ("SMP"). In the same month, Oi Móvel acquired the authorization to provide personal mobile services in Region I, as well as license to provide radio frequency services. The operations of Oi Móvel began in September 2004.

In June 2003, the Company acquired the submarine fiber optic cable system of 360 Networks Americas do Brazil Ltda., Later called Brazil Telecom Submarine Cables. BrT CS consists of a system of fiber optic cable that connects the United States, Bermuda, Brazil, Venezuela and Colombia. In December 2013, occurred its sale to BTG Pactual YS Empreendimentos e Participacoes S.A.

In May 2004, the Company acquired virtually the entire share capital of Vant Telecomunicações SA ("UAV"). Vant offered Internet Protocol (IP) services and other services to the corporate market in Brazil. In the same month, the Company also acquired a large part of the capital of MetroRed Telecomunicações Ltda., which was later named Brazil Telecom Communications Multimedia Ltda., a fiber optic network provider.

In November 2004, the Company acquired 63.0% of the capital of Internet Group (Cayman) Ltd. ("iG Cayman"), parent company of Internet Group do Brazil Ltda. ("IG Brazil") and in July 2005 acquired another 25.6% of the share capital of iG Cayman. IG Brazil is a free Internet service provider, operating in connection markets for dial-up and broadband.

In December 2007, Brazil Telecom Call Center SA subsidiary started operations, providing services to the Company and its subsidiaries that required this type of service.

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[2] Information obtained from Oi's 2016 Reference Form

In January 2009, Copart 1 Participações ("Copart 1"), a wholly owned subsidiary of Coari Participações SA ("Coari"), a holding company incorporated by Oi, indirectly acquired all of the outstanding shares of Invitel SA ("Invitel") . At the time, Invitel owned all of the outstanding shares of Solpart Participações S.A. which, in turn, owned 51.41% of the outstanding voting share capital of BrT Part. The latter had 65.64% of the outstanding share capital of the Company, including 99.09% of the outstanding shares entitled to vote.

In 2008, Copart 1 acquired 33.3% of the preferred shares of BrT Part and Copart 2 Participações SA, wholly owned subsidiary of Coari, acquired 18.9% of the preferred shares outstanding. With the acquisition of Invitel, TMAR acquired indirect control of BrT Part and the Company.

On September 30 of 2009, the shareholders of the Company and BrT Part approved the merger of BrT Part by the Company (then called Brazil Telecom S.A.). As a result of the merger, BrT Part ceased to exist and Coari holded 48.2% of the total share capital of the Company outstanding.

On February 27 of 2012, the shareholders of TNL, TMAR, Coari and the Company approved the following transactions (the "Corporate Reorganization"), in accordance with Brazilian law: (1) the split-off of TMAR with the merger of the spun-off by Coari followed by the merger of TMAR shares by Coari; (2) the merger of Coari with the Company; and (3) the merger of TNL by the Company, in addition to changing the Company's name from Brazil Telecom S.A. to Oi.

On October 2 of 2013 the Company, Portugal Telecom and some of its shareholders announced the signing of a memorandum of understanding for a potential operation that aimed to establish a company with the shareholders of Oi, Portugal Telecom and Telemar Participações S.A. Additionally, such negotiations aimed at combining business activities from Oi in Brazil and Portugal Telecom in Portugal and Africa. Later, in February 2014, detailed information on the transaction were disclosed in the agreed format, due to the signing of definitive agreements between the companies involved.

The operation resulted in the union of the shareholder bases of Oi, TmarPart and Pharol, SGPS S.A. (formerly Portugal Telecom, SGPS S.A.). In this context, on 1 of September of 2015, among other initiatives, the steps of the simplification of the shareholding chain of OI, were approved, namely: (i) the merger of AG Telecom Participações S.A. by Pasa Participações S.A.; (Ii) incorporation of LF Tel S.A. by EDSP75 Participações S.A. .; (iii) the merger of EDSP75 Participações S.A. and Pasa Participações SA by Bratel Brazil S.A. .; (Iv) the merger of Venus RJ Participações S.A., Sayed RJ Participações S.A. and PTB2 S.A. by Bratel Brazil S.A .; (V) incorporation of Bratel Brazil S.A. and Valverde Participações S.A. by Telemar Participações S.A.; and (vi) the merger of Telemar Participações S.A. by Oi.

Thus, Oi absorbed the assets of AG Telecom Participações SA, LF Tel SA, Pasa Participações SA, EDSP75 Participações SA, Venus RJ Participações SA, Sayed RJ Participações SA, PTB2 S.A. Bratel Brazil S.A., Valverde Participações SA and Telemar Participações SA.

Finally, at the end of 2015 and early 2016, Serede - Serviços de Rede S.A. ("Serede"), a subsidiary of TMAR, completed the acquisition of the assets and liabilities of Telemont Engenharia de Telecomunicações S.A. and ARM Telecomunicações e Serviços de Engenharia S.A., companies that operate with the deployment and maintenance of telecommunication networks.

3.3 Economic-Financial Situation of Oi Group[3]

The current economic-financial situation of Group Oi is a result of a combination of several events that occurred in the past years.

To begin with, the increase of debt of Oi Group can be explained primarily by three events: (i) financing the plan of anticipation of goals (regarding universalizing the telecommunications services); (ii) acquisition of Brazil Telecom and subsequent identification of certain relevant liabilities; (iii) merger and debt incorporation of Portugal Telecom. The chart below shows the development of net sales and the Company's net debt since 2000.

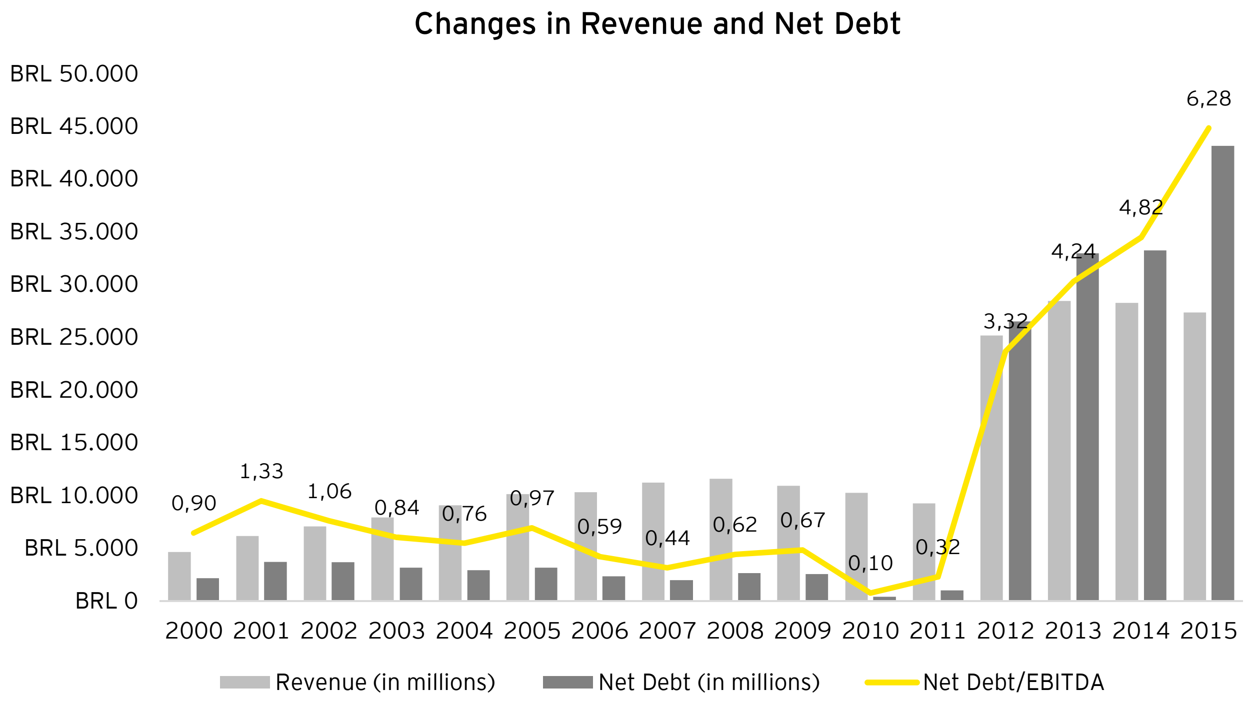


Chart 1. Source: Capital IQ.

In June 2016, the companies of Oi Group had more than BRL 14 billion held in judicial deposits, affecting its financial liquidity. This amount is due to regulatory, tax, labor and civil proceedings.

[3] Information obtained from Oi's 2016 Reference Form and the Company's Initial Petition for Reorganization

At the same time, the administrative fines imposed by ANATEL are estimated at more than BRL 10 billion.

Another factor that contributed to its financial situation, was the current Brazilian system of concessions for fixed telephony services, which establishes certain obligations under the LGT for the concessionaires. Among these required investments, there are the service universalization requirement for fixed telephony throughout the entire national territory.

In order to be in compliance with the regulatory framework, Oi is responsible for taking and ensuring fixed telephony to the regions I and II, which include large areas of low population density, which entails investments with lower or even negative returns. The following chart compares the demographics of the regions established by the PGO.

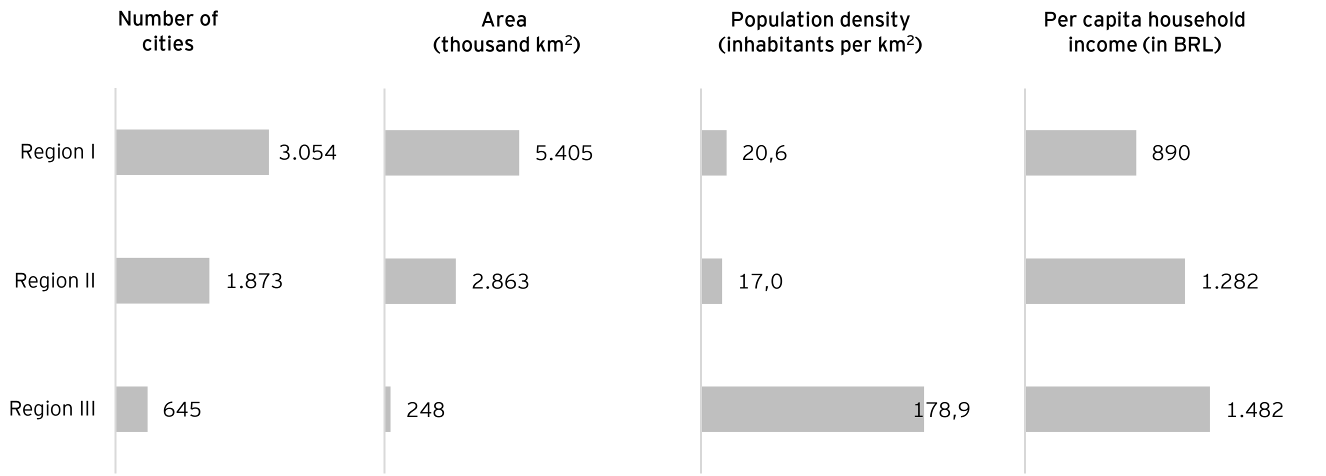


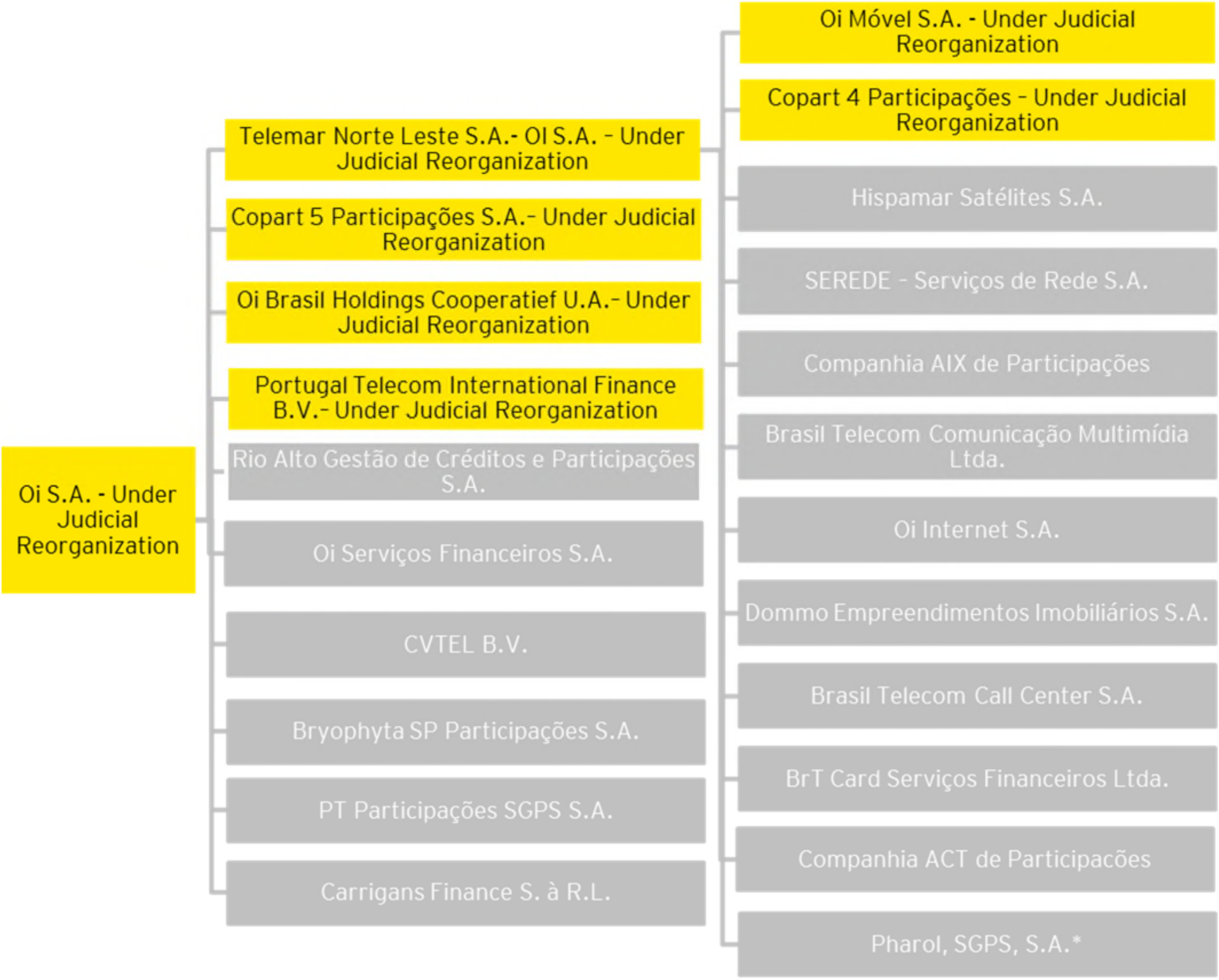
Chart 1. Source: IBGE.

In order to improve its economic and financial conditions, the Company decided to focus on two key areas: (1) cost reduction and operational efficiency through an internal restructuring plan, and (2) restructuring of its financial liabilities through this JRP.

4. The Company and the Telecom Market

4.1 Corporate Structure of Oi

The organizational chart below illustrates the Company's current corporate structure:



Organizational Chart 1. Source: Oi.
**Associate company, not a subsidiary of the Oi Group*

The following companies were not included in the chart above, but are part of the Company's ownership structure[4]:

- Paggo Empreendimentos S.A., Paggo Administradora de Crédito Ltda., Paggo Acquirer Gestão de Meios de Pagamentos Ltda. and Pago Soluções e Meios de Pagamentos S.A., direct or indirect subsidiaries of Oi Móvel S.A.
- Oi Paraguay Multimedia Comunicaciones SRL., subsidiary of Brasil Telecom Comunicação.
- Gamecorp S.A., CDF – Central de Funcionamento, Tecnologia e Participações S.A., Pointer Networks S.A., Vex Wifi Canadá Ltd., Vex Colômbia Ltda., Pointer Peru S.A.C., Vex Wi-fi S.A., Vex Venezuela C.A., Vex USA Inc., Limited Liability Company "Vex Ukraine", Vex Paraguay S.A. and Vex Portugal S.A., directly or indirectly related to Oi Internet S.A.
- Portugal Telecom Investimentos S.A., USE IT – Tecnologias de Informação Ltda., Cellco – Ste Cellulaire du Congo SARL, Telecomunicações Públicas de Timor S.A., Timor Telecom S.A., Africatel GmbH & Co. KG, Africatel Holdings B.V., Directel – Listas Telefonicas Internacionais Lda, Directel Uganda Telephone Directories Limited, Kenya Postel Directories Limited, ELTA – Empresa de Listas Telefonicas de Angola Lda., Listas Telefonicas de Moçambique Lda., Directel Cabo Verde Lda., Companhia Santonense de Telecomunicações SARL, STP Cabo SARL, MTC – Mobile Telecommunications Limited, PT Ventures SGPS S.A.,Unitel S.A., Multitel Serviços de Telecomunicações Lda., Cabo Verde Telecom S.A., CV Móvel Sociedade Unipessoal S.A., CV Multimédia Sociedade Unipessoal S.A. Africatel Management GmbH, directly or indirectly related to PT Participações SGPS S.A.

[4] Information obtained from Oi's 2016 Reference Form

4.2 Description of the Companies Under Reorganization[5]

The table below presents a brief description of the Companies Under Reorganization:

Company	Category	Main Activities
Oi S.A. – Under Judicial Reorganization	Operating Parent Company	Telecommunication services in several fields and related activities.
Telemar Norte Leste S.A. - Oi S.A. – Under Judicial Reorganization	Operating	Telecommunication services, mainly in fixed telephony and related activities.
Oi Móvel S.A. – Under Judicial Reorganization	Operating	Telecommunication services, mainly in pay-TV and mobile services, and further related activities.
Copart 4 Participações – Under Judicial Reorganization	Financial Vehicle	Fundraising, management and leasing out of real estate properties.
Copart 5 Participações – Under Judicial Reorganization	Financial Vehicle	Fundraising, management and leasing out of real estate properties.
Portugal Telecom Finance International B.V. – Under Judicial Reorganization	Financial Vehicle	Debt issuance in international markets.
Oi Brasil Holdings Coöperatief U.A. – Under Judicial Reorganization	Financial Vehicle	Debt issuance in international markets.

Table 2. Source: Oi.

The detailed descriptions of the companies categorized above are presented ahead.

Oi S.A. – Under Judicial Reorganization

Oi is a publicly traded company, one of the main providers of integrated telecommunication services in Brazil, operates throughout the national territory and offers a range of services, including mobile and fixed telephony, interconnection, data transmission (including broadband),

[5] Information obtained from Oi's 2016 Reference Form and the Company's Legal Department.

Pay-TV, and other telecommunications services. The Company brings together approximately 70.1 million of Revenue Generating Units ("RGUs"), among residential customers, businesses and government agencies.

The Company estimates to have 348 thousand km of fiber optic cables distributed across all Brazilian states. Furthermore, its mobile coverage area reaches approximately 93.0% of the Brazilian population. Also, the Company holds, in Brazil, a market share of approximately 18.64% in mobile communications and 34.7% in fixed telephony, according to ANATEL, December 2015. The Company estimates that over two million Wi-Fi hotspots are provided as a part of its convergent offers, these services are maintained also in public places, such as airports and malls.

Telemar Norte Leste S.A. – Under Judicial Reorganization ("TMAR" or "TNL")

Completely owned subsidiary of Oi, TMAR is mainly engaged in providing telecommunications services and related activities, established as the main provider of fixed telephony services in its operating area – Region I. These services are provided under the geographic wireline concessions system granted by ANATEL.

TMAR also holds concession to provide the following services: (i) domestic long-distance ("LDN") in Region II, Region III and Region I (sector 3 only); and (ii) international long-distance ("LDI") from anywhere in Brazil.

Oi Móvel S.A. – Under Judicial Reorganization (former 14 Brasil Telecom Celular S.A.) ("Oi Móvel")

Oi Móvel, wholly owned subsidiary of TMAR, operates since the fourth quarter of 2004, providing telecommunication services in several fields, both inside and outside of Brazil, including Personal Mobile Service (*Serviço Móvel Pessoal* – "SMP"), "), authorized to attend to Region I of the PGO, Mass Electronic Communication Service, DTH (Direct to Home) Service, pay television, Conditional Access Service (*Serviço de Acesso Condicionado* – "SeAC"), among others.

Copart 4 Participações S.A. – Under Judicial Reorganization ("Copart 4")

Wholly owned subsidiary of TMAR, Copart 4 was founded in order to raise funds, manage and rent real estate properties, it may also assign, lease, give in usufruct, either whole or in part, and perform all the necessary acts for the best use of the properties, including its maintenance, repair and improvement.

Copart 5 Participações S.A. – Under Judicial Reorganization ("Copart 5")

Wholly owned subsidiary of Oi, Copart 5 was founded in order to raise funds, manage and rent real estate properties, it may also assign, lease, give in usufruct, either whole or in part, and perform all the necessary acts for the best use of the properties, including its maintenance, repair and improvement.

Portugal Telecom Finance International B.V. – Under Judicial Reorganization ("PT Finance")

PT Finance is a wholly owned subsidiary of the Company, based in the Netherlands, and was formed to act as a debt-issuing vehicle, raising funds in international markets.

Oi Brasil Holdings Coöperatief U.A. – Under Judicial Reorganization ("Oi Coop")

Oi Coop is a wholly owned subsidiary of the Company, based in the Netherlands, and was formed to act as a debt-issuing vehicle, raising funds in international markets.

4.3 Market Analysis

The Brazilian telecommunications sector is led by four main operators – America Movil ("Claro"), Oi, Tim and Vivo, which have the largest market shares in the main services of the sector, as shown below:

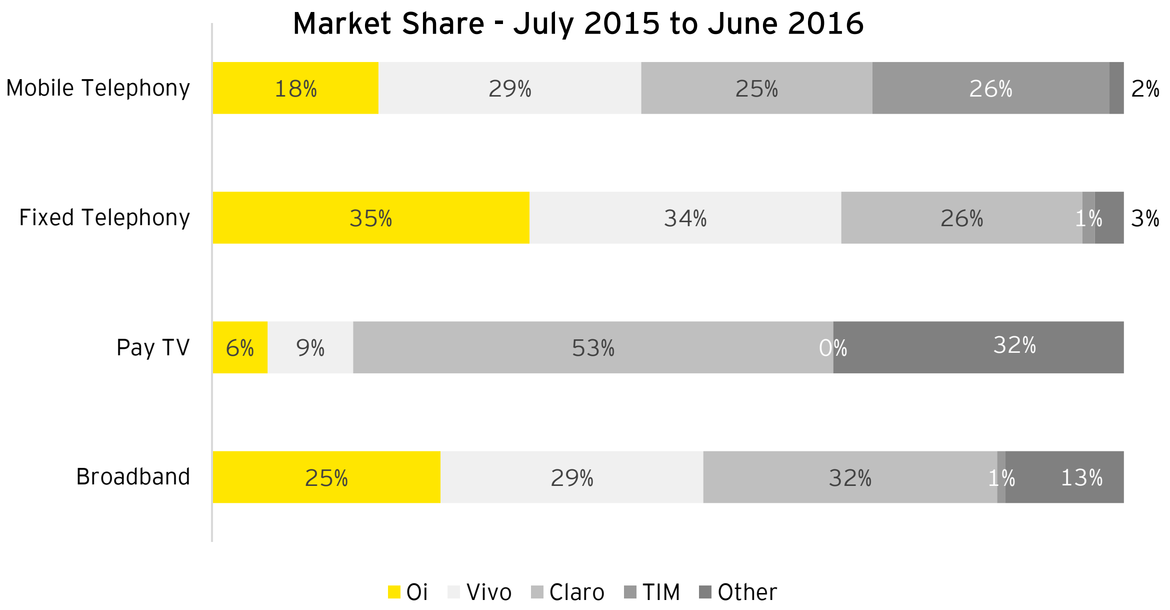


Chart 2. Source: Anatel.

The mobile service accounts for the largest share of the industry revenue in Brazil, followed by fixed telephony and broadband, as illustrated below:

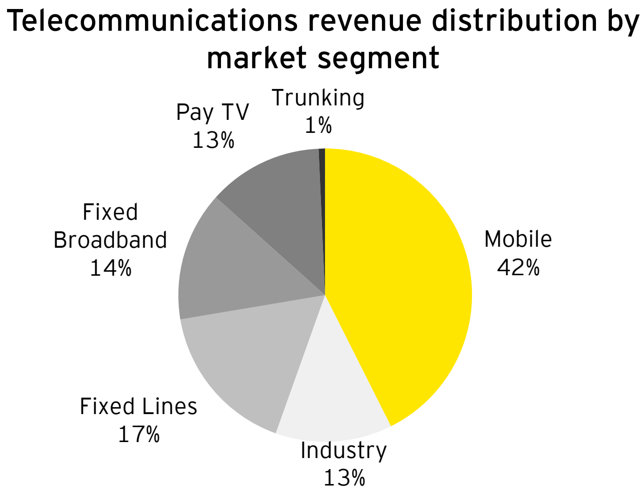


Chart 3. Source: Telebrasil.

Due to this revenue composition, operators keep focused on the mobile service. However, this service requires large investments in order to maintain its competitiveness, since it has gone through constant technological[6] changes in the past few years. The following graph shows the growth of the mobile communication, according to the number of active users, and the quick development of new technologies.

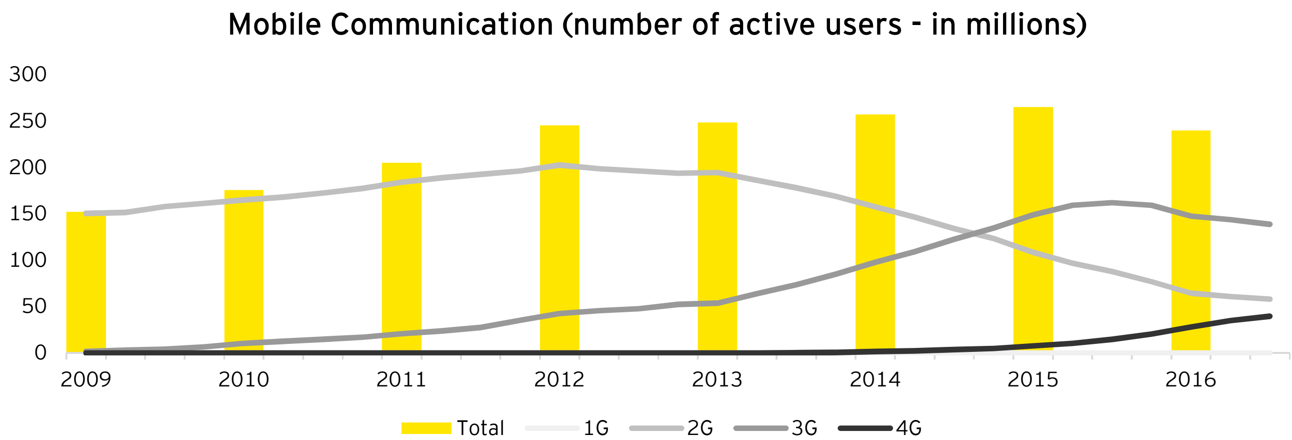


Chart 4. Source: ANATEL, Lafis.

These technological advances encourages and stimulates changes in the users' consumption patterns, whose use of mobile telephony services is driven to a higher consumption of data compared to voice services, as shown in the chart below.

[6] Relatório Lafis – Telecom. May/2016.

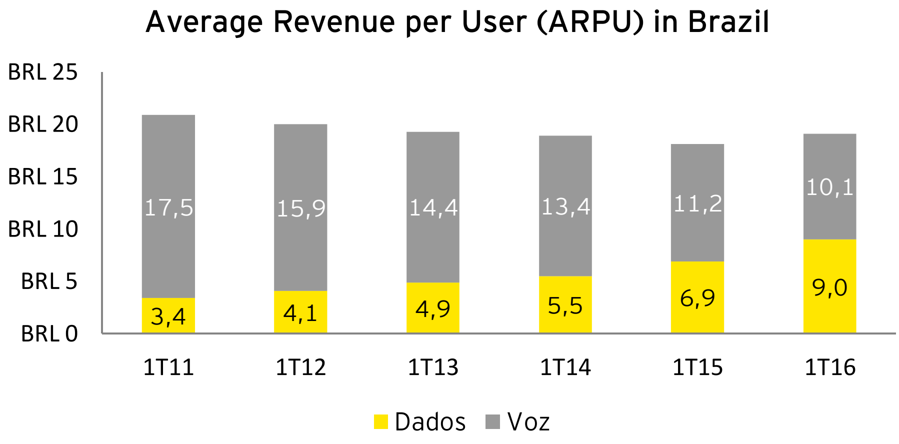
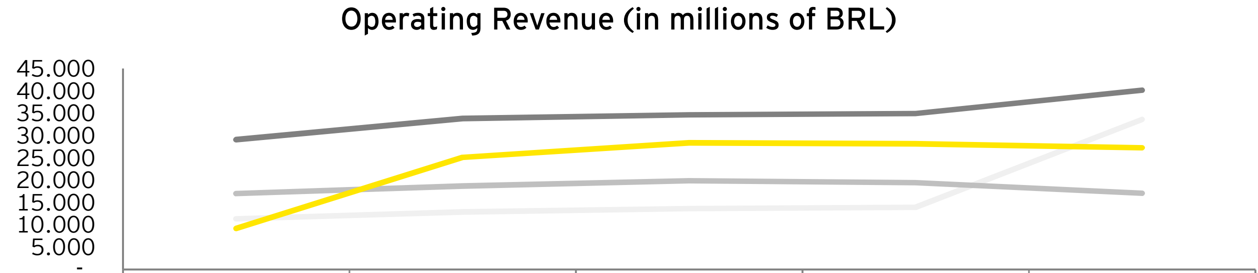


Chart 5. Source: Telebrasil.

4.4 Financial Benchmarking

Next some indicators of Oi related to its financial health are presented, as well as a comparison with other leading operators, in terms of market share in the Brazilian telecommunication services.

Historically, Oi held the second highest revenue among the operators. In 2015, the Company lost its position to Claro due to acquisitions made by the latter.

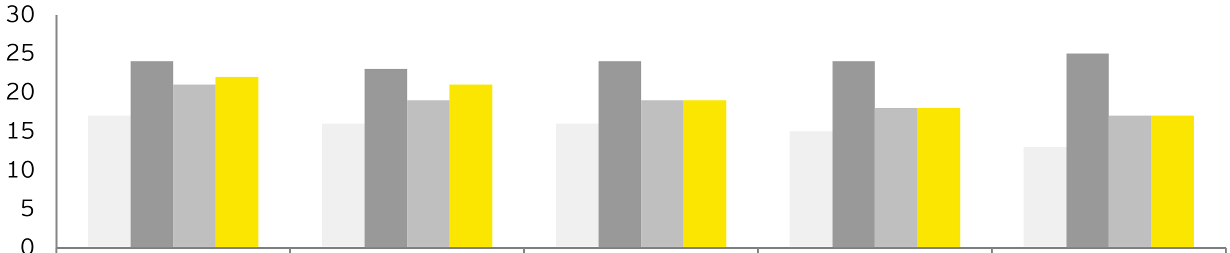


	2011	2012	2013	2014	2015
Claro	11.428	12.916	13.685	13.967	33.695
Vivo	29.129	33.920	34.722	35.000	40.287
TIM	17.086	18.764	19.921	19.498	17.139
Oi	9.245	25.161	28.422	28.247	27.354

Chart 6. Source: Capital IQ.

In recent years, the market presented a decrease in the ARPU, with the exception of Vivo, as shown below.

Mobile ARPU (prepaid and postpaid - in BRL)

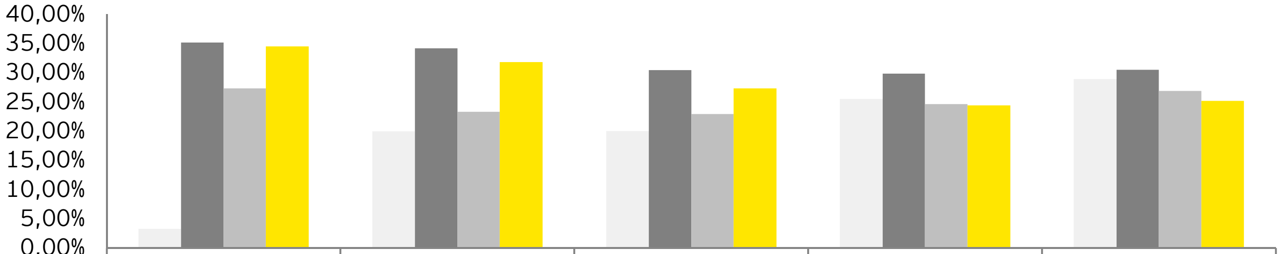


	2011	2012	2013	2014	2015
Claro	17	16	16	15	13
Vivo	24	23	24	24	25
TIM	21	19	19	18	17
Oi	22	21	19	18	17

Chart 7. Source: BMI Research.

The operating margins presented by Oi have decreased over the past few years, in line with the ARPU reductions aforementioned.

EBITDA Margin (EBITDA/Operating Revenue)

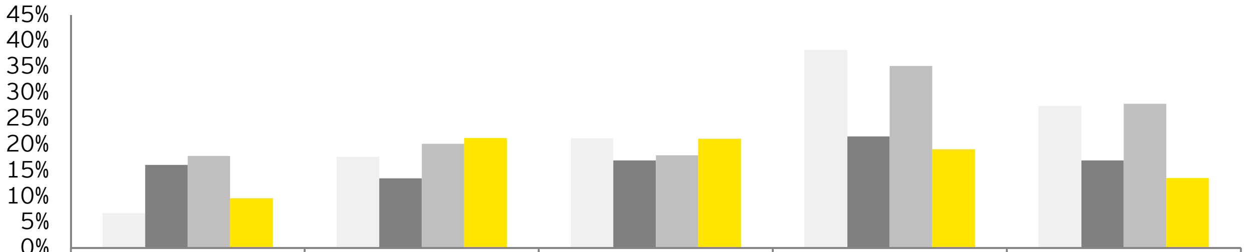


	2011	2012	2013	2014	2015
Claro	3,23%	19,99%	20,01%	25,49%	28,92%
Vivo	35,14%	34,18%	30,46%	29,79%	30,49%
TIM	27,29%	23,28%	22,94%	24,61%	26,89%
OI	34,49%	31,77%	27,32%	24,39%	25,14%

Chart 8. Source: Capital IQ.

Below is shown the percentage, in relation to revenue, of the investments in physical and intangible assets (Capital Expenditure) carried out by operators in the last few years.

Capital Expenditure (% in relation to Net Revenue)

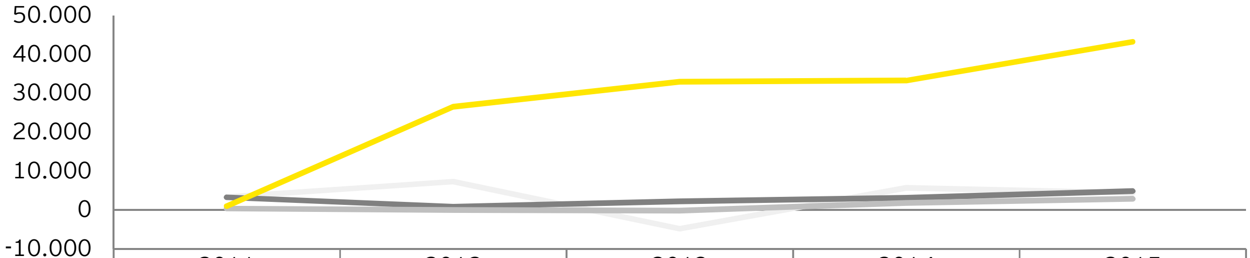


	2011	2012	2013	2014	2015
Claro	6,7%	17,5%	21,1%	38,2%	27,4%
Vivo	16,0%	13,4%	16,8%	21,5%	16,9%
TIM	17,7%	20,1%	17,9%	35,0%	27,8%
Oi	9,6%	21,2%	21,0%	19,0%	13,5%

Chart 9. Source: Capital IQ.

The following charts present the debt indicators of the operators in the last five years. The increased indebtedness of Oi is one of the factors that led the Company into its current economic-financial situation.

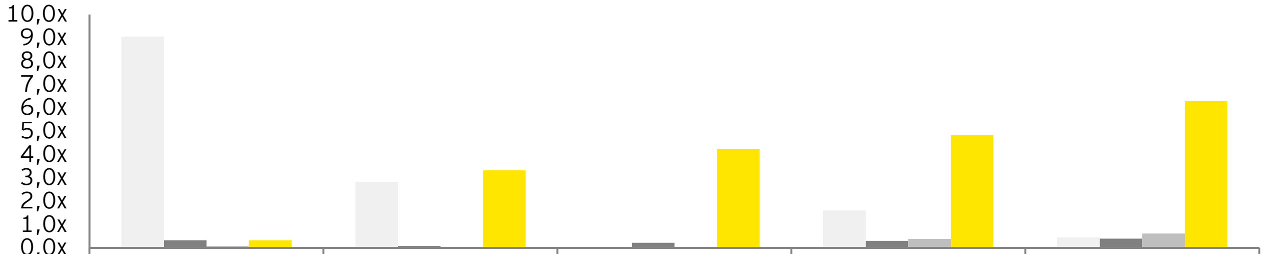
Net Debt (in millions of BRL)



	2011	2012	2013	2014	2015
Claro	3.334	7.277	-4.861	5.690	4.407
Vivo	3.306	867	2.210	3.107	4.884
TIM	396	-40	-218	1.851	2.845
Oi	1.017	26.512	32.936	33.229	43.158

Chart 10. Source: Capital IQ.

Net Debt/EBITDA*



	2011	2012	2013	2014	2015
Claro	9,0x	2,8x	0,0x	1,6x	0,5x
Vivo	0,3x	0,1x	0,2x	0,3x	0,4x
TIM	0,1x	0,0x	0,0x	0,4x	0,6x
Oi	0,3x	3,3x	4,2x	4,8x	6,3x

Chart 11. Source: Capital IQ.
** The occurrence of a negative net debt is expressed by the value "0.0x"*

5. Economic-Financial Projections

In this chapter are presented the economic-financial projections of the Oi Group in its current scenario, which considers the macroeconomic, operational and financial assumptions estimated by the Company in the context of the JRP.

The expected cash flows for the business after a potential approval of the JRP are still subject to changes due to several variables. In addition to the natural uncertainties inherent in these projections, there are other factors that can compromise the future cash flows of the business, such as accounting practices to be adopted, tax planning due to the tax treatment of the transactions underlying the JRP, regulatory understandings, legal interpretations and the profile of debts derived from the General Meeting of Creditors in a scenario of continuity.

All assumptions made in this Report were based on expected scenarios and forecasted exclusively by the Company and its managers, advisors and further service providers hired to develop the JRP and were not subject of independent investigation by EY, which did not fit as part of the scope of work, to propose or judge any aspects related to such events. The findings of EY contained in the JRP assume, therefore, the basic assumption that, when forecasting scenarios, the Company observed all legal, regulatory and tax aspects. It is important to note that the Company's understanding when projecting such scenarios may be different from the understanding of its creditors, tax authorities, legal authorities and regulatory agencies.

Since the companies of the Oi Group have a significant economic and operational interconnection, the projections were made on a consolidated basis, including the assumptions and figures of the Companies Under Reorganization, as well as Oi's other subsidiaries, with the exception of the companies operating in Africa, which today are considered as assets for sale and have an independent operation.

From the Company's business plan, EY analyzed the operating assumptions and future results projected by the Oi Group.

Therefore, the following activities were carried out:

1) Discussions with the Company in order to understand the projections;
2) Identification of the most relevant, and required for the projections, assumptions;
3) Comparison between historical and projected results;
4) Comparative analysis of comparable firms indicators, obtained through S&P Capital IQ[7].

Following, are the detailed projections of Oi's financial modeling in nominal values (inflation included in the projections).

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[7] The Capital IQ provides information about public companies, or not, audited data, M&A transactions, IPOs, etc. This comparison provides the diagnosis points for analysis

5.1 Macroeconomic Data

The following tables present the macroeconomic assumptions used as basis for the financial projections.

Description	Unit	Source	Date	2015	2016	2017	2018	2019	2020
IPCA	% p.a.	*BCB*	*aug/16*	10.70%	7.32%	5.20%	4.70%	4.55%	4.51%
CPI	% p.a.	*BMI*	*jul/16*	0.40%	1.80%	2.50%	2.00%	2.10%	2.10%
HCPI	% p.a.	*European Central Bank*	*aug/16*	0.20%	0.20%	0.10%	0.10%	0.10%	0.10%
EUR (Year End)	BRL	*BCB*	*aug/16*	4.25	3.75	3.83	3.48	3.64	3.80
USD (Year End)	BRL	*BCB*	*aug/16*	3.90	3.29	3.45	3.63	3.71	3.72
EUR (Year Average)	BRL	*BCB*	*aug/16*	3.70	3.84	3.88	3.55	3.55	3.79
USD (Year Average)	BRL	*BCB*	*aug/16*	3.33	3.44	3.42	3.56	3.63	3.71
TR	% p.a.	*Portal Brasil*	*aug/16*	2.09%	2.09%	2.09%	2.09%	2.09%	2.09%
CDI	% p.a.	*Portal Brasil*	*aug/16*	13.24%	14.13%	11.83%	10.54%	10.13%	9.87%
TJLP	% p.a.	*Receita Federal do Brasil*	*aug/16*	6.25%	7.50%	7.50%	7.50%	7.50%	7.50%
Libor	% p.a.	*ICE*	*aug/16*	1.18%	1.54%	1.54%	1.54%	1.54%	1.54%
Libor 6 m	% p.a.	*ICE*	*aug/16*	0.85%	1.23%	1.23%	1.23%	1.23%	1.23%
Euribor 3 m	% p.a.	*CAP IQ*	*aug/16*	-0.13%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%
Euribor 6 m	% p.a.	*CAP IQ*	*aug/16*	-0.04%	-0.19%	-0.19%	-0.19%	-0.19%	-0.19%
INPC	% p.a.	*IBGE / BCB*	*aug/16*	11.28%	8.02%	5.29%	5.17%	4.85%	4.64%

Table 3.

Description	Unit	Source	Date	2021	2022	2023	2024	2025	2026
IPCA	% p.a.	*BCB*	*aug/16*	4.51%	4.51%	4.51%	4.51%	4.51%	4.51%
CPI	% p.a.	*BMI*	*jul/16*	2.10%	2.10%	2.10%	2.10%	2.10%	2.10%
HCPI	% p.a.	*European Central Bank*	*aug/16*	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
EUR (Year End)	BRL	*BCB*	*aug/16*	3.97	4.14	4.32	4.51	4.71	4.92
USD (Year End)	BRL	*BCB*	*aug/16*	3.81	3.90	3.99	4.08	4.18	4.28
EUR (Year Average)	BRL	*BCB*	*aug/16*	3.96	4.13	4.31	4.50	4.70	4.91
USD (Year Average)	BRL	*BCB*	*aug/16*	3.80	3.89	3.98	4.07	4.17	4.27
TR	% p.a.	*Portal Brasil*	*aug/16*	2.09%	2.09%	2.09%	2.09%	2.09%	2.09%
CDI	% p.a.	*Portal Brasil*	*aug/16*	9.87%	9.87%	9.87%	9.87%	9.87%	9.87%

Description	Unit	Source	Date	2021	2022	2023	2024	2025	2026
TJLP	% p.a.	*Receita Federal do Brasil*	*aug/16*	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Libor	% p.a.	*ICE*	*aug/16*	1.54%	1.54%	1.54%	1.54%	1.54%	1.54%
Libor 6 m	% p.a.	*ICE*	*aug/16*	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%
Euribor 3 m	% p.a.	*CAP IQ*	*aug/16*	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%	-0.30%
Euribor 6 m	% p.a.	*CAP IQ*	*aug/16*	-0.19%	-0.19%	-0.19%	-0.19%	-0.19%	-0.19%
INPC	% p.a.	*IBGE / BCB*	*aug/16*	4.64%	4.64%	4.64%	4.64%	4.64%	4.64%

Table 4.

5.2 Operating Income

Gross Income and Indirect Taxes

The gross revenue forecast of Group Oi is presented below, according to the Company's estimates. In addition, the indirect taxes according to the Brazilian legislation (PIS, COFINS, ICMS and ISS) are represented by the yellow line.

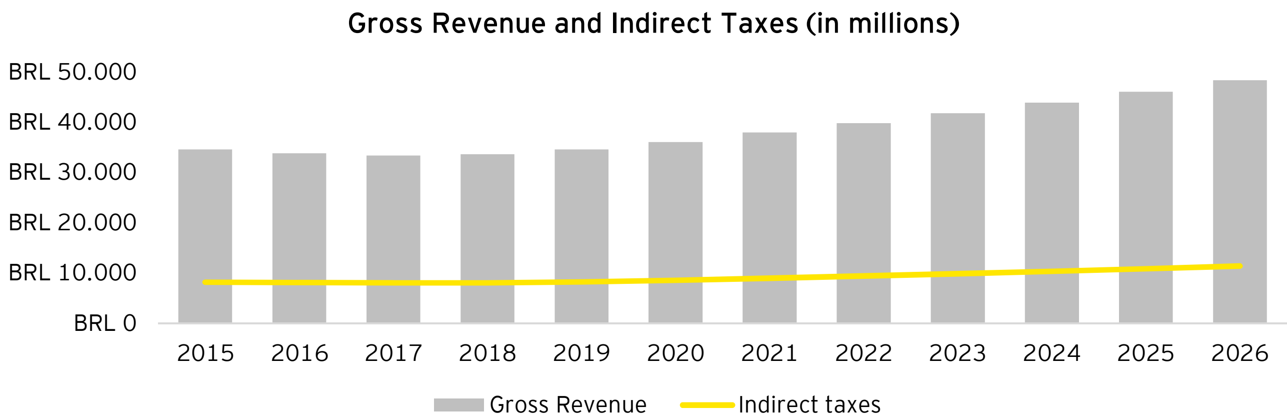

Chart 12. Source: Oi

Net Revenue

The revenues of the Oi Group were segregated among fixed lines, mobile, broadband, data transmission, cable TV, sales, interconnection and others.

The Company recognizes that this is a changing market, especially in the technological field, which justifies some of the expected changes over the projected period. On the one hand, reductions are estimated in revenues from fixed lines. On the other, expectations point to a stabilization in the number of mobile network users and a growth in the broadband base. Below are presented the projections of the revenues of the Oi Group.

Fixed Lines

The fixed lines income includes local and long distance services, according to the permits and concessions issued by ANATEL, to retail, wholesale, corporate and business (small and medium enterprises – "SME") customers. The following chart shows the forecast of the number of users, as well as the projected revenue from fixed lines:

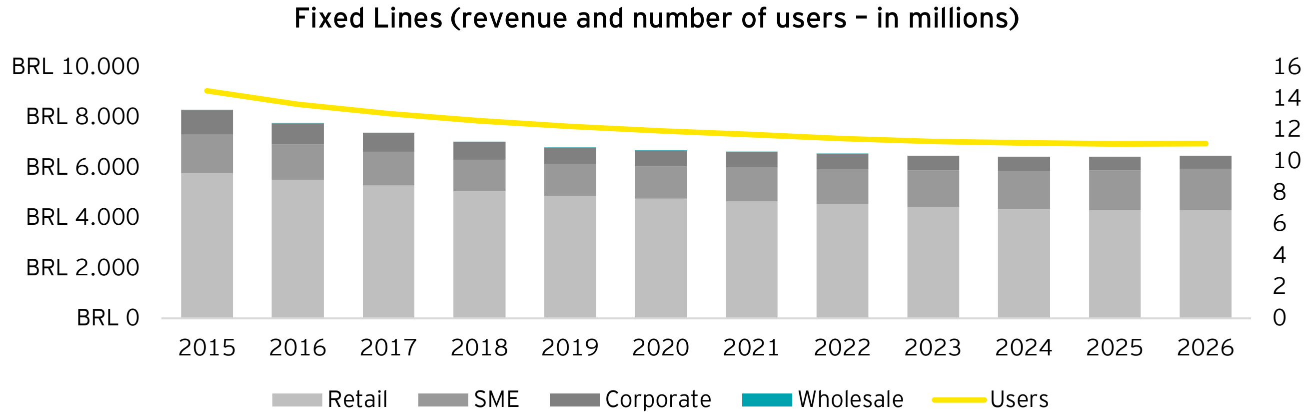

Chart 13. Source: Oi

The decline in revenue of these services is mainly explained by a change in users' consumption patterns in nearly all of the Company's operating segments regarding fixed telephony.

Mobile

Mobile includes prepaid, postpaid, roaming and mobile broadband to retail, wholesale, corporate and SME customers. The chart below shows the changes in the number of customers for this service, as well as the projected revenues:

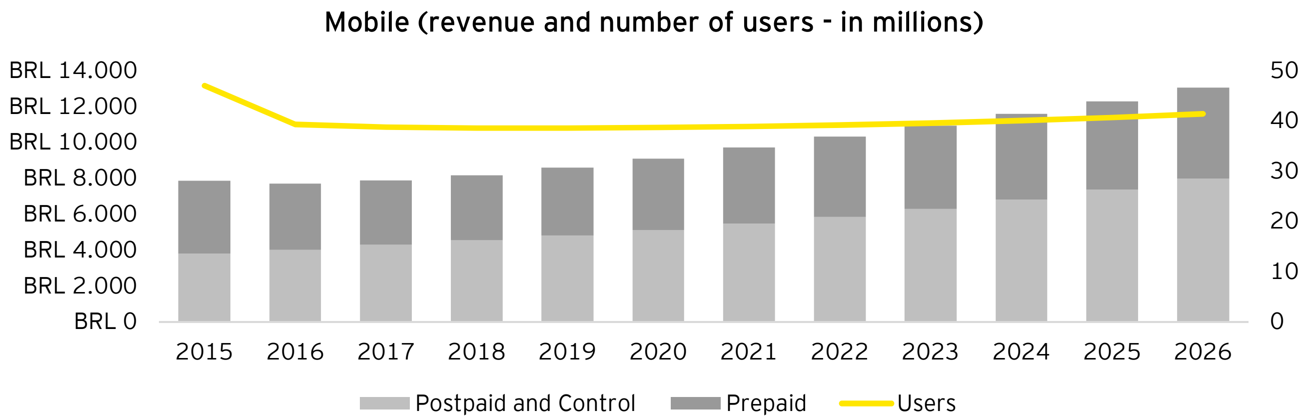

Chart 14. Source: Oi

According to the Company, there will be a reduction of the inactive lines (pre-paid) at the end of 2016 to lower the income inefficiencies. Additionally, the Company projects that the revenue of this service will grow gradually from 2016 onwards, achieving a compound annual growth rate ("CAGR") of 4.71%.

Broadband

This line considers the sale of broadband internet and bundled services to retail, corporate and SME customers. The chart below shows the changes in the number of customers for the service, as well as its revenue, both forecasted by Oi:

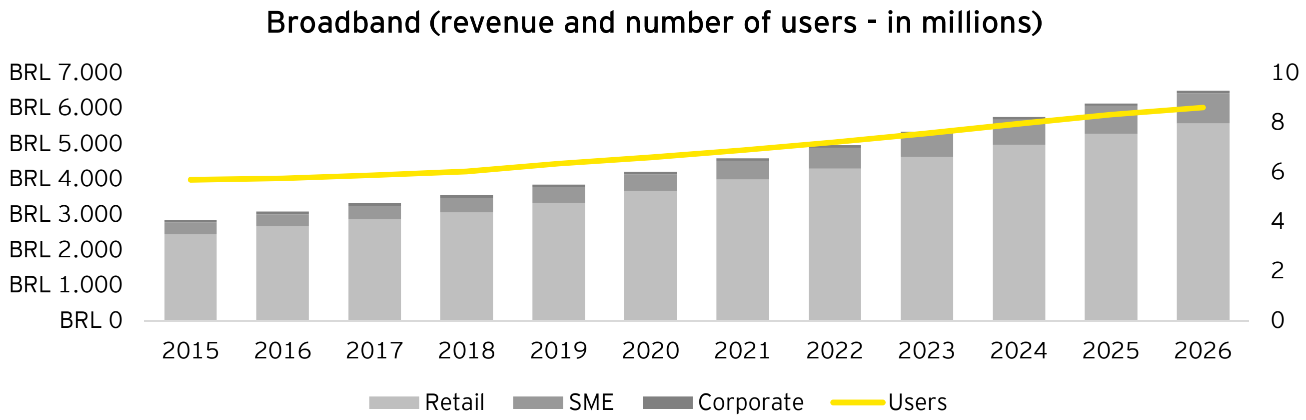

Chart 15. Source: Oi

The expected growth of broadband internet and bundled services is demonstrated in the chart above. Through initiatives such as business improvements, selected price increases and package sales containing multiple services (telephony, TV and internet), the Company expects to reach a level of approximately BRL 6.1 billion in this revenue line by 2026. This strategy involves both market penetration intended to attract new users, and development of existing customers.

Data Transmission

These are corporate/business services regarding data transmission, including Industrial Exploitation of Dedicated Lines ("EILD"), Dedicated Line Services ("SLD") and IP services. The following chart shows the revenue of Data Transmission projected by Oi:

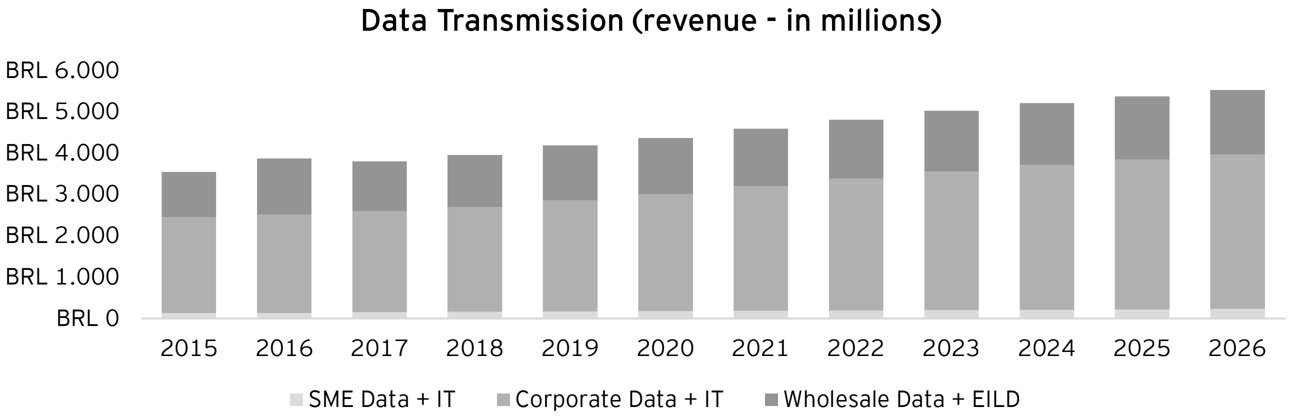

Chart 16. Source: Oi

Pay Television

This line refers to subscription-based television services to retail and SME customers. The following chart shows the changes in the number of customers, as well as pay-tv revenue, both forecasted by the Company:

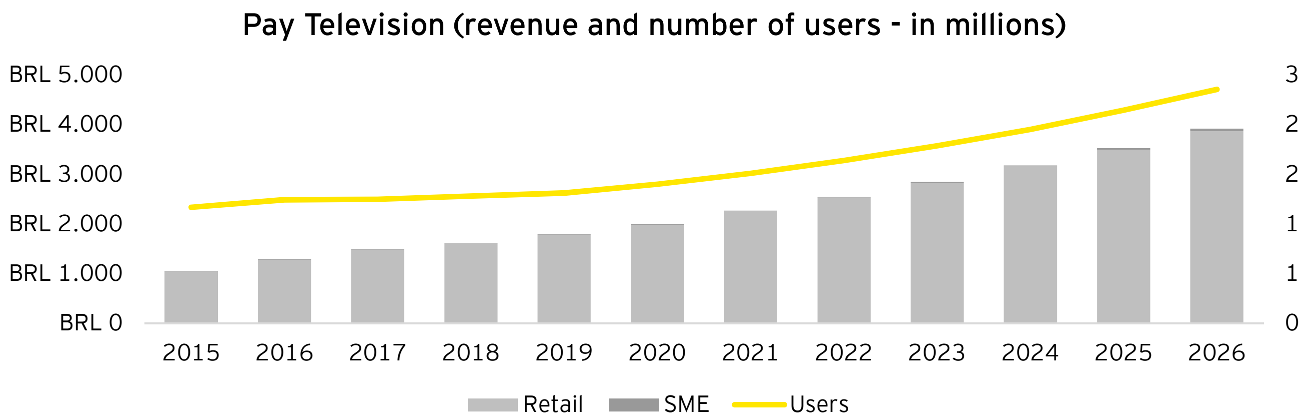

Chart 17. Source: Oi

The chart above demonstrates a sharp increase in revenues and number of users over the coming years. This growth is explained mainly by Oi's commercial initiatives, including investments focusing digital media, and bundled services sales strategy.

Value-added Services and Public Phones

The graph below shows the Company's projections regarding the revenues from Value-added Services (VAS) and Public Phones (TUP).

VAS and Public Phones (revenue - in millions)

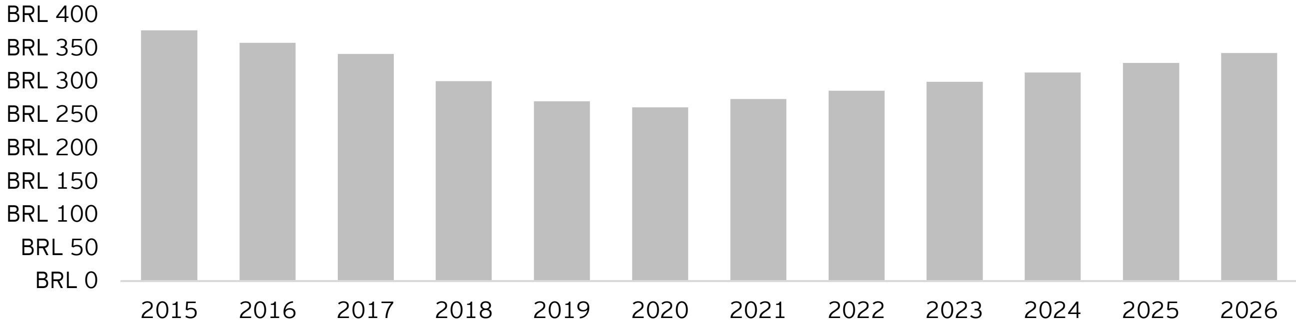

Chart 18. Source: Oi

Being the most representative in this revenue line, 'the SVAs represent complementary activities on telecommunications services'[8], such as text messages ("SMS") and applications sold for mobile phones.

Handsets

This line represents the sale of telecommunications equipment to retail customers, corporate, SME and wholesale. The chart below demonstrate the changes of the handsets revenue projected by the Company:

Handsets Revenue (revenue - in millions)

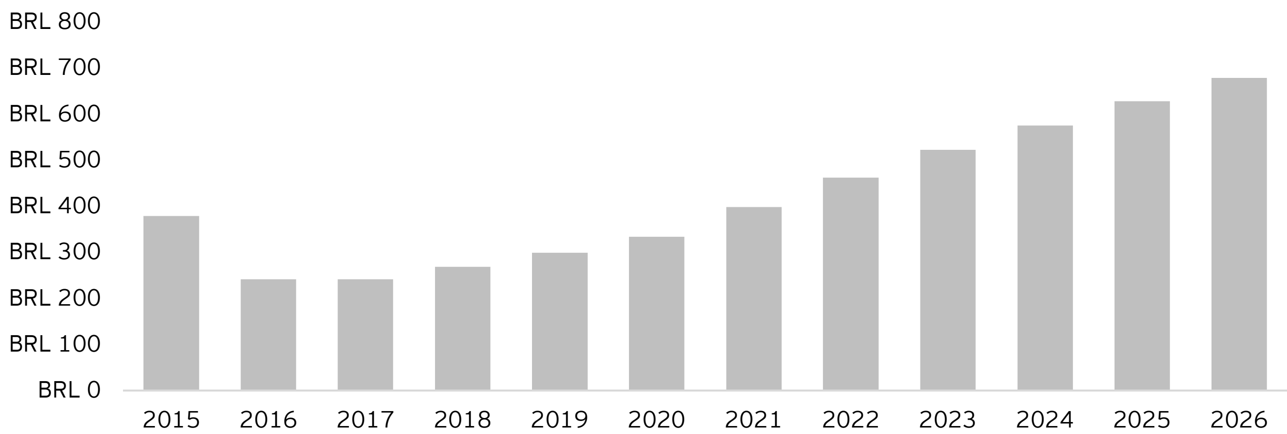

Chart 19. Source: Oi

[8] ANATEL

The changes in this revenue line are justified by the Company's repositioning in relation to the operations of handsets sales. From 2017, the Company intends to resume the possession of the equipment available for sale in its stores, which now belong to third parties who pay a sales percentage to Oi.

Interconnection

Revenue from interconnection comes from the fees charged by Oi for the use of its network by other operators. The chart below shows the changes in revenue, as projected by Oi:

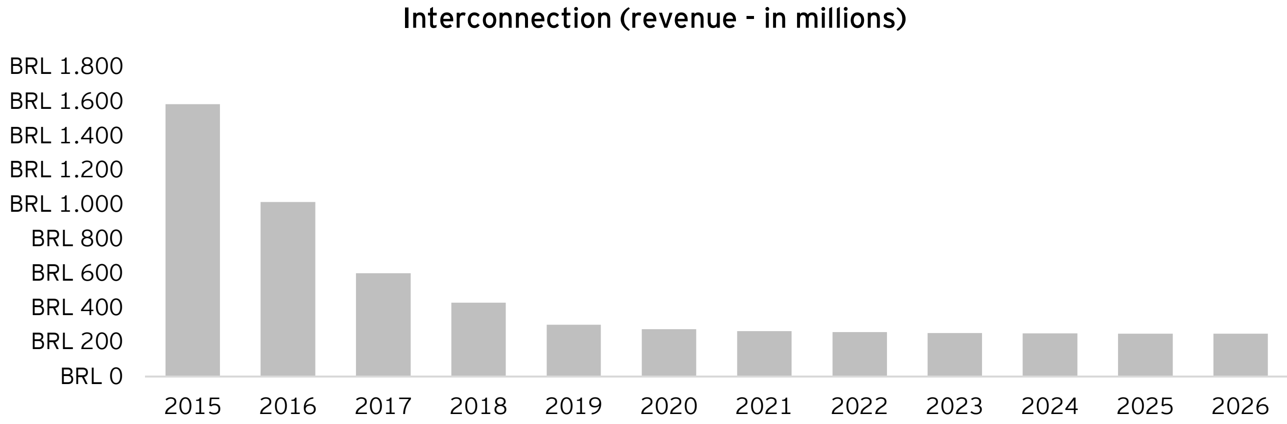

Chart 20. Source: Oi

Due to the regulatory framework, the Company expects that the interconnection rates suffer sharp falls. Below are presented the interconnection fees of mobile services (SMP) as defined by ANATEL.

Interconnection Values - VU-M 2014 – 2016 (in BRL)

Region	Operator	2014	2015	2016	2017	2018	2019
I	Claro	0.23676	0.15784	0.09317	0.04928	0.02606	0.01379
	Oi	0.23275	0.15517				
	TIM	0.24467	0.16311				
	Vivo	0.25126	0.16751				
II	Claro	0.23759	0.15389	0.10309	0.05387	0.02815	0.01471
	Oi	0.23961	0.15974				
	TIM	0.23657	0.15771				
	Vivo	0.23987	0.15991				
III	Claro	0.24071	0.16047	0.11218	0.06816	0.04141	0.02517
	Oi	0.23227	0.15485				
	TIM	0.24105	0.1607				
	Vivo	0.22164	0.14776				

Table 5. Sources: ANATEL, Lafis e Teleco.

Other Revenues

This line includes additional revenues from Oi's subsidiaries, considering 'other revenues' from Serede, Paggo, Velox and others.

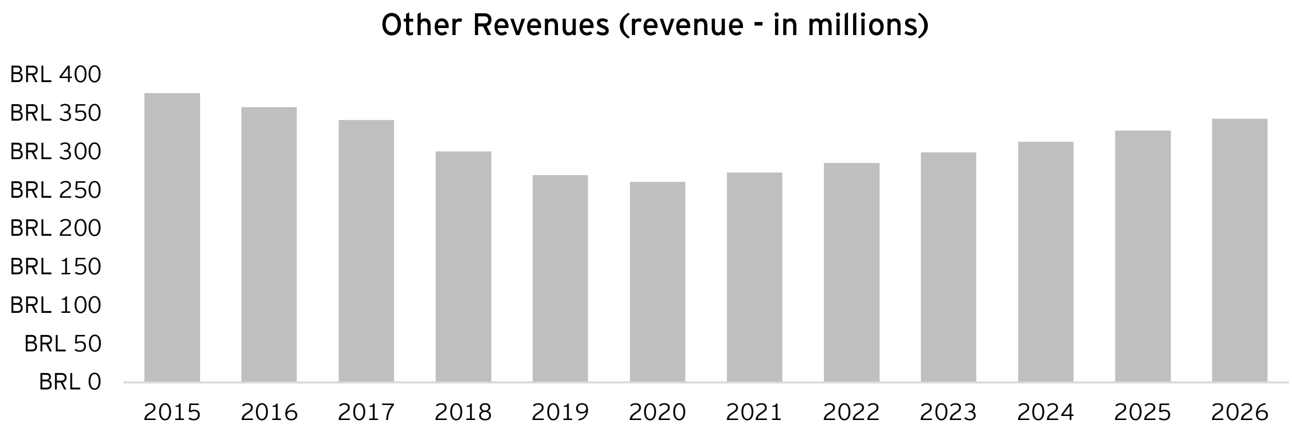

Chart 21. Source: Oi

Total Revenue

The Company's total revenue forecast, separated by revenue line, is presented below:

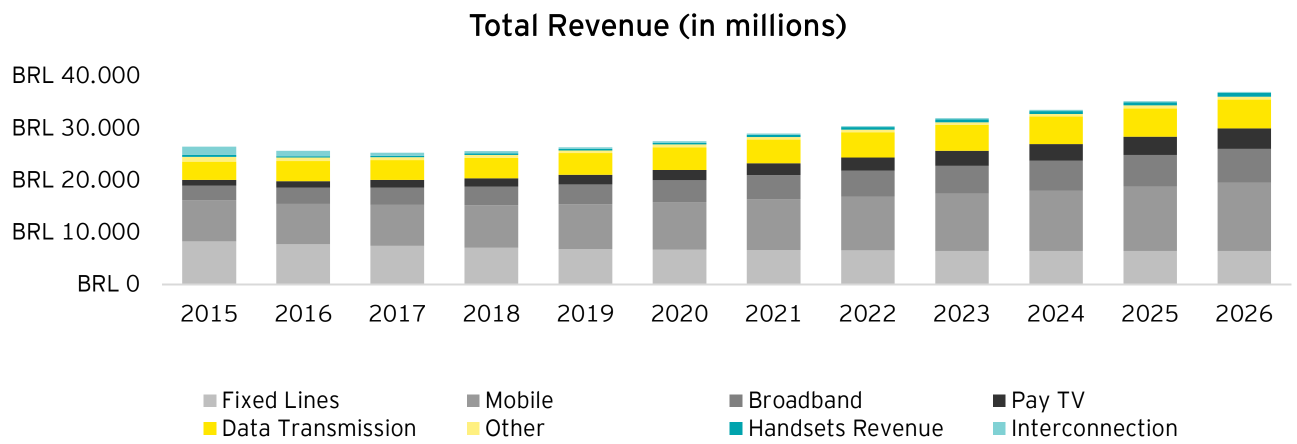

Chart 22. Source: Oi

Revenue from fixed-lines loses relevance in range of Oi's products, while mobile, broadband and pay TV are gaining ground. As mentioned earlier, this situation arises from the current market dynamics and users' patterns of preferences regarding the telecommunications services, what includes the transfer of fixed telephony customers to mobile and the increase of data services relevance in relation to voice services.

Costs and Expenses

Costs and expenses were projected by Oi and specified as follows: expenses related to revenues, network expenses, commercial expenses, SG&A expenses and other expenses.

Expenses Related to Revenue

Expenses related to revenue include interconnection expenses, expenses with BDP, ANATEL fees and content acquisition, as shown below:

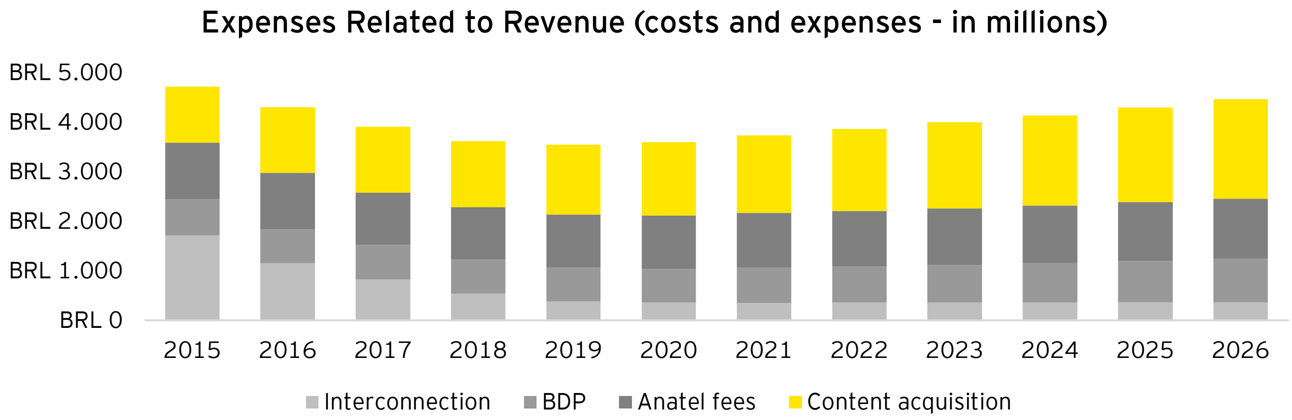

Chart 23. Source: Oi

These expenses projected by Oi suffered minor variations throughout the projection period, with the exception of interconnection expenses, which will have their tariffs reduced by ANATEL, and expenses with content acquisition, that are linked to the growth of pay TV revenues.

Network Expenses

Network expenses involves network maintenance, transmission infrastructure, telecom infrastructure, revenue from infrastructure rental, customer services, collection, post and billing and electricity, as shown below:

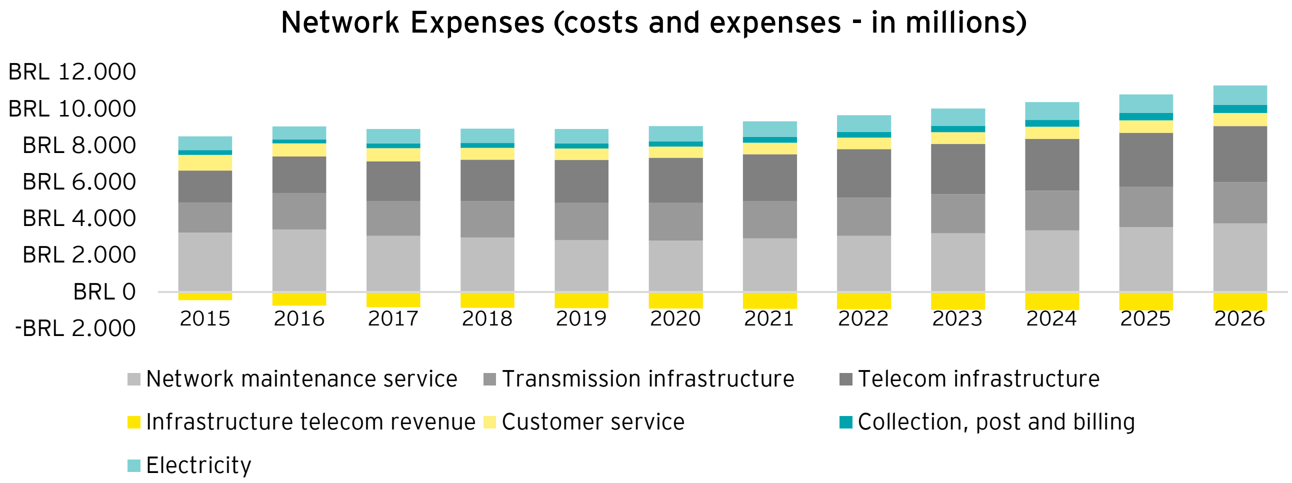

Chart 24. Source: Oi

The cost of network maintenance decreases due to new investments driven to network and remote troubleshooting. Another important initiative includes the creation of a team dedicated to reduce the electricity costs.

Moreover, the Company estimates an increase in the productivity of maintenance technicians, cost savings related to call center, increased participation in the electronic market (focusing on the reduction of the costs with customer service), by providing these services digitally.

In contrast, Telecom infrastructure expenses is increased due to the review of contracts of towers and poles rents.

Commercial Expenses

The commercial expenses, projected by Oi, include advertising, sales, inventory management and cost of goods sold:

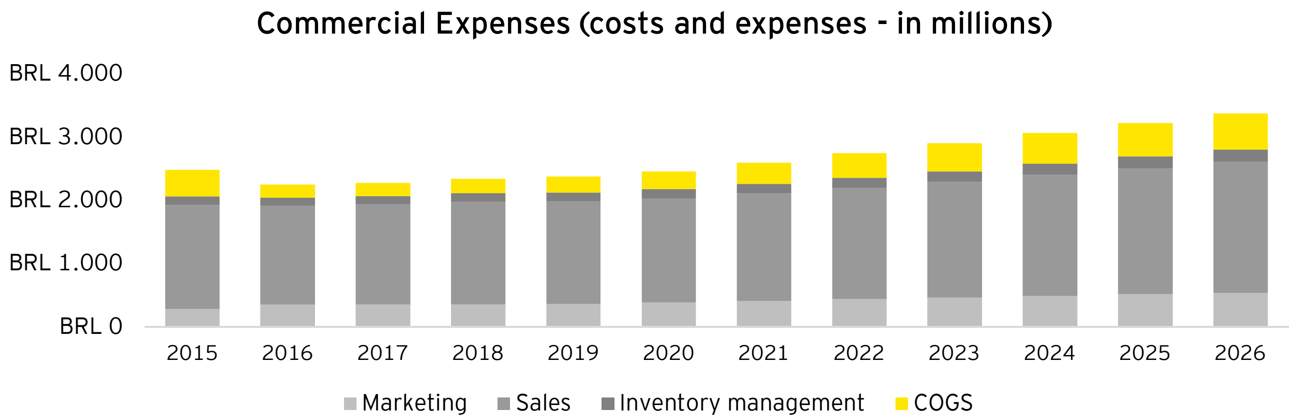

Chart 26. Source: Oi.

Initiatives that are being adopted by Oi to optimize these costs and expenses include reduced inventory levels of Serede and Conecta, increased reutilization of decoders and focusing on online advertising.

SG&A Expenses

The SG&A expenses, projected by Oi, are split among personnel, IT, general expenses and consulting and advisory services.

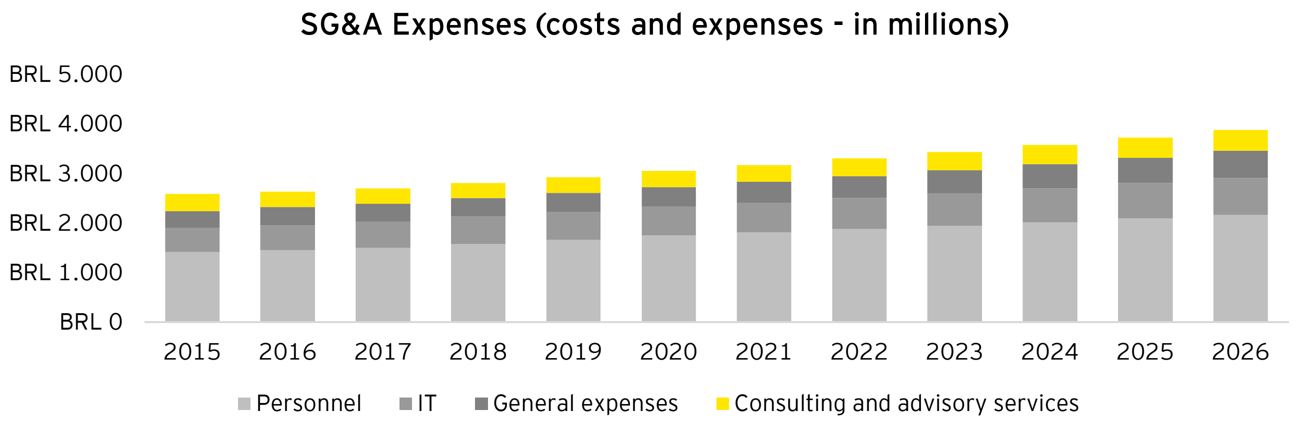

Chart 27. Source: Oi

Other Expenses

Other expenses contemplate contingencies, legal and tax obligations, as shown below:

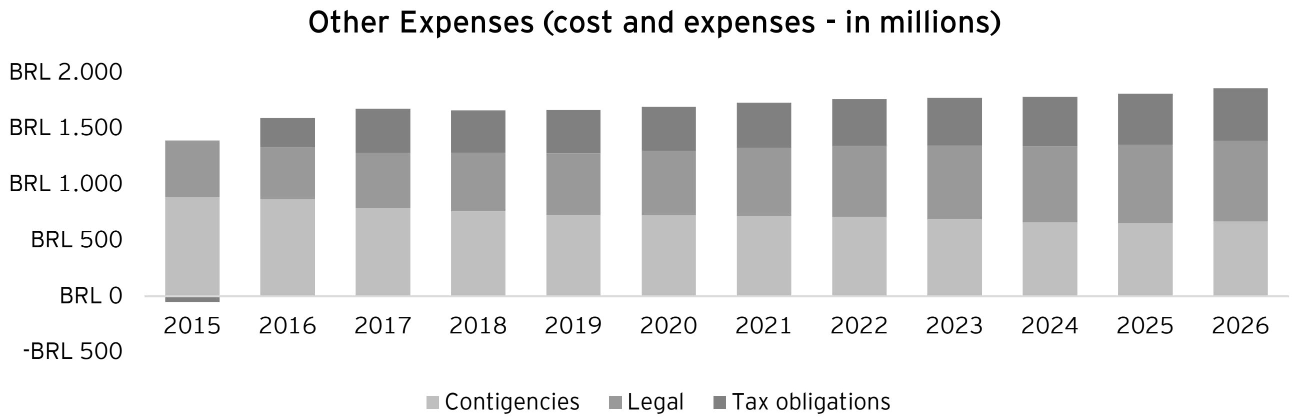

Chart 28. Source: Oi

Oi estimates an improvement in their customer service and execution of agreements, leading to a decrease in costs regarding legal proceedings. The tax obligations are mainly represented by the tax generated in transactions with other companies of the group.

EBITDA Margin[9]

Considering the accounts above, the chart below shows the EBITDA changes in the current projection.

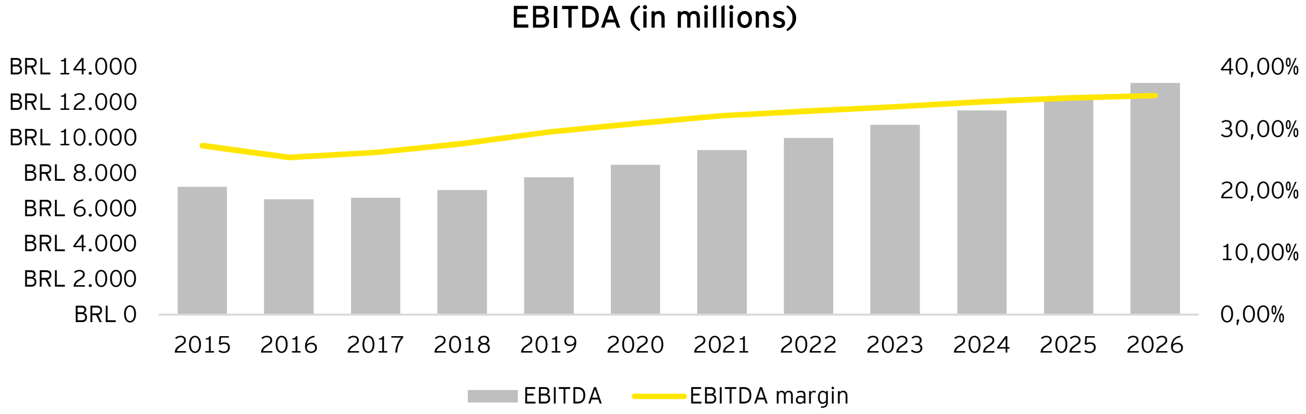

Chart 29. Source: Oi

Oi projects an increase in its EBITDA margin from 2017. This gain is guided by changes in the products profile, increasing its added value, and the implementation of optimization measures regarding costs and expenses, proposed in the JRP. The Company believes that the projected margins are in line with the market development.

Depreciation and Amortization

Below are presented the depreciation and amortization projected by Oi. The average depreciation rate for new investments considered by the Company was 8.4%. For other assets, it was considered the depreciation projected by the Company.

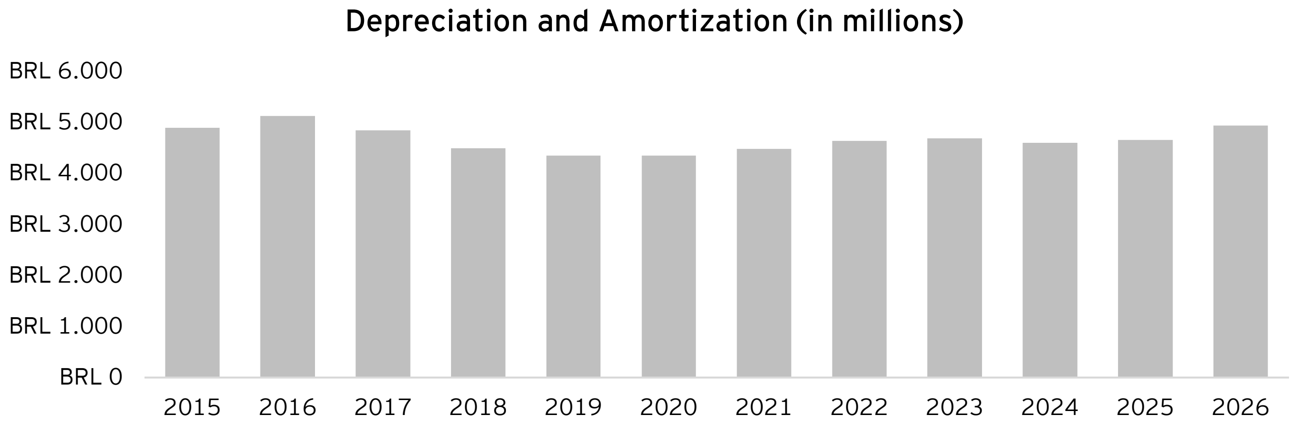

Chart 30. Source: Oi

[9] Earnings before interest, taxes, depreciation and amortization.

5.3 Consolidated Income Statement

Consolidated Income Statement (in millions of BRL)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Net Revenue	25,634	25,290	25,557	26,328	27,455	28,965	30,416	31,923	33,536	35,198	36,966
Costs and expenses	**(19,203)**	**(18,645)**	**(18,493)**	**(18,544)**	**(18,967)**	**(19,639)**	**(20,395)**	**(21,175)**	**(21,979)**	**(22,868)**	**(23,855)**
Expenses related to revenue	(4,310)	(3,912)	(3,622)	(3,544)	(3,603)	(3,737)	(3,865)	(3,999)	(4,139)	(4,293)	(4,465)
Network expenses	(6,517)	(8,083)	(8,062)	(8,039)	(8,165)	(8,404)	(8,723)	(9,065)	(9,414)	(9,814)	(10,276)
Commercial expenses	(4,832)	(2,271)	(2,334)	(2,371)	(2,452)	(2,594)	(2,742)	(2,897)	(3,062)	(3,220)	(3,372)
SG&A expenses	(1,912)	(2,703)	(2,814)	(2,930)	(3,056)	(3,176)	(3,306)	(3,442)	(3,583)	(3,731)	(3,885)
Other expenses	(1,632)	(1,676)	(1,660)	(1,661)	(1,692)	(1,729)	(1,759)	(1,773)	(1,781)	(1,810)	(1,857)
EBITDA	6,430	6,645	7,064	7,784	8,488	9,326	10,022	10,748	11,557	12,330	13,111
EBITDA margin	*25.09%*	*26.28%*	*27.64%*	*29.56%*	*30.92%*	*32.20%*	*32.95%*	*33.67%*	*34.46%*	*35.03%*	*35.47%*
Depreciation and amortization	(5,120)	(4,843)	(4,496)	(4,348)	(4,351)	(4,481)	(4,637)	(4,688)	(4,600)	(4,652)	(4,939)
Loss (gain) on investments	(1)	-	-	-	-	-	-	-	-	-	-
EBIT	1,310	1,802	2,568	3,436	4,137	4,845	5,385	6,060	6,958	7,678	8,172
Financial results	(3,374)	(2,051)	(2,079)	(2,557)	(2,066)	(2,211)	(2,212)	(2,193)	(2,118)	(1,986)	(1,881)
EBT	(2,065)	(249)	489	879	2,071	2,634	3,173	3,866	4,839	5,693	6,290
Income tax and social contribution	(633)	(1,277)	(710)	(1,021)	(1,028)	(1,266)	(1,476)	(1,726)	(2,081)	(2,358)	(2,642)
Net profit	(2,697)	(1,527)	(221)	(142)	1,044	1,368	1,697	2,140	2,759	3,335	3,649

5.4 Debt Restructuring

This chapter presents in a synthesized manner the Debt Restructuring Plan for Oi, extracted from the Clause 4 of the JRP, document on which it is attached. For more details about payment terms, refer to this Clause in the document.

This Report has been prepared considering the financial and operating assumptions arising from the implementation of the JRP. The projections in this Report require the approval and execution of the Plan proposed by the Companies Under Reorganization.

Class Labor Credits

The payment for labor credits is described below:

Proposal
Labor Claims General Rule: Labor credits will be paid in 5 equal monthly installments with 6-month grace period after the plan is approved. Labor credits which are not yet recognized, shall be paid after the final judgment decision to terminate de process and ratify the amount due Judicial Deposit Labor Creditors which (i) agree with the amount shown in the List of Creditors and (ii) have judicial deposits in guarantee will be paid as follow: • Will be paid by immediate release of the deposited amount. • If the deposit is in lower amount than the debt listed by Oi Group, the deposit will be used to pay part of the debt, and the balance will be paid in 5 equal monthly installments with 6-month grace period after the plan is approved. • If the deposits is in higher amount than the debt, the Group will raise the difference in their favor. Atlantic Foundation Labor Credit will be paid as follow: • Will be paid in 6 equal yearly installments with 5-year grace period. • Interest/ Monetary correction: INPC + 5.5% per annum, applied from the plan's approval, being interest and monetary correction accrued on the grace period and paid after the 6^{th} year, together with the principal.

Class II Secured Credits

Class II creditors shall be paid as follows, in accordance with the limits established in Judicial Reorganization Plan:

Proposal
• The creditor will receive the amount of the original debt, shown in the List of Creditors, updated by interest rate and/ or monetary correction provided for in the contract, after plan is approved. • The principal will be repaid in 10 semi-annual installments from the 11^{th} year, with payments of 20% per year (semi-annual installments of 10%);

- Interest and/ or monetary correction: will be capitalized to the debt during the first 7 years and thereafter shall be paid semiannually/

Class III Credits

Class III creditors shall be paid as follows, in accordance with the limits established in Judicial Reorganization Plan:

Proposal
Linear Payment: • Creditors with credits worth up to BRL 1,000.00 will be paid in a single installment 20 business days after the plan is approved. • Creditors with credits higher than BRL 1,000.00 may choose to receive in one single installment, provided that they agree to receive only the amount of BRL 1,000.00 as full payment of their respective credit and related costs, which will be paid in 20 business days from the creditor's option to receive that way. For creditors of class III that (i) are not paid in the linear payment described above, (ii) do not want to fit into one of the options for partner creditors different from Offer 3 below, and (iii) with an exception of Administrative Fines, which will have a special treatment described below, it will be offered a menu of offerings limited to a maximum amount per offer. The creditor may choose only one of them, except in the case of Offer 3, which he can choose more than one offer: • Offer 1: Restructuring without Conversion o Limited payment of BRL 9,336,470,321.65 for debts in *Reais*, whose interest rate will be the highest between 8% per annum and TR + 1% per annum o Limited payment of USD 1,872,540,394.72 for debts in Dollar or Euro, whose interest rate is 1.25% per annum o The principal will be repaid in 14 semi-annual installments from the 11th year according to the progressive payment table below:

Semesters	Percentage of amount to be amortized per semester
21st to 24th	3.75%
25th to 28th	5.0%
29th and 30th	7.5%
31st to 34th	12.5%

  - Interest/ monetary correction will be capitalized into the debt during the first 7 years and thereafter shall be paid semiannually.
  - If there was an option which exceed its limit by currency, the option will be automatically allocated to the other currency and then to other offers in the plan (Restructuring with Conversion and general payment)

- Offer 2: Restructuring with Conversion

  - Issuance of a securities package issued by any of Companies Under Judicial Reorganization to be delivered to creditors Class III holding credits totaling up to BRL 32,330,000,000.00, whereas at least one of the securities will be convertible or entitling the subscription of common shares of Oi or the company that will replace it after reorganization. The securities will have face value (in dollars, euros or reais) equivalent to up to BRL 10 billion.
  - During three years after the plan approval at the end of each semester, the company will be able to redeem part or in full, the face value title plus interest of 4% per year.
  - If the securities in question are not redeemed within three years, the securities will be converted into shares representing 85% of Oi's share capital or the company that will replace it after reorganization (if BRL 32 billion do not choose to receive or be allocated in this securities package, the percentage of the share capital to be attributed to creditors will be adjusted proportionately).
  - This option is restricted to creditors in this class that are credit holders in excess of BRL 50 thousand.
  - The Company may or may not choose to issue other securities, at its discretion, up to the limits set forth in this Offer 2.
  - If the maximum value for this option is exceeded, the outstanding option will be automatically allocated to other forms of payment in the plan (restructuring without conversion and general payment).

- Offer 3: New Funds Partner Creditors

  Creditors who wants to grant new loans to the Company will have the payment terms of the new credit also applied to the payment of claims subject to Judicial Reorganization (in the proportion of 1 to 1), subject to the limit of USD 2 billion or the equivalent in reais. The conditions of the new loans are:

  - The principal will be repaid in 10 years. Payment of principal will be made annually from the 6th year in 5 annual installments of 20%.
  - Interest rate of Libor + 1.5% per annum for loans borrowed in dollars, and CDI + 0.25 % per annum for loans borrowed in *Reais*.
  - Interest will be capitalized to the debt principal in the first five years and thereafter shall be paid annually, along with the main installments.
  - Creditors who lend lower amounts than the amount subject to the Judicial Reorganization may indicate how they want to receive the remaining balance between Offer 1 and Offer 2 described above

- Offer 4: General Offer

  - Repayment in 9 annual and consecutive installments, the first after 10 year grace period, according to table below:

Years	Percentage of amount to be amortized
11th and 12th	7.5%
13th and 14th	10.0%
15th to 19th	13.0%

  - Interest/ Monetary correction: 0.5 % per annum for debt in dollars or euro and TR + 0.5% per annum for debt in *Reais*, applied from the plan's approval, and the total amount of interest and monetary correction accumulated during the period will be paid only, and together with the last installment of the principal.

Other specific Offers to Class III:

Partners Creditors which (i) agree with the amounts shown in the List of Creditors and in the discount proposed on the table below and (ii) have judicial deposits in guarantee:

- The discount proposed to the amounts shown in the List of Creditors will be as the following table:

Credit Amount	% of Discount
Up to BRL 1,000.00	0%
BRL 1,000.01 to BRL 5,000.00	15%
BRL 5,000.01 to BRL 10,000.00	20%
BRL 10,000.01 to BRL 150,000.00	30%
Above BRL 150,000.00	50%

- Will be paid by immediate release of the deposited amount.
- If the deposit is in lower amount than the debt after the discount stated above, the deposit will be used to pay part of the debt, and the balance will be paid as the General Offer mentioned above.
- If the deposit is in higher amount than the debt, the Group will raise the difference in their favor.

Supplier Partner Creditors:

- Suppliers with credits of up to BRL 150,000 will receive the fully debt amount within 20 working days upon declaration of intent to continue supplying at same conditions.
- Suppliers with higher credit than BRL 150,000 will also receive the amount of BRL 150 thousand in the same period as above, and the remaining balance shall be paid in two equal annual installments, with interest of TR + 0.5% per annum, as below:

  50% - 1 year after receiving the Option term;

  50% - 2 years after receiving the Option term.

Administrative Fines:

- Option through mediation with Competent Entity/Agency (such as Anatel and Federal Attorney General's Office), based on the following guidelines:
  - Convert fines into obligations of: investment in infrastructure; benefits to consumers; identification and use of judicial deposits related to these administrative fines
  - Perform actions for service improvements

- If there was no successful agreement, administrative fines will be paid according to General Offer described above.

Class IV

Microenterprises and Small Business credits shall be paid as described below:

Proposal
Linear Payment: • Creditors with credits worth up to BRL 1,000.00 will be paid in a single installment 20 business days after the plan is approved. • Creditors with credits higher than BRL 1,000.00 may choose to receive in one single installment, provided they agree to receive only the amount of BRL 1,000.00 as full payment of their respective credit and related costs, which will be paid in 20 business days from the creditor's option to receive that way. Creditors from this Class IV may choose to receive as offers 1, 2, 3 and 4 of Class III. Other specific Offers to Class Microenterprise and Small Business: Partner Creditors which (i) agree with the amounts shown in the List of Creditors and (ii) have judicial deposits in guarantee: • Will be paid by immediate release of the deposited amount; • If the deposit is in lower amount than the debt, the deposit will be used to pay part of the debt, and the balance will be paid as the General Offer mentioned above; • If the deposit is in higher amount than the debt after the discount stated above, the Group will raise the difference in their favor; • If the deposit is in higher amount than the debt after the discount stated above, the Group will raise the difference in their favor. Suppliers: • Suppliers with credits up to BRL 150,000 will receive the fully debt amount within 20 working days upon declaration of intent to continue supplying at same conditions.

- Suppliers with greater credit than BRL 150,000 will also receive the amount of BRL 150 thousand in the same period as above, and the remaining balance shall be paid in two equal annual installments, with interest of TR + 0.5% per annum, as below:

  50% - 1 year after receiving the Option term;

  50% - 2 years after receiving the Option term.

Projection of the Creditors Plan

Below is presented the flow of payments to creditors, considering the limits for each class as established by the Companies Under Reorganization. This flow, projected by Oi, contemplates the use of Judicial Deposits balances and, in cases where the deposited amounts are higher than its obligations; the surplus is made available to the Company.

For the purpose of the payment of convertible securities denominated in the paragraph 3.3 above (Restructuring with Conversion), the Company does not envisage the utilization of funds from Oi's operating cash flow. The repurchase will occur only upon availability of non-operating funds, which were not included in the projections. In this way, the conversion to shares or the repurchase of the securities will not affect the Company's operating cash flow.

The values used as basis for the projections included, in addition to the creditors recognized in the List of Creditors presented by the Companies Under Reorganization, creditors in litigation not yet recognized in the List of Creditors.

Flow of Payments to Creditors (in millions of BRL)

Class	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Class I Credits	-	(512)	(368)	(265)	(174)	(98)	(219)	(97)	(140)	(172)
Class II Credits	-	-	-	-	-	-	-	-	(374)	(748)
Class III Credits	1,730	386	(1,289)	(528)	(451)	(196)	(50)	(69)	(709)	(1,229)
Class IV Credits	-	(60)	(20)	-	-	-	-	-	-	-
Flow of Payments	**1,730**	**(185)**	**(1,676)**	**(793)**	**(626)**	**(294)**	**(269)**	**(166)**	**(1,223)**	**(2,149)**
Class	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Class I Credits	(192)	(200)	-	-	-	-	-	-	-	-
Class II Credits	(748)	(1,439)	(2,018)	(1,868)	(1,719)	(1,569)	(728)	-	-	-
Class III Credits	(1,225)	(2,106)	(2,870)	(3,087)	(3,268)	(3,749)	(5,312)	(6,223)	(3,065)	(87)
Class IV Credits	-	-	-	-	-	-	-	-	-	-
Flow of Payments	**(2,165)**	**(3,745)**	**(4,888)**	**(4,955)**	**(4,987)**	**(5,318)**	**(6,040)**	**(6,223)**	**(3,065)**	**(87)**

Table 6.

5.5 Operating Cash Flow

The consolidated cash flow of the Company was calculated from the EBITDA including the changes in working capital, taxes, investments, debts, payment plan to creditors and other expenditures that have effect on cash over the projection, further detailed below.

Direct Taxes

The direct taxes applicable to Oi are the Income Tax and the Social Contribution.

The rate of the income tax is equivalent to 15% of the income before tax (EBT), plus an additional 10% on the amount above BRL 240 thousand (annual). The social contribution rate was projected at 9% of the taxable income.

Finally, if there is accumulated losses over the projection, these balances reduce the direct taxes calculation basis up to 30%, limited by the remaining balance of the accumulated losses.

Working Capital

The working capital needs were projected by Oi and contemplated changes in the projected cycles of the accounts receivable and payable.

Additionally, included in the projection of the Company's working capital needs are the deferred income/expenses, income/expenses related to banking operations and also the impact of new judicial deposits.

Dividends and Interest on Equity

The dividend disbursements estimated in the cash flow refer to the payment of dividends from Rio Alto to its preferred shareholder. These values projected by Oi were based on historical figures of the company.

Tax Installments

The installments of the Company's tax liabilities include the PAES, PAES INSS and the Common Installment (*Parcelamento Ordinário*), already negotiated.

Cash Flow from Operating Activities (in millions of BRL)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
(=) EBITDA	**6,526**	**6,645**	**7,064**	**7,784**	**8,488**	**9,326**	**10,022**	**10,748**	**11,557**	**12,330**	**13,111**
(-) Income tax and social contribution	(633)	(1,292)	(847)	(1,174)	(1,200)	(1,462)	(1,699)	(1,982)	(2,356)	(2,676)	(3,008)
(+/-) Working capital	(2,069)	(1,232)	(1,433)	(1,336)	(905)	(867)	(829)	(890)	(825)	(824)	(716)
(-) Non core operations	(687)	-	-	-	-	-	-	-	-	-	-
(+/-) Dividends and interest on equity	(61)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)
(-) Tax installments	(97)	(108)	(120)	(130)	(146)	(165)	(186)	(209)	(154)	-	-
(=) Operating Cash Flow	**2,979**	**3,944**	**4,595**	**5,073**	**6,166**	**6,761**	**7,238**	**7,596**	**8,152**	**8,760**	**9,316**

Table 7.

5.6 Cash Flow from Investing Activities

Currently, Oi targets its investments primarily in the improvement of existing network. The Company holds approximately BRL 5.5 billion per year (average of 18.5% of the net revenue over the projection) to improve the quality of the service and to maintain competitiveness in the telecommunications market.

In this context, Oi has initiatives to maintain investments in order to satisfy the growing demand for data and broadband. Additionally, the Company is targeting its investments in order to prioritize the information technology ("IT") segment, focusing on areas where there is a greater potential for growth and selecting strategic locations to expand its cables.

Disbursements related to mobile licenses are projected in the cash flow below and shall end in 2018.

Cash Flow from Investing Activities (in millions of BRL)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
(-) Capex	(4,884)	(4,918)	(5,000)	(5,000)	(5,000)	(5,214)	(5,475)	(5,746)	(6,037)	(6,336)	(6,654)
(-) Mobile license	(653)	(3)	(4)	-	-	-	-	-	-	-	-
(=) Cash Flow from Investing Activities	**(5,537)**	**(4,921)**	**(5,004)**	**(5,000)**	**(5,000)**	**(5,214)**	**(5,475)**	**(5,746)**	**(6,037)**	**(6,336)**	**(6,654)**

Table 8.

5.7 Cash Flow from Financing Activities

The projection below contemplates the financing activities of the Oi Group.

Financial Results

The financial expenses refer to expenses incurred between January and June 2016.

The financial revenues refer to cash inflows from the investments of the Company's available resources.

Cash Flow from Financing Activities (in millions of BRL)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
(+/-) Financial results	(8,865)	383	548	348	350	440	599	793	1,030	1,204	1,337
(=) Cash Flow from Financing Activities	**(8,865)**	**383**	**548**	**348**	**350**	**440**	**599**	**793**	**1,030**	**1,204**	**1,337**

Table 9.

5.8 Consolidated Cash Flow

The consolidated cash flow is presented below, including the impact of the JRP, projected from the assumptions provided by Oi:

Consolidated Cash Flow (in millions of BRL)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
(=) EBITDA	**6,526**	**6,645**	**7,064**	**7,784**	**8,488**	**9,326**	**10,022**	**10,748**	**11,557**	**12,330**	**13,111**
(-) Income tax and social contribution	(633)	(1,292)	(847)	(1,174)	(1,200)	(1,462)	(1,699)	(1,982)	(2,356)	(2,676)	(3,008)
(+/-) Working capital	(2,069)	(1,232)	(1,433)	(1,336)	(905)	(867)	(829)	(890)	(825)	(824)	(716)
(-) Non core operations	(687)	-	-	-	-	-	-	-	-	-	-
(+/-) Dividens and interest on equity	(61)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)	(70)
(-) Tax instalments	(97)	(108)	(120)	(130)	(146)	(165)	(186)	(209)	(154)	-	-
(=) Operating Cash Flow	**2,979**	**3,944**	**4,595**	**5,073**	**6,166**	**6,761**	**7,238**	**7,596**	**8,152**	**8,760**	**9,316**
(-) Capex	(4,884)	(4,918)	(5,000)	(5,000)	(5,000)	(5,214)	(5,475)	(5,746)	(6,037)	(6,336)	(6,654)
(-) Mobile license	(653)	(3)	(4)	-	-	-	-	-	-	-	-
(=) Cash Flow from Investing Activities	**(5,537)**	**(4,921)**	**(5,004)**	**(5,000)**	**(5,000)**	**(5,214)**	**(5,475)**	**(5,746)**	**(6,037)**	**(6,336)**	**(6,654)**
(+/-) Financial results	(8,865)	383	548	348	350	440	599	793	1,030	1,204	1,337
(=) Cash Flow from Financing Activities	**(8,865)**	**383**	**548**	**348**	**350**	**440**	**599**	**793**	**1,030**	**1,204**	**1,337**
(=) Cash Flow before Creditors Plan	(11,422)	(594)	139	421	1,516	1,987	2,362	2,643	3,145	3,628	4,000
Class I	-	(512)	(368)	(265)	(174)	(98)	(219)	(97)	(140)	(172)	(192)
Class II	-	-	-	-	-	-	-	-	(374)	(748)	(748)
Class III	1,730	386	(1,289)	(528)	(451)	(196)	(50)	(69)	(709)	(1,229)	(1,225)
Class IV	-	(60)	(20)	-	-	-	-	-	-	-	-
(=) Cash Flow after Creditors Plan	(9,692)	(779)	(1,538)	(372)	891	1,693	2,093	2,477	1,922	1,479	1,835

Table 10.

After the tenth year of projection, Oi estimates a steady cash flow (assuming constant operating assumptions) that is sufficient to meet the payments expected in the JRP.

The cash needs projected in the first years after the JRP approval will be fulfilled by the existing cash at the end of 2016 and by funds from the "New Funds Partner Creditors", up to the limit of USD 2 billion.

6. Report Conclusion

This Report was prepared by EY as a subsidy to the Companies Under Reorganization's JRP and is subject to the premises and assumptions expressed in it.

This Report aims to assess the economic and financial viability of the Companies Under Reorganization, analyzing alternatives to the restructuring of their capital structure by verifying the continuity of its operations and seeking to maximize return to creditors, shareholders and the community in which it belongs. It is noteworthy that the studies do not include the viability analysis of the Companies Under Reorganization from the perspective of corporate, tax and legal aspects.

Thus, after conducting analysis and subject to the premises and assumptions expressed in it, we believe that the JRP is feasible under the economic and financial perspective, emphasizing the following points:

- The Companies Under Reorganization are taking steps to seek greater cash generation in order to honor its financial obligations;
- The presented JRP contemplates investments in various areas to improve the quality of its services and competitiveness in the sector;
- Through the proposed plan, Oi intends to equalize its liabilities, presenting a healthy financial situation to allow the continuity of its operations;
- In order to increase its financial liquidity, Oi can promote the sale of assets from the Companies Under Reorganization;

It was not considered in this feasibility scenario possible changes in the telecommunications regulatory environment, which may have an impact for operators in the industry.

In this context, we conclude that the approval of the JRP, as well as the consolidation of the proposed assumptions will enable the Grupo Oi to overcome the current financial crisis, enabling the continuity of its operations, considering the existing assumptions in the economic scenario presented in this Report.

The original report in Portuguese was signed by:

Ernst & Young Assessoria Empresarial Ltda.