(Convenience translation into English from the original previously issued in Portuguese)

OI S.A.

(Under Court-Ordered Reorganization)

Independent auditor's report

Individual and consolidated financial statements
As at December 31, 2019

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2019 Oi SA – Under Judicial Reorganization Management Report

1 – Message to the Shareholders

The Strategic Plan, announced in July 2019, aims at ending 2021 with 16 million homes passed (FTTH). With this initiative, we strengthen and position ourselves as an infrastructure service provider and solutions integrator to facilitate the adoption of 5G technology, not yet regulated in Brazil, and other digital solutions such as the Internet of Things (IoT). We are firmly proceeding with the implementation of the Strategic Plan and confident that we will be able to make all the investments planned for 2020.

In 2019 Oi S.A. – Under Judicial Reorganization ("we", "us", "our" or "Oi") kept working in several structuring fronts and deepened its efforts to develop improve our performance. We continued to be focused on improving quality, digital transformation, cost control, cash management, and accelerating our investments in Fiber by aiming efforts at our business recovery and upgrading our network. In addition, we have kept meeting all our commitments provide for in the Judicial Reorganization Plan ("JRP" or "Plan"), approved in December 2017.

We continued to consistently improve our quality indicators, such as the decrease of in the number complaints filed with the National Telecommunications Agency ("ANATEL") and the number of lawsuits filed with small-claims courts. Using digitalization, we kept improving our internal processes and enhancing the customer's experience. We launched innovative products that improve user experience, with unique features added to our mobile and Pay TV products. Offers with more data, content, autonomy, and transparency.

In 2019, our restructuring and service repositioning was expanded using the funds available after the completion of the R$4 billion capital increase, provided for in the Judicial Reorganization Plan. The funds were used in strategic fronts such as fiber optics and 4.5G network. The incremental investment was aimed at expanding high-speed broadband and mobile coverage. We end the year with approximately 4.6 million homes passed (FTTH) and 675,000 connected homes.

From December 2019 to January 2020, several liquidity events were completed, including: The issue of Debentures by Oi Móvel, the sale of properties, the announcement of the distribution of the surplus for the PBS-A plan (SISTEL), and the transfer of all the shares issued by the Portuguese holding company PT Ventures (Unitel). In light of these liquidity events, in February ANATEL suspended the special monitoring carried out on the basis of Court Ruling No. 226 of May 3, 2019.

We are closely monitoring the impacts of the new Coronavirus (COVID-19) on the global economy and capital markets. In addition to the basic humanitarian and health issues of the world's population, the spread of COVID-19 translates into a continuous increase in the risks of a global economic recession, which has led to a depreciation of the local currency and a collapse of stock exchanges and other financial markets around the world. Oi has taken actions at several levels to ensure the connectivity and quality of information and communication services offered to society. All the actions are being reassessed on a daily basis by an Oi multidisciplinary monitoring committee and are aligned with those of other industry companies and the industry regulatory agency, in a far-reaching integrated action.

With regard to operations, so far we have not identified material impacts from COVID-19. The Company is taking all the preventive measures to protect its technical teams and orienting the professionals regarding hygiene procedures, including in the activities carried when visiting customers, according to sanitary authorities' recommendations.

The evolution of the outbreak continues, making it difficult to predict the extent of its effects on the global economy and, consequently, on the Company's business.Against this backdrop, we keep assessing the impacts of the outbreak on our operations and financial position. As always, we are ready to cooperate with the mitigation of the impacts of this crisis and focused on the needs of our customers, staff, and society as a whole. For further information, see Note 33 – Events After the End of the Reporting Period, in our Financial Statements.

2 – Economic Scenario

Domestic scenario

2019 was the first of the new administration. Marked by controversies on some areas, it managed to make some progress in the economic sphere, in particular with the Reform of Social Security. After the pro-reform compact between the Executive, Legislative and Judiciary branches in May, the approval of the final text evolved more rapidly in the parliament committees and the House and the final text was approved by the Senate in October, with savings expected to reach R$750 billion over 10 years. The post-pension reform agenda introduced some microeconomic reforms (Severance pay fund (FGTS), for example), even though without any significant impacts on the economic recovery. Economic activity is following a gradual growth process. The 2019 GDP was up 1.1%, in line with previous years.

The progress and setbacks in the approval and impacts of the Pension Reform during the first half of the year, as well as the trade tensions between the United States and China, drove the volatility of the exchange rate scenario throughout the year. After reaching absolute minimums of R$3.6519 at the end of January, the US dollar reached a new high of R$4.1056 in May, remained stable until July, when it the Brazilian real resumed its depreciation process. The year's record high was posted in November, at US$1.00=R$4.2602, and the yearend quotation R$4.0307 represented a depreciation of 4.02% in 2019.

On the other hand, exchange volatility had no impact on the economy's prices, which remained under control throughout the year. Inflation as measured by the Broad National Consumer Price Index (IPCA) closed the year at 4.31%, slightly above the mid inflation target of the 4.25% due to one-off pressures in the meat segment. Anchored inflation expectations, coupled with a slow recovery in economic activity, were the basis for the Brazilian Central Bank's continued interest rate cuts by the Central Bank of Brazil. After closing 2018 at 6.5%, the Monetary Policy Committee (COPOM) cut its policy rate (SELIC) by 200bps in 2019, which closed the year at 4.5%.

International scenario

As part of the risk balancing with the expected scenario, the foreign scenario remained a key component, mainly due to the potential unfavorable impact of trade tensions between the United States and China, which the world's central banks sought to fight with a coordinated monetary easing policy. After more than a decade, the Federal Reserve cut rates again and the European Central Bank promoted interest rate reductions, which were already negative.

Other events marked the international economy in 2019, such as the approach of the decision-making moment regarding Brexit, the political crisis in Italy, and the attacks to oil platforms in Saudi Arabia and the escalation of the conflict with Iran, also contributed to the increase of uncertainty in the year, with the main consequence of a reduction in investment on a global scale.

Expectations for 2020

It is expected that 2020 will be an even more troubled than 2019, in the wake of the events that began with the rapid growth of coronavirus cases outside China, generating increased risk aversion, sharp deterioration in markets and the risk of global recession in the face of the effects of a pandemic. Coordinated actions by world governments and central banks to mitigate the economic impacts of this crisis may contribute to a reduction in stress in the markets. In Brazil, the market is also focused on the possible adoption of emergency measures to fight the negative impacts of the coronavirus on some economy sectors, especially the services industry. The Central Bank has also signaled that further interest rate cuts may occur. The continuity of the reform agenda is also seen as a key response to the crisis. As regard the GDP, the repercussions on the impacts of the new virus weigh on the Brazilian economy's growth projections, with analysts reducing their projections, previously above 2.0% in 2020. In short, the risks remain high and it is key to take coordinated actions by governments to mitigate the impacts of this epidemic on the world economy.

3 - The Telecommunications Industry in Brazil in 2019

According to ANATEL, at the end of December 2019 total accesses to telecommunications services in Brazil reached 308.5 million, consisting of 33.4 million fixed lines in service, 226.7 million mobile users, 32.6 million broadband Internet accesses (Multimedia Communication Service, or SCM), and 15.8 million Pay TV subscribers. The 2.5% drop, which corresponds to 7.0 million less accesses compared to 2018, was mainly driven by the significant churning of 12.5 million accesses in the prepaid mobility segment due to the continual drop of interconnection tariffs and the growth of the use of applications such as WhatsApp, which reduced the incentives for customers to use multiple SIM cards.

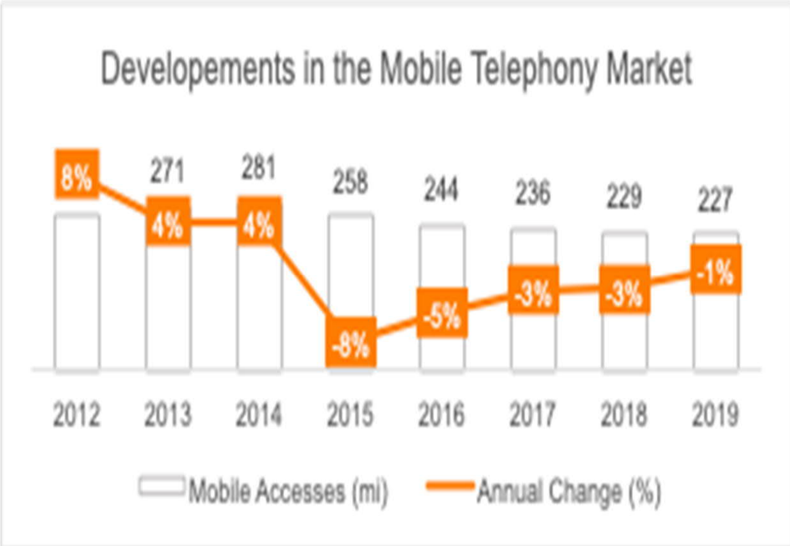
Fixed-Line

The Brazilian fixed-line market in in December 2019 reached 33.4 million lines in service, according to ANATEL figures, resulting in a year-on-year decrease of 10.6%. This is a mature market, since there is a global trend to migrate fixed-line traffic to mobile telephony.

Fixed-line carriers accounted for 54.1% of total fixed-line accesses in 2019.

Mobile Telephony

This sector has 226.7 million users in December 2019 and teledensity of 96.9% over the population as a whole (considering just "Standard" type accesses, not including "Point of Service" and "M2M" type accesses). Net churning in 2019 totaled 2.5 million users, a year-on-year decline of 1.1%. Prepaid lines accounted for 51.6% of total mobile users in December 2019 (56.5% in 2018), while postpaid (subscription) users accounted for 48.4% of the total mobile base.



Fixed-line Broadband (SCM)

According to ANATEL figures, the fixed-line broadband Internet access (SCM) continued to be one of the segment's growth drivers in 2019. At the end of 2019, the user base reached 32.6 million accesses, or a 4.3% year-on-year growth, which makes up for 1.32 million new users.

Pay TV

In 2019, the pay TV user base dropped by 1.7 million users, a -9.9% change in 2019 (-3.0% percent in 2015). At the end of December 2019, pay TV accesses totaled 15.8 million subscribers.

The penetration rate over total households reached 22.7% (25.3% in 2018), reinforcing the drop in the category.

- Accesses using the DTH (Direct to Home) technology accounted for 51.0% of users (loss of annual market base), followed by cable technology users, totaling 43.3%. The FTTH technology accounts for 6% of accesses, a 47% year-on-year growth.

Concession Arrangements, PGMU and related instruments

In 2013 ANATEL launched a Public Consultation with questions to society on issues relevant for the assessment of the STFC (switched-line services) economic and regulatory environment, to gather inputs for the review of the concession arrangements currently in place in 2016-2020. This survey ended on January 31, 2014. In June 2014 a new Public Consultation was conducted to address specifically the concession arrangements per se, which ended on December 26, 2014. It is expected that the Universal Service targets (also part of the Public Consultation) and the STFC Quality targets (which were assigned for Public Consultation in November 2017) will also be revised. The execution of the new concession agreement terms, initially scheduled for the end of 2015, was postponed for June 30, 2017 and subsequently abandoned by ANATEL, which decided to maintain the agreement terms until the new agreement revision in 2020, or a possible amendment of the current law that would change the prevailing concession model.

On October 3, 2019, Law 13879 was enacted, which amends the General Telecommunications Law to allow adjusting the telecommunications service concession modality to a permit-granting model. As a result of such Law, on February 11, 2020 ANATEL issued Public Consultation No. 5/2020 that introduces the draft of the Adaptation Regulation (including the appendices Single Permit Document and the Balance Adaptation Calculation Methodology). The Public Consultation is open for comments until the deadline March 27, 2020.

On December 21, 2018, the government published in the Official Gazette Decree 9619/2018 that approves the new General Universal Service Targets Plan for the Switched Fixed-line Utility Services (“PGMU”). The Decree updates the universal service targets of the STFC concessionaries.

In the new document, the main change concerns the exchange of density and distance between payphones (“TUP”) obligations for the obligation to implement wireless fixed-access systems with access to broadband support in locations listed in the Decree.

- <u>ANATEL’s Regulatory Agenda for 2019-2020</u>

The 2019-2020 Regulatory Agenda, approved under Administrative Ruling No. 542 of March 26, 2019, outlines all the standardization actions to be taken by ANATEL during the two-year period. With the amendments made by Administrative Ruling No. 1371 of July 30, 2019 and Administrative Ruling No. 1824 of September 9, 2019, the 2019-2020 Regulatory Agenda, which originally contained 48 items, now has 50 items, 18 of which are new initiatives and 32 are initiatives that continue the previous two-year period Agenda. The main items in this Agenda are as follows:

Reassessment of the telecommunications services regime and scope: (i) PGO, Single Permit Document, and Key issues to amend the telecommunications law; and (ii) adaptation regulation (Action 1)

The reassessment of the Brazilian regulatory and telecommunications services model, based on the public and private regimes, as set out in the General Telecommunications Law, takes into consideration, among other aspects, the best international practices on the matter, the essential nature of the different telecommunications services, the granting models (concession, license, and permit), the returnable nature of assets, service continuity, universal services, and the pricing models. Published for Public Consultation on February 11, 2020 and with a deadline for comments until March 27, 2020.

Invitation to Bid Notice to make radiofrequency spectrum available for the provision of telecommunications services, including through the so-called fifth generation (5G) networks, in regional or national scope areas (action 3)

The invitation to Bid Notice for granting radiofrequency use permits for the provision of the Personal Mobile Services (SMP), or other services for which they are intended, especially the 700 MHz, 2.3 GHz and 3.5 GHz bands, as well as other radiofrequency bands of the SMP available or close to their expiration date, aims at increasing the network access capacity using non-confined means, by making available the key input for the provision of such services with appropriate quality, especially for the so-called fifth generation (5G) technology networks. Already approved by the Board of Directors, with the Public Consultation pending publication, with an initial 45-day period deadline.

Reassessment of the regulation on the control of returnable assets (action 5)

The reassessment of the regulation on the control of returnable assets, currently governed by Resolution 447, aims at improving the operating procedures related to the preapproval of sales, replacement, encumbrance, and untying transactions of returnable assets. The amendment proposal, which is open for Public Consultation until April 27, 2020, proposes a new form of control and better organization regarding the returnable assets and the list of outsourced services. It also proposes rules on indemnity of returnable assets, as well as the principles to create the necessary conditions for reviewing claims for compensation of returnable assets not depreciated over concession period.

Revision of the models of Concession Contracts of the Switched Fixed-line Telephony Services (“STFC”) and the targets of the General Universal Service Targets Plan (“PGMU”) (action 8)

Clause 3.2 of the models in force prescribes that such agreements might be amended on December 31, 2020 to establish new terms and conditions and new universal service and quality targets, in light of the conditions prevailing at the time. The Public Consultation was scheduled for the first half of 2019, but the process is behind schedule.

Reassessment of the regulations of telecommunications services consumer law (action 9)

Reassessment of the regulation on the telecommunications services consumers’ rights, in particular the Regulation approved by Resolution 632, of March 7, 2014, in order to review points of the regulation that were pointed out as issues throughout their implementation, according to the documentation issued by the Regulation Implementation Taskforce (GIRGC), as well as other issues that may be identified as eligible for improvement by the project team, while securing the existing legal certainty and the progress already made in the said regulation by making it more effective and consistent. The Public Consultation was scheduled for the second half of 2019, but the process is behind schedule.

Reassessment of the telecommunications service quality management model (action 11)

On December 26, 2019, the Quality Regulations for Telecommunications Services (RQUAL) came into force, which establishes the new quality management model and requires the immediate partial repeal of the previous regulations RGQs (which governed the Switched Fixed-line Telephony Services, or STFC, the Multimedia Communication Services, or SCM, and the Personal Mobile Services, or SMP) and the PGMQ (TV/SeAC). The new model, based on responsive regulation and consumer empowerment, establishes that carriers will now be evaluated based on three indices (regulatory simplification): Quality of Service (IQS), Perceived Quality (IQP), and User Complaints (IR). Every year, the regulator will award Quality Seals, ranking carriers from "A" (for those with the best performance) to "E" (for those with poor results) at the municipal, state and national levels. Any downgrading of a carrier to rates “D” and “E” will allow a consumer to terminate the contract without paying any fine for not complying the minimum retention time. RQUAL also provides for the replacement of the automatic penalty rules (fines for failure to meet targets) by adopting of specific measures tailored to specific cases, in order to ensure the improvement of quality standards, and establishes a benchmark for evidencing a quality deficiency in the provision of fixed broadband services that could lead to the cancellation of a contract without payment of a fine. A Technical Quality Taskforce (GTQUAL), with the participation of the carriers, ANATEL and the Quality Assessment Support Entity (ESAQ), is expected to be created for the purpose of preparing the Operating Manual (MOP), which will establish the technical parameters, rules and guidelines used in the composition of indicators and indices, the service downtime criteria, and the reimbursement of affected users, scheduled for the second half of 2020. ANATEL's Board of Directors will approve the document determining the baseline values (DVR), which will include the index consolidation method, the methods and criteria used to award the Quality Seal, expected to come into force in 2021.

4 - Company Profile

We are one of the major providers of interconnected telecom services in Brazil with approximately 53.4 million revenue-generating units ("RGUs") at the end of 2019. We operate nationwide and offer a range of integrated telecommunications products that include fixed-line and mobile telephony, network usage (interconnection), data transmission (including broadband) and pay TV (also offered through double-play, triple-play, and quadruple-play packages), internet services, and other telecom services, to residential customers, companies, and governmental agencies. We own approximately 378.6,000 km of installed optical fiber cables, and own the largest backbone in Brazil. In addition, our mobile network reaches approximately 94% of the Brazilian urban population. Our market share of the mobile telephony market is approximately 16.2% and of the fixed-line telephony market is approximately 30.6%. We also provide, as part of our convergent offerings, approximately two million Wi-Fi hotspots.

5 – Company Strategy and New Businesses

In 2019, we announced our Strategic Transformation Plan, which rests on four pillars:

- expansion of fiber optics, since with own an infrastructure unparalleled in market, which is key to implementing 5G;
- streamlining and operational efficiency, with improvement in operating and financial performance, through a sustainable business model, focused on its competitive advantages;
- sale of non-core assets; and
- building up funding for the necessary investments.

To ensure a sustainable operation and strict cost control, we are already taking several actions on different fronts, such as a significant increase in the digitalization levels, the continual review and streamlining of processes, and the readjustment of the operating focus on the areas that represent our future.

In December, the Oi Fibra service, launched about a year ago, exceeded the 670,000 customers mark and expanded its offer to 86 cities nationwide. The implementation speed is higher than expected and by April 2020 we expected to reach 130 cities. The plan estimates installing fiber in 16 million households by the end of 2021. The core of the investment strategy is the acceleration of fiber optics projects, which will allow increased growth in residential broadband operations and also provide support for activities in the B2B market, wholesale, and maintaining good performance in the mobile market, where we are focused on reusing frequencies and expanding our capacity in priority areas.

The Company maintained the estimated Capex level forecast in 2019 but also made a small anticipation, reaching R$7.4 billion in December and estimates maintaining the planned investments levels in 2020, which should amount approximately to R$7 billion. We are confident in the strategy of selling non-core assets and raising additional funds, in addition to the focus on operating efficiency, which will guarantee sufficient funds to finance Capex as planned.

At the end of last year, we issued simple debentures (nonconvertible) for private placement, totaling up to R$2.5 billion, as provided for in the Judicial Reorganization Plan. This transaction was completed in February 2020.

New Businesses

In 2019 we retained our commitment to the development of initiatives focused on innovation, R&D, and new businesses. Based on the continual investment in innovating projects, we proceeded with our actions together with partners of our Innovation Ecosystem to explore business opportunities linked to high development potential. The key themes involved are linked to our core business and also Technology and Digitalization applications such as Geolocation, Digital Marketing, Big Data, IoT, and Security.

6 – Judicial Reorganization

On January 8, 2018, the Judge of the 7th Corporate Court of the Judicial District of the State Capital of Rio de Janeiro (“Judicial Reorganization Court”) issued a decision that ratifies the JRP and grants the judicial reorganization of Oi and our subsidiaries – under Judicial Reorganization (“Oi Móvel”), Telemar Norte Leste S.A. – under Judicial Reorganization, Copart 4 Participações S.A. – under Judicial Reorganization, Copart 5 Participações S.A. – under Judicial Reorganization, Portugal Telecom International Finance B.V. – under Judicial Reorganization, and Oi Brasil Holdings Cooperatief U.A. – under Judicial Reorganization (collectively, the “Oi Companies”). Said decision was published on February 5, 2018 (“Plan Ratification”), initiating the period for the creditors of the Oi Companies to elect one of the payment options to recover their claims, as provided for in the JRP, which ended on February 26, 2018, except for bondholders, the deadline of which was extended through March 8, 2018, as decided by the Judicial Reorganization Court on February 26, 2018.

Judicial Reorganizing – Approval of the New PGMU

On December 21, 2018, the Government enacted Decree 9619/2018, which repeals Decree 7512/2011 and approves a New PGMU, effective for publication period until another PGMU replaces it. For further information about the New PGMU, see information in Note 1 to the financial statements, in the paragraph ‘Judicial Reorganizing’.

Judicial Reorganizing – Capital Increase - New Funds

Throughout 2018, we took the necessary actions for the private issue of new common shares, amounting to R$4 billion, in the form provided for Clause 6 of the Plan (‘Capital Increase – New Funds’), and on October 26, 2018 we issued 112,598,610 common shares (“Common Shares”) and the delivery of these Common Shares to the holders of Warrants who exercised their warrants within a given period.

On December 5, 2018, the Company confirmed the issue of 3,314,745 Common Shares and the delivery of these Common Shares to the holders of Subscription Warrants who exercised their warrants starting October 25, 2018 up to December 3, 2018, including Subscription Warrants represented by 662,949 American Depositary Receipts (each representing five common shares, or "ADWs") exercised starting October 19, 2018 up to November 27, 2018.

On January 4, 2019, the Company confirmed the issue of 275,985 Common Shares and the delivery of these Common Shares to the holders of Subscription Warrants who exercised their warrants starting December 4, 2018 up to January 2, 2019, including Subscription Warrants represented by 55,197 ADWs exercised starting November 28, 2018 up to December 26, 2018.

The Subscription Warrants not exercised up to and including January 2, 2019 and the ADWs not exercised up to and including December 26, 2018 have expired and can no longer be exercised, thus completing the Capital Increase - New Funds on January 25, 2019.

Extension of the Judicial Reorganization

On December 6, 2019, the Company released a Material Fact Notice informing that the Oi Companies filed a petition with the Judicial Reorganization Court requesting that the court oversight of the Oi Companies not to be terminated on February 4, 2020, the date when the Plan's homologation completes two years.

The non-termination of the judicial oversight does not introduce any changes to the current position of the Oi Companies and has no impact on the compliance with the Plan in force or on current receivables, or any other new funds that might be obtained by the Oi Companies. It is worth noting that the continuity of court oversight at the end of the two-year period is a natural measure that has been applied in most judicial reorganization proceedings.

Notwithstanding the good progress of the Plan implementation, which has already concluded most of the steps provided for the proceeding, which were important for the Company's recovery, said petition presents the Judicial Reorganization Court with circumstances related to the complexity inherent to the Judicial Reorganization Proceeding's magnitude and to the reforms underway in the legal and regulatory environment, and which require actions still to be implemented within the scope of the Judicial Reorganization Proceeding.

On February 28, 2020, the Company released a Material Fact Notice informing, on this date, its shareholders and the general market that on February 28, 2020 the Oi Companies filed with the Judicial Reorganization Court a petition exposing its interest in submitting for deliberation to a new general creditors' meeting ("New GCM") an amendment to the Plan aimed at achieving greater operating and financial flexibility to continue its investment project and the compliance with its strategic transformation plan ("Strategic Plan"), both broadly disclosed to the market.

In line with the foregoing, on March 6, 2020, the Company disclosed a Material Fact Notice informing that the Judicial Reorganization Court awarded a decision, on the same date, granting the Company's request for a New General Creditors' Meeting to deliberate on an amendment to the Plan, prescribing that:

(i) the Oi Companies file with the court, within 180 days from the decision's issue date, the draft amendment to the JRP; and

(ii) the Trustee organize the New General Creditors' Meeting, which shall be held within 60 days from the submission of the amendment proposal to the JRP.

Accordingly, taking into consideration that the decision above was issued on March 11, 2020, we shall submit the amendment to the JRP to the court by September 8, 2020, with the New GCM expected to occur on November 6, 2020.

The purpose of the amendment proposal to the Plan will be increasing the flexibility of the JRP by creating a more efficient corporate and operating structure, aiming at maximizing our value to the benefit of all our stakeholders. This initiative is fully aligned with the Strategic Plan, which is being transparently implemented.

Prepetition Financing – Clause 5.3 of the Judicial Reorganization Plan

On December 23, 2019, the Company disclosed a Material Fact Notice informing that its subsidiary Oi Móvel entered into a 1st issue indenture of collateralized, simple, nonconvertible debentures, with additional trust security, in a single series, for private placement, in the total amount of up to R$2.5 billion ("Debentures" and "Issue", respectively). The main features of the Issue and the Debentures are as follows: (i) Term and Maturity Date: twenty-four (24) months from the issue date, except in the case of early redemption and early maturity of the Debentures set forth in the Debenture Indenture; (ii) Interest: U.S. dollar foreign exchange fluctuation plus interest of (i) 12.66% per year (PIK) for the first twelve months after the first repayment is made; and (ii) 13.61% per year thereafter; and (iii) Guarantees: the Debentures will be backed by collaterals and trust guarantees provided by Oi Móvel, Oi, and Telemar.

The Issue was approved based on the provisions of Clause 5.3 of the Judicial Reorganization Plan and is part of the context of prepetition financing, in the Debtor in Possession Financing ("DIP Financing") modality.

Subsequently to the Material Fact Notice disclosed on December 23, 2019, Oi disclosed a Notice to the Market on February 4, 2020 informing shareholders and the general market that the subscription and payment of the Oi Móvel Issue had been completed, described above, for private placement in the amount of R$2.5 billion.

7 – Operating Performance

We closed 2019 with 53,428,000 revenue-generating units ("RGUs"), of which 12,659,000 in the Residential segment, 34,006,000 in the Personal Mobility segment, and 6,591,000 in the B2B segment, as well as 172,000 payphones.

Residential (fixed-line telephony, broadband, and pay TV)

Fixed-line

We ended 2019 with 7,005,000 fixed-line telephony customers in the Residential segment, a year-on-year 15.4% decrease, reflecting the trend of a drop in the demand for voice services, which are being replaced by data. In order for to stop the drop in the customer base, our strategy is to focus on convergence and portfolio streamlining to increase the value proposition of our services and eliminated excess collections, and a more segmented approach of profitability.

Broadband

We closed the year with 4,202,000 fixed-line broadband RGUs in the Residential segment, a year-on-year 13.9% decrease. The drop is justified primarily by the higher competition between local players that offer broadband services in small cities, outside the big urban centers. As mentioned above, we have been intensifying the sales activity breaking down the market into regions and adopting one-off measures to adjust our offers for each type of customer. In addition, we are intensifying our investment in fiber, under a network "Reuse" strategy, while delivering high speed and quality broadband.

This strategy is posting excellent results and at the end of 2019 we had reached 4.6 million homes passed and 675 thousand homes connected, with a take-up of 14.7%. In the locations where we have intensified fiber penetration, we are already able to notice a reversal in the trend of falling revenue in broadband services.

Pay TV

In the Pay TV product, we posted its best market performance in the year, up 0.5 p.p. in market share, reaching 9.6% of the Brazilian market in December 2019. In light of this performance, we remained as the third largest TV Operator in Brazil (the second, if we consider only players using DTH technology). It is also worth noting the growth of more than 300% in IPTV technology, reinforcing the success of the strategy to expand fiber optics in the residential segment throughout the year.

Oi TV is a differentiated product that offers a wide range of contents and HD channels (including open channels) in all plans, and the more complete offer includes up to 194 channels, including 72 HD channels, with the possibility of increasing the number of by hiring a-la-carte channels subject to a monthly subscription or under the pay per view model, such as movies, sports, etc., including using the iPPV technology (purchased directly using the remote control). We also offer services such as DVR (service that allows to record, rewind, or pause ultra HD content) and "Outra Vez" (service that allows subscribers to watch the last eight-hours programming after they are showed). In addition, Oi TV customers also have access to Oi Play, our video content aggregator, reinforcing our positioning in offering the best experience and greater autonomy to our customers, allowing them to view videos on demand and live Everywhere on devices such as tablets, smartphones, SmarTVs and using devices such as Google Chromecast, for example.

Personal Mobility

We closed 2019 with 34,006,000 RGUs in the Personal Mobility segment, a year-on-year decline of 2.9%. In the past twelve months, this decline makes up 1,027,000 RGUs, represented by a decline of 2,813,000 RGUs in the prepaid segment and the addition of 1,786,000 RGUs in the subscription segment.

The decrease in the prepaid segment reflects the SIM card consolidation market trend. We practically maintained our market share in the prepaid segment (21.0% versus 20.9%).

On the other hand, in the subscription segment, driven by the investments in 4.5G that allowed launching a new novo offer portfolio, we were able to reverse the past years' trend and we were able to add more than 1.7 million customers to our customer base. We strengthened our positioning as a customer-focused carrier beginning November 2018 with the launching of larger data packages and traffic-free data offerings for the most popular social networking and video applications, and worked on the concept of data use freedom beginning May 2019. With this initiative, we ranked 2nd in subscription net additions in 2019 (excluding exclusive data terminals, also known as M2M).

In prepaid segment, the focus was monthly offer, with the best cost benefit in the market, where the customer has unlimited calls to any carrier and a data package of up to 4GB, in addition to traffic exemption in messaging application. Our active marketing tool offers real-time voice and data packages to encourage increased top-ups and consumption. The subscription and prepaid offerings also include other Value Added Services (VAS), such as Oi Jornais and Oi Revista, complementing the offer with relevant content as a way to differentiate products in the market.

Oi Play

We launched a new digital platform in the first quarter of 2019, the main purpose of which is to work as a content hub, aggregating services from several programmers from the most varied categories, such as films, series, documentaries and drawings, which can be watched whenever and wherever they want, on smartphones, tablets, notebooks and smart TVs.

Oi Play underwent a deep market-benchmarking mapping and studies using methodologies such as design thinking and heuristic analysis, aiming at providing the best usability experience. The platform has the following functionalities: “Pra Alugar” (sale of content recently released from the movie theaters), “Canais ao Vivo”, “Chromecast”, exclusive library “Coleção Oi”, “Filtro de conteúdos”, as well as our great differential, “Pra trocar”. This concept allows you to customize your package by selecting the contents according to your needs. Each channel, FOX, HBO, Telecine, Paramount+, Discovery, Oi Collection, and others, is worth a number of plays that can be exchanged for other contents. Thus, the customer can change the content recurrently, within a 30-day period.

In order to extend all this content consumption experience on TV, we were the first in Latin America to launch, in association with Google, the “Streaming Box”, in the second quarter of 2020. The new product turns your TV into a smart TV and the customer can download the APP on Google Play, and watch the content directly on his or her TV set. Another advantage of the Streaming Box is the remote control, which has Google assistant, allowing the customer to search for several information by voice command.

Oi Play’s strategy is to provide content, on a single site, for customers who purchase broadband, mobile and TV products, from the most basic plan with the Oi Collection (Oi's exclusive library) to top tier plans.

We closed 2019 with an eligible base of 4.4 million Oi Play customers (1.4 million: TV customers, 1.8 million: broadband customers, 1.2 million: Mobile customers); 21.6% of this base has already accessed the new platform.

B2B

We closed 2019 with 6,591,000 (6,727,000 in 2018) RGUs in the B2B segment, a year-on-year reduction of 1.7%.

Our B2B strategy was to proceed with the SME and Corporate strategies, thus ensuring the improvement of customer experience by streamlining processes and automating the delivery chain and aftermarket service convergence (IT and Telecom).

For the Corporate segment, we continued focusing our efforts is the sale of Data and IT services to capture new, growing market demands and reduce dependency from voice services. In the SME segment, we kept selling our Oi Mais Empresas bundled services by streamlining our Fixed Line, Mobile, and Broadband portfolios and strengthening the digital relationship with each customer, via web and app. As a result of this strategy, we reported quality improvements in the service provided and the customer usage experience.

In addition, we have innovated in terms of solutions focused on the digital transformation of our clients by expanding our portfolio and thus operate in a broad, advice-giving manner, to support our customers in their journey. Among the solutions offered, we highlight analytical video monitoring with facial and object recognition, as well as to Cloud Communication, a solution that digitalizes the customer service functions of companies using IP PBX, Unified Communication, Contact Center and Multichannelty, the latter integrated with social media networks, and bringing the chatbot (artificial intelligence service) as a tool supplementary to the solution as a major differential, like our own Joice. Our final highlight is Oi Labs, an environment for the co-creation of customer solutions together with Oi.

8 - Economic and Financial Performance

Our consolidated net revenue totaled R$27,354 million in 2019, a year-on-year drop of 8.7%. Of this amount, R$7,264 million correspond to the Residential segment, R$7,017 million to the Personal Mobility segment, R$5,528 million to the B2B segment, and R$140 million in other income. Net revenue from other international operations at yearend totaled R$187 million.

We have accelerated the investments in fiber to bring very high-speed broadband to customers' homes and offer a better experience, following the structuring strategy to make the segment profitable. The Fiber expansion project (FTTH) posted consistent results. Currently, contracted fiber broadband revenue exceeds copper revenue. The sales mix reached approximately 80% of fiber sales and 20% of copper sales. At the end of 4Q19, the Company reached 4.6 million homes passed and 675,000 homes connected, a take up of 14.6%.
The annual decline in fixed line revenue is taking place in line with the replacement of fixed line services by mobile telephony services. We continue to reduce its focus on copper, both in voice and broadband, and by prioritizing investments in the acceleration of the fiber project, with greater value generation potential.

Operating costs and expenses (less depreciation and amortization) totaled R$16,234 million in 2019, and the main costs were: R$6,031 million on third-party services, R$2,576 million on rentals and insurance, R$2,529 million on personnel expenses, R$1,014 million on network maintenance service, and R$658 million in interconnection costs.

As part of our strategic plan, we have been working on five macro cost reduction and operational streamlining fronts: (i) Sales, Marketing and Customer Service; (ii) Processes and Organization; (iii) Business Support; (iv) IT; and (v) Network and Field Operations. The actions resulting from the work on these fronts have been implemented throughout this year, and the financial impacts should be observed more significantly from 2020 onwards.

In 2019, EBITDA of our Brazilian operation totaled R$6,058 million,[1] with a margin of 30.4%, and loss for the year reached R$9,096 million, affected mainly by foreign exchange differences resulting from the depreciation of the Brazilian real in 2019, inflation adjustments to provisions for contingencies, interest on leases due to the application of IFRS 16, in addition to Oi's regular operations.

9 – Debt

R$ million	Dec 2019	Dec 2018	% of Gross Debt
Debt			
Short Term	327	673	1.8%
Long Term	17,900	15,777	98.2%
Total Debt	18,227	16,450	100.0%
In Local Currency	8,705	7,633	47.8%
In Foreign Currency	9,521	8,817	52.2%
Swaps	0	0	0.0%
(-) Cash	-2,300	-4,624	-12.6%
(=) Net Debt	15,927	11,826	87.4%

We posted consolidated gross debt of R$18,227 million in December 2019. When compared to December 2018, our consolidated gross debt decreased by 10.8%, or R$1,777 million.

The increase in the annual comparison is the result of the accrual for interest in local and foreign currency, the amortization of the present value adjustment (PVA), which contributes to the debt growth, as well as the 4.0% annual depreciation of the Brazilian real against the US dollar in the year. By the end of December 2019, the foreign currency-denominated debt accounted for 52.2% of our debt at fair value and the consolidated average maturity was approximately 11 years.

Our consolidated cash totaled R$2,300 million at the end of 2019, a further reduction in the year, this time by 50.3%. As a result, our net debt at the end of the period stood at R$15,927 million. For yet another year, the reduction in cash in the year, already provided for in the Judicial Reorganization Plan, resulted mainly from the strong level of Capex, in line with our Strategic Plan. In addition, we initiated the payments to creditors, whether they are bondholders, suppliers or workers. As events subsequent to the end of the year, we raised funding to allows us maintain our Capex strategy by issuing a private debenture in the amount of R$2.5 billion and completing the sale of Unitel, our main non-core asset, for an amount exceeding R$4.0 billion.

[1] Includes the effects of IFRS 16 (R$1,548).

10 – Investments (*)

R$ million	2019	2018
Investment		
Network	6,389	5,096
IT Services	621	614
Other	803	368
Total	7,813	6,078

(*) Considers only investments in Brazil

The investments made in the Brazilian operations throughout totaled R$7,813 million, a year-on-year increase of 29%, evidencing our concern in keeping the quality of our services while maintaining our financial discipline that we are aiming at to rationalize the use of our resources, using analyzes based on more granular inputs, investment prioritization, and new supplier hiring models.

Even in a scenario of constrained financial flexibility while operating responsibly in our cash management, we were able to expand our investments in infrastructure and network core in 2019. During this period, we invested in, but not limited to, the access infrastructure, the transmission infrastructure, the IP network, and the expansion of back-office and front-office systems. This way, it was possible to increase the soundness, quality, and capacity of the network core, ensuring a more efficient operating performance, and promoting a consistent improvement in services quality and user experience, which was translated into business value creation.

In 2019 we invested 82% of the total amount in our network, which represents R$6,389 million distributed primarily among: (i) the improvement of our fixed-line network for the broadband service; (ii) the improvement of our mobile network quality; (iii) building and expanding our 4G and 4.5G networks; and (iv) investments in voice and data transmission equipment.

In addition to the investments described above, we made advances for future capital increase to subsidiaries, disclosed in Note 15 – Investments to the Financial Statements.

In addition to the investments described above, we made advances for future capital increase to subsidiaries, disclosed in Note 15 - Investments.

- ### Investment in Research and Development

Since Oi was created, we have tried to be perceived as a unique company and maintain our position in the domestic market through innovative actions and stances.

Our investments in Innovation and R&D in the projects developed in 2019 totaled R$33.9 million, with several projects conducted in association with science and technology institutes, and businesses incubated in Technology Centers;

In 2019, the Digital Initiatives were strengthened and leveraged the impacts on the customer experience and improved operational efficiency. Among the initiatives, we highlight human and digital service. We launched JOICE, our artificial intelligence assistant, which during this stage, encompasses the automation of service and technical support; we added new functionalities to the Virtual Technician application, which facilitates technical self-service; and expanded the automation of the Operations Center.

Highlighting its commitment to our innovation program, Incubadora Oito, the entrepreneurship and innovation hub in Rio de Janeiro, has played an important role in generating new businesses, accelerating technological solutions, developing startups, and supporting the innovation ecosystem.

Throughout 2019, Oito developed a new methodology for investing in startups with greater focus on the challenges of generating new revenue, increasing efficiency, and cutting costs, contacting startups that have solutions in traction stage that could help us pursuing innovations that would benefit Oi.

Against this backdrop, we have been developing our Innovation Ecosystem in an integrated manner and by interacting with most of the entities that make up this system in Brazil, in particular through partnerships with the solutions providers and national research centers. We will continue working as a sponsor of innovative initiatives and R&D together with the partners in our system, through interactions and the development and testing of joint solutions that connect Oi's needs with the startup ecosystem, technology providers, and universities.

11 - Capital Market

At the end of 2019, our capital was represented by 5.9 million shares, represented approximately 5.8 million common shares and 157.7 million preferred shares.

	Capital	Treasury	Free-Float[1]
Common	5,796,477,760	30,595	5,796,441,255
Preferred	157,727,241	1,811,755	155,915,462
Total	5,954,205,001	1,842,350	5,952,356,717

Note: Shareholding position as at December 31, 2019.
(1) The outstanding shares do not consider the shares held by the Board of Directors and the Executive Committee.

▪ Our Shares

Oi S.A. shares are traded in Brazil on the São Paulo Stock Exchange (B3 S.A. – Brasil, Bolsa, Balcão, hereinafter B3) under ticker codes OIBR3 (common shares) and OIBR4 (preferred shares). We also have an American Depositary Receipts (ADRs) program listed in the United States, where these papers are currently traded under ticker codes OIBR.C ("Common DR") and OIBR.Q ("Preferred DR"). OIBR.C is traded on the New York Stock Exchange (NYSE), while OIBR.Q is trade on the OTC market.

On B3, Oi shares closed 2019 quoted at R$0.86 for OIBR3 and R$1.23 for OIBR4, thus presenting a depreciation in 2019 as compared to their quotation at the end of 2018 of 31.2% and 2.4%, respectively. The Ibovespa index closed 2017 at 115,465 points, a 31.6% hike in the period. In the United States, our Common DR (OIBR.C) ended 2019 quoted at US$0.93, a depreciation of 41.9% as compared to their quotation at the end of 2018, while our Preferred DR (OIBR.Q) ended the year quoted at US$0.26, a depreciation of 10.3% in this same period.

- In 2019, the average daily volume of common shares (OIBR3) traded was R$100.4 million (growth of 442.3%) and of preferred shares (OIBR4) was R$5.1 million (drop of de 6.9%). In the same period, the average daily trading volume of Common DRs (OIBR.C) was US$4.1, a year-on-year growth of 192.7%.

- Dividends

We have not distributed dividends since 2015. Currently, in addition to and notwithstanding the bylaws and statutory provisions on the distribution of dividends, the Oi Companies are subject to certain constraints regarding the declaration and payment of dividends, as prescribed in the Oi Companies' JRP approved by their creditors and ratified by the Judicial Reorganization Court (Clause 10). We suggest reading the Plan for further information to this respect as well as reading item 6 of this report and Note 1 to the financial statements, section 'Judicial reorganization'.

12 – Environmental, Social and Governance

The governance framework that governs our Company comprises our bylaws, our corporate structure, our organizational structure, and the adopted policies, procedures and practices, as well as the provisions of the Oi Companies' JRP, approved by their Creditors at the General Creditors' Meeting held in December 2017 and ratified by the Judicial Reorganization Court.

Our current Bylaws, approved in September 2018 and amended on April 26, 2019, provide for the adoption of high corporate governance standards that include, among other provisions: (i) exchangeability of preferred shares when and under the terms approved by the Board of Directors; (ii) at least 20% of our directors shall be independent, pursuant to the Novo Mercado Regulations (B3's special listing segment); (iii) interdiction for the same person to hold both the chairman of the board and the chief executive office or the main executive positions (except during a three-year period from the effectiveness date of the new Bylaws); (iv) mandatory approval by the Board of Directors of any public offering of Oi securities; (v) mandatory public tender offering of securities at their economic value, restricted to common shares, in case their listing in the Level 1 of Corporate Governance is canceled or terminated, except if the securities become listed in the Level 2 of Corporate Governance or in the Novo Mercado listing segment; and (vi) mandatory dispute and controversy resolution through arbitration, at the Market Arbitration Chamber.

Currently, our Board of Directors consists entirely of eleven (11) Independent Directors, as prescribed by Clause 9.3.1 of Oi's Judicial Reorganization Plan and in accordance with Article 64 of our Bylaws.

In order to improve our governance and align it with the existing challenges and needs, we currently have three advisory committees to the Board of Directors in operation: the Audit, Risk and Control Committee ("CARC"); the Transformation, Strategy and Investment Committee ("CTEI"); and the People, Appointments and Governance Committee ("CGNG").

It is worth noting that the CARC is a statutory committee with competences of an audit committee. The CTEI, on the other hand, is a temporary committee, which during its term of office assumed the competences of two other advisory committees to the Board of

Directors: the Investment and Infrastructure Committee and the Strategy Committee, currently suspended.

With regard to our shareholders' meetings, we have been consistently adopting the policy of extending voting rights to holders of American Depositary Receipts ("ADRs") and publish our first call notice for shareholders' meetings at least 30 days in advance; further, also to facilitate and encourage our shareholders' attendance, we started to disclose on our website and on CVM's and B3's websites, at each call, an attendance manual for shareholders' meetings that offers information on the agenda, proxy templates, and other information.

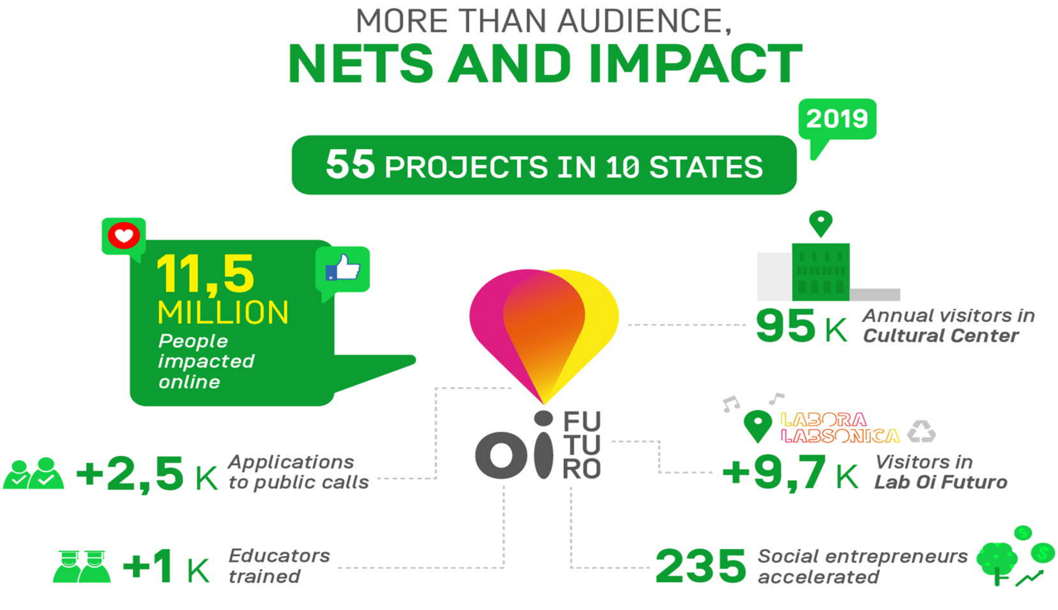
We are continually and strongly involved in the consolidation and expansion of the best Compliance practices, focused on the mitigation of corporate risks, anticorruption, and optimizing the business processes. In 2019, our Risk Management Policy and methodology was revised and is now compliant with the main standards related to this topic, such as "COSO ERM", "ISO 31000", "IBGC Corporate Governance Report 19", and "CVM 586". From the standpoint of compliance practices, in 2019 we have kept our focus on the continuous improvement of our program by carrying out an independent evaluation of our program and its respective operational developments, by implementing policies, regulations, best practices, and controls. As a guarantee of our independence, the Compliance Department hierarchically reports to our CEO and functionally to the Audit, Risk and Controls Committee in addition to the Board of Directors itself. In addition to our Compliance practices, we also have an Internal Audit area directly subordinated to the Board of Directors, which audits processes, financial, compliance, and the complaint investigation process coming from our Whistleblower Channel, and which are reviewed and decided upon by our Ethics Committee after their investigation.

At the operating level, our Business Continuity Management Committee has sought, in accordance with the 'ISO 22301' standard, to improve the associated processes by strengthening mechanisms for prevention, monitoring and response to events that may affect not only the provision of services, but also society and the environment.

We maintained in 2019 our commitment to the development of Brazil and to our sustainability practices. We continue to provide convergent telecommunications services that promote digital inclusion, and grant access to citizenship to millions of Brazilians.

Since 2001, we have reinforced our commitment to the Brazilian society through Oi Futuro, our corporate social responsibility institute that operates under a Civil Society Organization of Public Interest (OSCIP) certification.

We invest, through Oi Futuro, in the innovative and creative potential of individuals and networks to build a more diverse and inclusive society. Operating in all regions of Brazil, Oi Futuro develops projects and programs in the areas of Culture, Education, Social Innovation and Sports.



In the Culture field, Oi Futuro promotes the convergence between art, science, and technology. In the past year, the Institute launched public four requests for proposals to artists and cultural producers and received approximately 2,500 enrollments. On the 16th edition of its main public request for proposals, the Oi Cultural Sponsorship with Tax Incentives Program, we selected 48 projects in 8 states.

In order to reach new audiences, Oi Futuro maintained, for the second consecutive year, the partnership with British Council for the artistic support and exchange requests for proposals in Brazil. The Programa Pontes (Bridges Program) provided housing to British artists in seven nationwide festivals, and the Programa Arte Sônica Ampliada, or ASA (Amplified Sonic Arte Program), qualified an all-female class from the suburbs of do Rio de Janeiro to professionally work in the music and sound market.

LabSonica, an artistic and sound experimentation lab for collaborative creation, reached more than 7,000 people throughout the year through art residencies, original recordings, and courses on music and business.

Centro Cultural Oi Futuro (Oi Future Cultural Center)—which houses art galleries, a theater, and a museum—received approximately 95,000 visitors in 2019. In 2019, the Telecommunications Museum was closed to the public for the first time since its opening in 2007 for renovations. The museum was renamed Musehum – Museu das Comunicações e Humanidades, and reopened in February 2020, (Communications and Humanities Museum), and is expected to house new attractions for visitors that include immersive and integrative experiences.

In 2019, concurrently with the modernization project, Oi Futuro developed the trends survey "Narratives for the Future of Museums", signed together with Consumoteca, and the request for proposals "Hipermuseus", which attracted museology and culture professionals for a six-month immersion to seek new innovation strategies for cultural spaces. The survey results and the request for proposals are available for free download in e-book format, on Oi Futuro's website.

In addition, Centro Cultural Oi Futuro's programming was once again recognized by the public, the press, and the critics: seven plays staged at Oi Futuro received in aggregate 52 nominations and 3 awards in Brazil. "Eu, Moby Dick" (Cesgranrio Award for Best Production Design) and "O Príncipe Poeira e a Flor da Cor do Coração" (Botequim Cultural Award for Best Script and Best Actor). The exhibits "Palavra Movimento" and "ASA - Arte Sônica Amplificada" were also nominated for awards.

In the Education front, Oi Futuro invests in NAVE, Núcleo Avançado em Educação (Advanced Education Center), a public-private partnership developed since 2006 with the Rio de Janeiro State and Pernambuco State Departments of Education in two state public high schools, integrated with professional education. The program offers technical courses in Programming and Multimedia, focused on preparing youngsters for the creative economy and full exercise of citizenship.

Up to 2019, NAVE had trained approximately 2,800 students and currently reaches more than 1,000 students and 70 educators in both its schools. To expand its reach, it published the second edition of the eBook "e-NAVE: Guia de Práticas Pedagógicas Inovadoras" (Guide for Innovative Pedagogic Practices), a free publication that gather 40 innovative pedagogic practices in the program, accessible by other public and private schools.

In addition to publishing this eBook, NAVE disseminated innovative methodologies to about 1,000 public network multiplier educators in 53 municipalities in Rio de Janeiro and Pernambuco through in-class and semi-distance courses in educational robotics, media education and the pedagogical use of technologies.

In order to contribute to the public high school policy of at a national level, Oi Futuro joined the "Syllabus and High School Front", led by the National Council of State Secretaries of Education (Consed) and supported by ten institutes and private foundations. The project's goal is to provide technical support to the 27 state education networks in Brazil to implement a new syllabus aligned with the National Common High School Baseline Syllabus.

This past year, NAVE was selected as a case study by SXSW Edu, one of the world's largest innovation festivals, held annually in Austin, Texas, USA.

In the Social Innovation area, Oi Futuro strengthen the reputation of Labora, its Social Innovation lab, as a connection and strengthening space for entrepreneurs, businesses, and organizations committed to having a social impact. In 2019, the institute completed two acceleration cycles of startups and social impact organizations, as part of a technical partnership with Startup Farm and Instituto Ekloos. In total, there were 24 accelerated businesses and organizations, directly involving 135 entrepreneurs.

In the third quarter, Labora initiated a new acceleration cycle with the Ekloos Institute for another 20 social organizations and businesses, impacting 100 entrepreneurs, in addition to announcing a partnership with Sebrae RJ for the development of a request for proposals focused on social businesses with a technological profile. Labora held 43 events and workshops that involved 2,700 people from the social innovation network in the state of Rio de Janeiro.

As complement to its social contribution, we and Oi Futuro supported social inclusion projects for Sports and also the Child and Adolescent Rights Councils at the national, state and municipal levels, through the FIA (Childhood and Adolescence Fund). With this work, we and Oi Futuro contribute for strengthening of human and child and adolescent rights public policies nationwide. In 2019, ten initiatives were supported, particularly the project “Promotion of Education and Citizenship Through Surfing” conducted by CADES, the Center for Surfing Learning and Development in Rio de Janeiro.

Please visit Oi Futuro’s website (http://www.oifuturo.org.br) for more information on its projects and programs.

As signatories of the Global Compact, since 2009 its principles and the Sustainable Development Goals (SDS) guide our commitment to permanently adopt business practices that value and respect human rights, labor relations, environment and anticorruption criteria.

We voluntarily provide information on our carbon management to the CDP and publish our greenhouse gas (GHG) emissions inventory annually in the Brazilian GHG Protocol Public Emissions Register. In addition, we have implemented actions under the Mutual Cooperation Agreement against Pedophilia, which brings together telecommunications companies, the Federal Public Prosecution Office, the Brazilian Federal Police, and the organization SaferNet Brazil to prevent and fight Internet crimes against children and adolescents.

We annually disclose our social and environmental responsibility performance and practices in our Annual Sustainability Report, prepared in accordance with the Global Reporting Initiative (GRI) international standards. 2018 was eighth year we issued the GRI-based Sustainability Report, available in our Investor Relations website (http://ri.oi.com.br).

13 – Employees

We have 15,173 employees, including own stores’ workers, in our telecom operations, including 237 interns and 170 technical apprentices. Of our total employees, 63% are men and 37% are women. Men hold 71% of our executive positions while women hold 29%.

The average age of our employees is 40 years old, with an average length of service at Oi of seven (8) years. We operate is 26 Brazilian states and the Federal District, with personnel allocated to more than 150 locations.

Additionally, we have 14,364 outsourced workers allocated to call center activities, 30,272 allocated to sales, 53,111 allocated to network installation and maintenance activities, and 8,831 allocated to administrative activities, totaling 106,578 outsourced workers. Of this workers, 8,831 are Oi Group (includes the companies Serede, Conecta and BrT Call Center).

Additionally, we have 14,364 outsourced workers allocated to call center activities,

A world-class team is trained in specialized programs: 127 Management Facilitators, 5 Master Black Belts, 41 Black Belts, 192 Green Belts, 1,505 Yellow Belts, and 1,423 White Belts.

With the challenge of creating and strengthening a Single Culture, we have been promoting the alignment of the entire Company in pursuing our business goals. Based on this strategy, the Management Model grants clarity to goals and responsibilities, as well as performance discipline and pace, by encouraging teamwork and interdepartmental collaboration, reinforcing Oi's commitment.

Our People and Management function works continually to adjust its structure and processes to our business strategies, in order to promote higher operational efficiency.

To support the People Development Cycle, we work with tools such as meritocracy promotions, internal recruitment, where open positions are made available to our employees, performance follow-up cycles, reinforcing and promoting a self-development culture, where each employee is the protagonist of his or her career.

We keep in place programs structured at different job levels aimed at developing and improving the skills of our employees.

We have a Corporate Education Program aiming at leveraging learning, ensuring the mapping and dissemination of key knowledge through educational practices and actions that encourage the creation, acquisition, dissemination, use, and sharing the knowledge among our employees. The programs intended for all employees revolve around three key axles: the Technical Skills Development Trails, the Leadership Development Training, and the Business Knowledge Trails, which have different formats and make use of different methodologies, such as in-class and on-line courses. In 2019 training sessions totaled 362,304,000 hours.

The Generation Program promotes the development of young talent involved in their professional growth. In 2019, the 22 youngsters from the Trainee Program participated of a specific development acceleration program, where they attended more than 5,800 technical and behavioral training hours and worked by leading or participating of strategic company projects.

In 2019, we filled 2,192 positions at Oi, including 74% of the executive positions and 42% of the staff positions filled through internal recruiting and technical and sales force positions were filled mainly externally. We hired 35 interns as employees and made 1,807 promotions, representing 35% of in-house recruiting.

We have been showing a significant increase in our health and safety culture.

Our excellent performance has been enhanced by the numerous preventive practices implemented in recent years, and as a result, we drastically reduced the number of occupational accidents has been in this period.

In 2019, we posted a 37% decrease in the number of incidents involving own employees, or 24.3% taking into account the entire workforce. This shows that we have been aligning ourselves with the best market practices, in addition to an efficient HSE corporate area in defining and managing processes, with the focus on and determination of the operating team in always keeping a safe workplace.

Based on the risks identified by the Occupational Safety function, our occupational health division monitors the working condition of our employees through medical examinations (admission, periodic, change of function, return to work, and dismissal). The toxicology program is scheduled to begin in 2020. The owner of this initiative, which is a pioneering initiative in telecom industries, is the involved function, supported by the social front and will seek to promote awareness and prohibition of the use of psychoactive substances in the workplace.

Oi has invested significantly in readiness and response to emergencies resources. Based on ISO 22301, we are responsible, in the GCN committee, for promoting practices that ensure the preservation of Oi's assets, businesses, and our greatest asset: people. To this end, we maintain an online trail dedicated to the topic at Oi Educa, which is strengthened by high-level practical training and frequent crisis readiness and response simulations.

Oi’s operation is extremely complex, with over 1,400 outside providers in its network and a workforce of over 120,000 employees, and thus we need to seek agile, simple and efficient solutions for managing our suppliers.

Our business support front is responsible for ensuring the legal compliance of all our partners, ensuring compliance with federal, state and municipal requirements and considering health, safety, environmental and social responsibility aspects.

Complying with the process streamlining proposal, at the end of 2019, the SSMA launched a new platform for conducting remote due diligence of third parties.

In terms of training, we have the most current and modern methods. The training provided by the SSMA at Oi Educa is developed by professionals with recognized proficiency in the subjects. We seek to diversify the format in order to promote engagement and interaction with the content. From infographics to the talk show, our training sessions have been transforming our results and fostering our health and safety culture.

In 2019 we closed all the collective labor agreements approved and signed by the 28 trade unions representing our employees. We did not face any strike with a material impact on our operations.

We made browsing improvements on Oi Educa, as part of the continual development of our employees and to streamline their workday using this tool. We rolled out our Home Office project companywide to bring increased quality of life and productivity to our teams. Téo’s robot column continues to be shown to facilitate attendance handling and unburden service channels, the e-Social adjustments were explained; the team’s dedication to implementing e-Social was decisive so that the deadline set by the Federal Revenue Service was met.

In 2019, we continued to enhance our processes to improve our performance and cut costs. We are betting on solutions that use artificial intelligence to provide a unique digital experience in terms of service in the most varied channels. All these initiatives were widely disseminated in the internal channels: we reported the launching of our virtual assistant (chatbot) and its use expansion for Facebook and WhatsApp. We reported our effort to increasing the service speed and efficiency in our on-line channels, for example, as in the case of the adoption of biometrics to authenticate the Minha Oi bills and the automation of replies in social media. We also celebrated the success of our digital solutions by reporting on our record of 3 million downloads of the app Técnico Virtual (Virtual Repairman), the success of Minha Oi as the most searched service app on Google, and the record number of 600,000 interaction on our chatbot. All these deliveries translated into an increased quality of our services, which displayed increasing improvements throughout the year and were internally disseminated to show our employees the results of our work.

We reported on the launching of Oi Techtônica, a blog developed to cleverly attract potential customers using digital platforms. We replicated internally relevant contents of the blog on technology, cellphones, internet, series and games. In addition, our employees were invited to boost the Oito network, which in 2019 promoted, in association with major companies, a calendar of lectures and events on global innovation trends.

Based on transparency, our communication function proceeded with the strategy of keeping our internal communication channel up-to-date with the most relevant facts about the judicial reorganization, such as the approval of the New PGMU, the appointment of the new Board of Directors, and the agreement with Pharol to terminate existing litigation. Our employees were also informed about the care to be taken with disclosure about Oi during the capital increase so that no communication breached the imposed constraints.

The Oi Futuro institute also helps to promote the dissemination of our culture of innovation. In 2019, the Oi Futuro Lab provided executives and employees with training opportunities in new methodologies focused on entrepreneurship and innovation through tools that enhance creative capacity, applying the principles of cooperation and experimentation.

In 2019 we had 26 youngsters in the NAVE Generation Program who attended a development trail, with technical and behavioral training, and follow-up meetings with the People function. All these youngsters are part of multidisciplinary teams in the digital function and work with agile methodologies and design thinking techniques.

In 2019, we held another edition of the Internship Generation, Oi's Intern Program, and hired 193 new young people to work in all Oi departments. During the program, these youngsters attended a specific development trail that includes technical training such as Agile Methods, Design Thinking, Six Sigma, as well as behavioral training and knowledge of Oi's business.

The digital residents will be integrated into multidisciplinary teams within the digital department and work with streamlined and technical design thinking methodologies.

In 2019, we sponsored 56 events all over Brazil. In the sports area, the main one was the Oi Rio Pro, a world surfing championship stage held in Saquarema. We were responsible for the delivery of all data links necessary for the event's operation, which included the judges' both, broadcasting, and press room. We also offered Oi Wi-Fi, held autograph sessions with the sponsored athletes, and loaned tents to the attending audience. The projects in Culture in the Digital Era area included Game XP and the CCXP. The first was inside the Olympic village, as the world's largest GamePark. We signed Oi Game Arena, a space that hosted the video games' championships and demonstrations in the largest scree in the world. At the CCXP, held in São Paulo, in December 2019, we were present in the Omelete space and when the space was activated, the public could enter the Batman's batcave, which was used as Oi's monitoring center in the event, besides including interactions with Oi Play.

In 2019, we held two Oi Day gatherings to share the challenges faced, disclose projects, follow up with the results, and acknowledge the efforts of the employees involved in major deliveries, such as the Wholesale Project, the PGMU delivery, and the operating support in Brumadinho, Minas Gerais. We launched the Pura Fibra (Pure Fiber) movement to highlight the differential of our product, present the Oi's progress, and recognize the acknowledged each employee's role in this progress.

All stages of Oi's JRP, approved at the end of 2017, are being successfully completed within the established deadlines. At the beginning of the year, we announced the capital increase provided for in the JRP, the winning of the Restructuring of the Year award granted by LatinFinance, and the choice of the Board of Directors by the new COO, Rodrigo Abreu. The employees were aware of the entire progress of the process in a disclosure made in an internal communication, in addition to reinforcing the dissemination of the goals and management indicators, which ensure the direction of our operating performance.

We stimulated voluntary events during holidays to make our environment more human and strengthen relationships. We held 116 actions at the receptions of Oi buildings all over Brazil, as well as 21 digital actions at Interativa, such as: Carnival, Cultural Competition, Mother's Day, June Festival, Pink October, Blue November, Solidarity Christmas, Results Celebrations, and Highlights, involving thousands of employee companywide.

In October, we once again opened the doors of our offices to receive more than 2,900 children of our employees to know their parents' workplace and participate in special activities in celebration of Children's Day action, bringing a lot of joy and fun.

In December, many of our employees from different states get together and organized a better Christmas for children and senior citizens living in welfare institutions around Brazil. We also adopted more than 238 letters with gift requests and collected donations of non-perishable foods, school supplies, personal care products, cleaning supplies, adult diapers, and toys. This collection was made at our buildings all over Brazil.

14 – External Audit

In compliance with CVM Instruction 381/2003, we hereby inform that Oi S.A. and its subsidiaries engaged BDO RCS Auditores Independentes to audit their financial statements prepared in accordance with accounting practices adopted in Brazil and IFRSs.

Our policy on the engagement of non-audit services is based on the external audit's independence and transparency principles. These principles are as follows: (a) an auditor should not audit his or her own work, (b) an auditor should not perform management functions, and (c) an auditor should not act as an advocate for the audit client.

In 2019, we did not engaged BDO RCS Auditores Independentes to provide non-audit services.

In compliance with CVM Instruction 381, we hereby inform that in 2019 BDO RCS Auditores Independentes did not provide any services that could affect their independence, ratified under an Independence Letter periodically submitted to us.

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INDEPENDENT AUDITOR'S REPORT ON THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS

To the
Shareholders and Management of
OI S.A. - Under Court-Ordered Reorganization
Rio de Janeiro - RJ

Opinion on the financial statements

We have audited the individual and consolidated financial statements of Oi S.A. – Under Court-Ordered Reorganization (the Company), identified as parent company and consolidated, respectively, which comprise the statement of financial position as at December 31, 2019 and the respective statements of operations, comprehensive income (loss), changes in equity and cash flows for the year then ended, as well as the corresponding notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of Oi S.A. – Under Court-Ordered Reorganization as at December 31, 2019, its individual and consolidated financial performance and its individual and consolidated cash flows for the year then ended in accordance with Brazilian accounting practices and International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

Basis for opinion on the financial statements

We conducted our audit in accordance with Brazilian and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Individual and Consolidated Financial Statements" section of our report. We are independent of the Company and its controlled companies in accordance with the relevant ethical principles established in the Code of Ethics for Professional Accountants and in the professional standards issued by the Brazilian Federal Association of Accountants (CFC), and we have fulfilled our other ethical responsibilities in accordance with these standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty as to going concern

We draw attention to Note 1 to the individual and consolidated financial statements, in the section on going concern, which informs that the individual and consolidated financial statements have been prepared assuming the continuity of the Company as a going concern, considering among others the following aspects: (i) compliance with the requirements set forth in the Court-ordered Reorganization Plan ("PRJ") and in Law No. 11.101/2005; (ii) success in the implementation of the new strategic plan presented to the market in July 2019; (iii) reversal of consolidated accumulated losses that, as at December 31, 2019, totaled R$ 17,727,954 thousand; and (iv) compliance with covenants of loans and financing. On March 06, 2020, the Judge of the Court-Ordered Reorganization approved the request of the Company for the realization of a new General Creditors' Meeting to decide on the amendment of the PRJ concerning the flexibility of certain financial and operating conditions and extension of the period of the Court-Ordered Reorganization, to be concluded on February 04, 2020. These events or conditions indicate that there are significant uncertainties that may cast doubt on the Company's going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the section “Material uncertainty as to going concern”, we determined that the matters described below are the key audit matters to be communicated in our report.

Recoverability of long-term assets	Audit response
As described in Note 17, the Company and its controlled companies have recorded in the consolidated financial statements, under intangible assets, the amounts of R$ 3,997,865 thousand, mainly referring to business combinations made in previous years. The Company tests these assets for impairment annually or whenever there is indication that their book value cannot be recovered. The mentioned test was prepared based on the new strategic plan disclosed in June 2019 and on future cash flows projections. The assumptions used are presented in Note 2(b). They involve significant judgment for certain business conditions basing the future results of the Company’s operations, and consider the success of the new strategic plan as a whole. As a result of the impairment testing of intangible assets, the Company recognized an impairment loss for intangible assets amounting to R$ 2,111,022 thousand, as described in Note 17. Considering that any change in the assumptions used and in the conditions of the market where the Company operates may generate significant effects in the evaluation and impacts on the consolidated financial statements, we considered this a key audit matter.	Our audit procedures included: ▪ Carrying out relevant internal control tests referring to the cycle of evaluation of recoverability of assets; ▪ Reviewing the assumptions used in the measurement of the value in use found based on the strategic plan approved by the Board of Directors and disclosed in June 2019, with the involvement of our experts, regarding the long-term growth rates applied for future projections, by means of comparison with economic and sectorial projections, and the discount rate, evaluating the capital cost to the Company and comparison with the cash flows projections of the strategic plan; ▪ Reviewing the arithmetic calculations on the recognition of impairment loss on the balance of intangible assets, in noncurrent assets; ▪ Reviewing the disclosures made by the Company. Based on the result of the audit procedures described above, we considered reasonable the balances and disclosures on this matter, considering the accounting practices and supporting documentation established and maintained by Management, to support their conclusion, presented in the financial statements.

Provision for contingencies	Audit response
As described in Note 24, the Company and its controlled companies are party to legal and administrative proceedings at civil, labor, and tax levels, which arise from the normal course of its business. As at December 31, 2019, the Company and its controlled companies have matters of tax and civil nature being discussed at several procedural levels, in the total amount of R$ 31,537,624 thousand and R$ 4,421,882 thousand, respectively, of which R$ 1,050,948 thousand and R$ 2,149,700 thousand, respectively, are provisioned, referring to proceedings with probable outflow of funds, according to the evaluation of Management based on the opinion of its legal counselors. Considering the relevance of the amounts involved, the legal and regulatory environment and the critical judgment related to the probability of loss identified in the discussions in progress, any change of prognosis, development of case law and/or judgment may have significant impacts on the consolidated financial statements of the Company. For these reasons, we considered the evaluation of recognition, measurement and disclosure of these contingencies a key audit matter.	Our audit procedures included: ▪ Revaluating the environment of internal controls, including the involvement of our Information Technology experts, related to the cycle of identification, recognition, measurement and disclosures of contingent liabilities; ▪ Evaluating the methodology, assumptions and criteria used by the Company, including adjustments, for the recognition, measurement and disclosure of contingencies in the financial statements; ▪ Obtaining external confirmation letters from the legal counselors in charge of the tax proceedings, aiming to confirm: (i) the existence of the proceedings and their current status; (ii) the respective assessment of loss involved and the applicable legal grounds; ▪ Involving our tax experts to evaluate the defense nature, grounds and/or thesis, and possible changes in the prognosis of loss for certain relevant tax proceedings, which involve complex judgment and subjectivity in evaluations, as well as obtaining legal opinion, through management, from tax experts for certain proceedings with relevant changes in loss estimates for the year ended December 31, 2019; ▪ Obtaining external confirmation letters, by sampling, from the legal counselors in charge of the civil and labor proceedings of large volume, to confirm the existence of the proceedings; ▪ Conducting tests, by means of sampling, to evaluate the basis of large volume proceedings, whose measurement is made by the Company's internal system; ▪ Evaluating the initial adoption of Interpretation ICPC 22/ IFRIC 23 regarding the tax aspects of income taxes, which included: (i) meetings with Management to evaluate their conclusions on the possible impacts of the adoption of the mentioned interpretation, including the evaluation of the Company's external legal counselor; (ii) understandings internal controls to identify and monitor uncertain tax treatments; (iii) criteria adopted for the recognition and measurement of tax liabilities, if applicable; ▪ Reviewing the disclosures made by the Company in Note 24. Based on the result of the audit procedures described above, we considered acceptable the criteria and assumptions adopted by Management for the recognition and measurement of the provisions for contingencies, as well as the mentioned disclosures in Note 24, for being consistent with the internal controls and supporting documentation kept by the Company, including the position of legal counselors.

Revenue recognition	Audit response
As described in Note 4 to the financial statements, revenues from sales and/or services recognized by the Company and its controlled companies totaled R$ 20,136,183 thousand as at December 31, 2019. The process of revenue recognition of the Company and its controlled companies is complex and highly dependent of its information technology structure which involves the use of multiple complex systems to process, recognize and measure a large volume of transactions arising from its operations of sales and/or rendering of telecommunication services, in the financial statements. In this context, the recognition of revenues from services is made in the accrual period, according to the monthly closing cycles of the Company, before the event of billing to the client and classified in the accounting group "unbilled services", in accounts receivable, as described in Note 9, and whose amount is determined based on an estimate of the value to be billed in the next monthly closing cycle. Due to the complexity of the process of revenue recognition, including the significant dependence on the information technology structure and the existence of risk of material misstatement of the estimates of unbilled revenue, we considered this a key audit matter.	Our audit procedures included: ▪ Evaluating and testing relevant internal controls related to the cycle of recognition of revenue, including: (i) evaluating the IT environment, including the systems relevant for generating the information necessary for the billing process; (ii) carrying out tests of relevant internal controls related to information security, management of accesses, routines, privileges, segregation of profiles and management of software changes with impact on the financial statements; (iii) testing the integrity of accounting entries related to the revenue cycle; (iv) reperformance testing of fixed and mobile telephony calls ("running test"); ▪ Conducting tests of documents, by means of sampling, for revenues from sales and services billed, analyzing the mentioned supporting documentation evidencing the existence of the transaction; ▪ Reviewing the calculation of the estimated unbilled revenue recognized as at December 31, 2019, as well as evaluating the reasonableness of the mentioned estimate, including a comparison of such estimate with actual revenue billed in the following month, after 2019 closing; ▪ Reviewing the disclosures made by the Company in the Notes. Based on the result of the audit procedures described above, we considered reasonable the estimates adopted by Management in the cycle of recognition of revenue and the disclosures made on the Notes, considering the internal controls kept by Management and the consistence of the information presented in the financial statements.

Federal tax credits originated from legal proceedings with final and unappealable decisions	Audit response
As described in Note 11, the Company and its controlled companies recognized during 2019 federal tax credits totaling about R$ 3 billion in the consolidated statement of financial position, related to legal proceedings filed with the Federal Regional Courts of the 1st and 2nd Regions (Brasília and Rio de Janeiro), whose decisions were favorable and final regarding the deduction of ICMS (State VAT) from the calculation basis of PIS and COFINS (taxes on sales) for the periods included in the mentioned legal proceedings. The mentioned tax credits were allowed for offsetting by the Federal Revenue Service, granting the Company and its controlled companies the right to use them since 2019 for the settlement of current federal tax debts. Considering the complexity of the matter, the significant judgment related to the period of recognition, the criterion adopted by Management for the measurement of the amounts to be recognized in the financial statements and the estimated period for realization, we considered the evaluation of recognition, measurement, presentation and disclosure of these federal tax credits a key audit matter.	Our audit procedures included: ▪ Analyzing the legal documentation, with the involvement of our experts, related to the legal proceedings with final and unappealable decisions; ▪ Discussions with the Company's Management to evaluate their conclusions on the adequate moment of recognition of the tax credits after the favorable and final court decisions, as well as the amounts involved; ▪ Understanding and evaluating the relevant assumptions adopted by the Company for the measurement of the tax credits recognized in the financial statements; ▪ Evaluating the calculations made by the Company, with the involvement of our experts, to measure the amounts of these tax credits and the applicable monetary adjustments, considering the period of origin of the legal proceedings; ▪ Evaluating the projections made by the Company's Management for the segregation of the tax credits between short and long term for the purpose of presentation of the financial statements; ▪ Reviewing the disclosures made by the Company in Note 11. Based on the result of the audit procedures described above, we considered acceptable the criteria and assumptions adopted by Management for the recognition and measurement of the federal tax credits, as well as the mentioned disclosures of Note 11, for offering a basis reasonable and consistent with its conclusions, reflected on the financial statements.

Initial adoption of CPC 06 (R2) – Leases (IFRS 16 – Leases)

As described in Note 2(d.1), the Company and its controlled companies adopted CPC 06 (R2) – Leases, corresponding to international standard IFRS 16 – Leases (CPC 06(R2)/IFRS 16), applying the modified retrospective approach, with the cumulative effect of the early implementation recognized on the date of adoption. As at January 1, 2019, the initial adoption of the standard resulted in the recognition, in the consolidated statement of financial position, of right-of-use assets, under noncurrent assets, and lease liabilities, under current and noncurrent liabilities, totaling R$ 8,167,932 thousand.

The Company's Management concluded the evaluation of the impacts of this new standard on its financial statements, which involved:
(i) detailed analysis of the significant volume of lease agreements, focusing on the nature of the transactions inherent to the telecommunications sector; (ii) adaptations of information systems and internal controls; (iii) estimate of the lease term, establishing a non-cancelable period and periods covered by options of extension of the lease term, when such period depends only of the Company; (iv) determining the components of lease and non-lease of the agreements; (v) use of significant judgment in the definition of the key assumptions for the calculation of the discount rate, which was based on the incremental interest rate of the period of the agreement.

Due to the complexity of the issue, significant volume of contracts, and high level of judgment inherent to the process of measurement, mainly regarding the discount rate, we considered the initial adoption of CPC 06(R2)/ IFRS 16 on the financial statements a key audit matter.

Audit response

Our audit procedures included:

- Understanding the internal controls relevant for: (i) identification and monitoring of the lease agreements; (ii) collection of key information from the mentioned agreements;
- Evaluating the relevant assumptions and significant judgments from the Company's Management, with the involvement of our experts, for determining the discount rates, in addition to ensuring compliance with the standard;
- Conducting tests of documents, by means of sampling, on the contracts defined as leases, to evaluate the integrity of the data used by the Company for the measurement of these contracts, in comparison with the original contracts, as well as the evaluation and recalculation of the selected contracts;
- Conducting tests of documents, by means of sampling, on the rent expenses recognized on the financial statements, to evaluate the existence of contracts not being considered leases;
- Reviewing the disclosures made by the Company in the Notes.

Based on the result of the audit procedures described above, we considered reasonable the main assumptions, estimates and judgments adopted by Management for the recognition and measurement of the lease agreements, as well as the mentioned disclosures in the Notes, for offering a basis reasonable and consistent with its conclusions, reflected on the financial statements. Additionally, as a result of the evaluation of relevant internal controls, until the conclusion of our audit, the Company has not provided the management tests on the mentioned internal controls designed and implemented up to December 31, 2019. This aspect changed our evaluation of the nature, timing and extension of our substantive audit procedures planned to obtain sufficient and appropriate audit evidence referring to the lease agreements, given that we were unable to conclude on the operational effectiveness of the mentioned internal controls.

Legal investigations in the context of "Operação Mapa da Mina"

As described in Note 32(c), on December 10, 2019, the Federal Policy ("PF") conducted search and seizure raids on the headquarters of the Company and its controlled companies, with warrant filed resulting from evidences obtained during the 24th phase of operation "Lava Jato". In this context, an investigation conducted by the Federal Police ("PF") and by the Public Prosecutor's Office ("MPF") was initiated related to the 69th phase of Lava Jato denominated "Operação Mapa da Mina", whose objective is to identify, among others, alleged financial transfers made by the Company and its controlled companies to companies of the Group Gol Mobile and to GameCorp, both related, according to the MPF and PF, to public agents.

In response to the allegations of the mentioned investigation involving the Company and its controlled companies, the Company's management determined the realization of certain evaluation procedures, conducted by a Multidisciplinary Committee formed by members from management, directly reporting to the Audit, Risks and Controls Committee ("CARC").

Among the evaluations made, a renowned law firm was hired, specialized and independent in relation to the Company and its controlled companies, to conduct an internal investigation on the allegations included in the MPF and PF investigations. The firm concluded, in February 2020, that no indication of illegalities practiced by the Company and its controlled companies were identified, in the context of the allegations included in the Investigation from MPF and PF.

In view of the supposed illegal acts (fraud) committed by the Company, the uncertainties inherent to the investigations still in progress by the MPF and PF and of the possible effects of the recognition, measurement and disclosure on the financial statements of the facts related to the Company and its controlled companies, we considered this a key audit matter.

Audit response

Our audit procedures included:

- Reviewing (shadowing), with the involvement of our experts, the internal independent investigation conducted by the independent and specialized law firm, considering the methodology applied and the scope of the evaluations;
- Evaluating, with the involvement of our experts, the reports prepared by the external legal advisors of the Company, on the possible legal and regulatory impacts in Brazilian and American contexts, related to all claims included in the investigations in progress from the MPF and PF, in addition to the conclusions of the internal independent investigation from the specialized law firm;
- Having meetings with the Multidisciplinary Committee, specialized law firm and external legal counselors to discuss the result of the internal independent investigation and to evaluate the possible impacts of recognition, measurement and disclosure in the financial statements, if applicable, in the context of the "Operação Mapa da Mina" investigation;
- Carrying out tests of relevant internal controls related to the cycle of hire of suppliers of goods and services;
- Conducting tests of documents, by means of sampling, on certain transactions relevant to the context of the investigation, verifying the corresponding supporting documentation;
- Reviewing the disclosures made by the Company in the Notes.

Based on the results of the audit procedures described above, we considered acceptable the methodology of the internal independent investigation conducted by the specialized law firm hired by the Company, which did not identify any indication of illegalities conducted by the Company, in the context of the investigation conducted by the MPF and PF, as reflected in the disclosure of the financial statements.

Other matters

Statements of value added

The individual and consolidated statements of value added, prepared under the responsibility of the Company's Management for the year ended December 31, 2019, and presented as supplemental information for IFRS purposes, were submitted to the same audit procedures followed for the audit of the Company's financial statements. In order to form an opinion, we have checked whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether its form and contents meet the criteria established in Accounting Pronouncement CPC 09 - Statement of Value Added. In our opinion, the statements of value added were properly prepared, in all material respects, in accordance with the criteria established in that Technical Pronouncement and are consistent with the individual and consolidated financial statements taken as a whole.

Other information accompanying the individual and consolidated financial statements and auditor's report

The Company's Management is responsible for this other information that comprises the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of audit conclusion thereon.

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Management Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and those charged with governance for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with Brazilian accounting practices and with the IFRS, issued by IASB, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual and consolidated financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company and its controlled companies or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and its controlled companies' financial reporting process.

Auditor's responsibilities for the audit of the individual and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing (ISAs) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian standards and ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls;
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its controlled companies' internal controls;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and disclosures made by Management;
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and its controlled companies' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its controlled companies to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Rio de Janeiro, March 25, 2020.

BDO RCS Auditores Independentes SS
CRC 2 SP 013846/F

Esmir de Oliveira
Accountant CRC 1 SP 109628/O-0 - S - RJ

OI S.A. – under Judicial Reorganization and Subsidiaries

Balance Sheets as at December 31, 2019 and 2018
(In thousands of Brazilian reais - R$, unless otherwise stated)

		Company		Consolidated	
Assets	**Notes**	**2019**	**2018**	**2019**	**2018**
Current assets					
Cash and cash equivalents	8	949,967	1,669,059	2,081,945	4,385,329
Cash investments	8	177,869	190,779	183,850	201,975
Due from related parties	29	380,963	7,565,968		
Accounts receivable	9	1,383,264	1,193,687	6,334,526	6,516,555
Inventories		45,305	57,599	326,934	317,503
Current recoverable taxes	10	74,724	146,426	542,726	621,246
Other taxes	11	485,428	232,961	1,089,391	803,252
Judicial deposits	12	1,198,219	1,348,700	1,514,464	1,715,934
Dividends and interest on capital	29	3,499		426	
Pension plan assets	27	5,174	4,366	5,430	4,880
Prepaid expenses	13	155,513	191,087	670,344	743,953
Held-for-sale assets	31	3,464,478	3,721,549	4,391,090	4,923,187
Other assets	14	303,509	787,119	852,155	1,079,670
		8,627,912	17,109,300	17,993,281	21,313,484
Non-current assets					
Due from related parties	29	5,202,853	4,394,712		
Cash investments	8	4,827	4,860	33,942	36,987
Deferred recoverable taxes	10			99,175	23,050
Other taxes	11	1,232,879	147,409	2,995,559	715,976
Judicial deposits	12	3,092,011	3,337,981	6,651,383	7,018,786
Pension plan assets	27	50,680	64,253	54,615	64,253
Prepaid expenses	13	105,813	113,507	583,736	522,550
Other assets	14	32,665	19,937	437,667	250,862
Investments	15	14,497,222	16,931,222	133,765	117,840
Property, plant and equipment	16	7,120,511	6,322,834	38,910,834	28,425,563
Intangible assets	17	2,304,371	5,070,040	3,997,865	6,948,446
		33,643,832	36,406,755	53,898,541	44,124,313
Total assets		42,271,744	53,516,055	71,891,822	65,437,797

		Company		Consolidated	
Liabilities and shareholders' equity	**Notes**	**2019**	**2018**	**2019**	**2018**
Current liabilities					
Trade payables	18	788,447	1,231,040	4,794,309	5,024,260
Trade payables – Subject to the JRP	18	236,605	70,497	799,631	201,602
Payroll, related taxes and benefits		159,382	157,451	852,585	906,655
Derivative financial instruments	19	1,152		1,152	
Borrowings and financing	20	319,569	660,172	326,388	672,894
Current taxes payable	10		963	66,654	27,026
Other taxes	11	172,674	233,714	886,763	1,033,868
Dividends and interest on capital		4,761	5,075	5,731	6,168
Licenses and concessions payable	21		22,925	58,582	85,619
Leases payable	22	114,652		1,510,097	
Tax refinancing program	23	54,894	86,154	86,721	142,036
Provisions	24	286,604	429,075	547,996	680,542
Liabilities associated to held-for-sale assets	31			494,295	526,870
Other payables	25	438,613	505,784	1,405,013	1,381,919
		2,577,353	3,402,850	11,835,917	10,689,459
Non-current liabilities					
Trade payables – Subject to the JRP	18	935,401	942,845	3,293,427	3,593,008
Borrowings and financing	20	10,305,594	9,297,642	17,900,361	15,777,012
Due to related parties	20 and 29	783,404	377,184		
Deferred taxes payable	10	12,085			
Other taxes	11	538,308	222,995	1,224,038	628,716
Leases payable	22	541,707		6,639,929	
Tax refinancing program	23	208,790	267,342	330,782	411,170
Provisions	24	1,405,423	2,102,392	4,703,684	4,358,178
Provisions for pension funds	27	633,012	579,122	633,012	579,122
Provision for negative shareholders' equity	15	4,469,749	11,434,504		
Other payables	25	2,210,592	2,236,859	7,534,166	6,505,321
		22,044,065	27,460,885	42,259,399	31,852,527
Equity	26				
Capital		32,538,937	32,038,471	32,538,937	32,038,471
Share issue costs		(801,073)	(377,429)	(801,073)	(377,429)
Capital reserves		3,906,771	11,532,995	3,906,771	11,532,995
Treasury shares		(33,315)	(2,803,250)	(33,315)	(2,803,250)
Other comprehensive income		(233,040)	(208,359)	(233,040)	(208,359)
Accumulated losses		(17,727,954)	(17,530,108)	(17,727,954)	(17,530,108)
		17,650,326	22,652,320	17,650,326	22,652,320
Non-controlling interests	31			146,180	243,491
Total shareholders' equity		17,650,326	22,652,320	17,796,506	22,895,811
Total liabilities and shareholders' equity		42,271,744	53,516,055	71,891,822	65,437,797

OI S.A. – under Judicial Reorganization and Subsidiaries

Statements of Profit or Loss
For the Years Ended December 31, 2019 and 2018
(In thousands of Brazilian reais - R$, unless otherwise stated)

		Company		Consolidated	
	Notes	**2019**	**2018**	**2019**	**2018**
Net operating revenue	4 and 5	3,726,700	4,530,751	20,136,183	22,060,014
Cost of sales and/or services	5	(3,063,156)	(3,279,569)	(15,314,814)	(16,179,100)
Gross profit		663,544	1,251,182	4,821,369	5,880,914
Operating income (expenses)					
Share of results of investees	5 and 15	(6,169,801)	(3,034,064)	(5,174)	(13,492)
Selling expenses	5	(826,647)	(834,002)	(3,547,684)	(3,853,002)
General and administrative expenses	5	(860,290)	(889,557)	(2,782,300)	(2,738,718)
Other operating income	5	1,747,031	705,998	4,527,710	2,204,134
Other operating expenses	5	(2,168,841)	(1,813,616)	(5,991,291)	(6,748,094)
		(8,278,548)	(5,865,241)	(7,798,739)	(11,149,172)
Loss before financial income (expenses) and taxes		(7,615,004)	(4,614,059)	(2,977,370)	(5,268,258)
Financial income	5 and 6	2,653,026	30,118,209	2,662,463	30,950,461
Financial expenses	5 and 6	(4,027,168)	(3,498,805)	(8,772,181)	(4,341,595)
Financial income (expenses)	5 and 6	(1,374,142)	26,619,404	(6,109,718)	26,608,866
Profit (loss) before taxes		(8,989,146)	22,005,345	(9,087,088)	21,340,608
Income tax and social contribution					
Current	7	797	(24,557)	(77,060)	115,706
Deferred	7	(12,085)	2,610,352	69,041	3,159,241
Profit (loss) for the year		(9,000,434)	24,591,140	(9,095,107)	24,615,555
Profit (loss) attributable to the owners of the Company		(9,000,434)	24,591,140	(9,000,434)	24,591,140
Profit (loss) attributable to non-controlling interests				(94,673)	24,415
Profit (loss) allocated to common shares - basic and diluted		(8,764,803)	22,036,074	(8,764,803)	22,036,074
Profit (loss) allocated to preferred shares – basic and diluted		(235,631)	2,555,066	(235,631)	2,555,066
Weighted average number of outstanding shares (In thousands of shares)					
Common shares - basic and diluted		5,788,447	1,344,686	5,788,447	1,344,686
Preferred shares - basic and diluted		155,615	155,915	155,615	155,915
Basic and diluted earnings (losses) per share:	26(f)				
Common shares – basic and diluted (R$)		(1.51)	16.39	(1.51)	16.39
Preferred shares – basic and diluted (R$)		(1.51)	16.39	(1.51)	16.39

OI S.A. – under Judicial Reorganization and Subsidiaries

Statements of Comprehensive Income
For the Years Ended December 31, 2019 and 2018
(In thousands of Brazilian reais - R$, unless otherwise stated)

	Company		Consolidated	
	2019	**2018**	**2019**	**2018**
Profit (loss) for the year	**(9,000,434)**	**24,591,140**	**(9,095,107)**	**24,615,555**
Hedge accounting loss	(1,152)		(1,152)	
Actuarial gains (losses)	(9,795)	105,515	(9,795)	105,515
Exchange losses on investment abroad	(13,734)	(35,717)	(16,372)	(110,098)
Pre-tax comprehensive income	**(9,025,115)**	**24,660,938**	**(9,122,426)**	**24,610,972**
Effect of taxes on other comprehensive income:				
Actuarial loss		(35,875)		(35,875)
Total comprehensive income for the year	**(9,025,115)**	**24,625,063**	**(9,122,426)**	**24,575,097**
Comprehensive income attributable to owners of the Company	(9,025,115)	24,625,063	(9,025,115)	24,625,063
Comprehensive income attributable to no-owners of the Company			(97,311)	(49,966)

Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2019 and 2018

(In thousands of Brazilian reais - R$, unless otherwise stated)

	Attributable to owners of the Company						Total controlling interests	Non-controlling interests	Total shareholders' equity
	Issued capital	Share issue costs	Capital reserves	Treasury shares	Accumulated losses	Other comprehensive income			
Balance at January 1, 2018	**21,438,374**	**(377,429)**	**13,242,374**	**(5,531,092)**	**(42,335,925)**	**(242,282)**	**(13,805,980)**	**293,457**	**(13,512,523)**
Capital increase	10,600,097		(10,600,097)						
Effects of the Senior Notes' restructuring under the JRP			11,624,028				11,624,028		11,624,028
Reduction of the restructured senior notes reserve			(10,048)				(10,048)		(10,048)
Delivery of treasury shares as per the JRP			(2,727,842)	2,727,842					
Difference in the fair value of the share price transferred to the capital reserve			(529,981)				(529,981)		(529,981)
Share subscription warrants			4,580				4,580		4,580
Profit for the year					24,591,140		24,591,140	24,415	24,615,555
Other comprehensive income					(68,670)	33,923	(34,747)	(74,381)	(109,128)
Effects of initial adoption of IFRSs 9 and 15					282,135		282,135		282,135
Merger of subsidiary					1,212		1,212		1,212
Balance at December 31, 2018	**32,038,471**	**(377,429)**	**11,532,995**	**(2,803,250)**	**(17,530,108)**	**(208,359)**	**22,652,320**	**243,491**	**22,895,811**
Capital increase	500,466		3,837,009				4,337,475		4,337,475
Share issue costs		(423,644)					(423,644)		(423,644)
Share buyback				(2,572)			(2,572)		(2,572)
Pharol Agreement (Note 1)			(2,462,799)	2,772,507	(197,846)		111,862		111,862
Loss for the year					(9,000,434)		(9,000,434)	(94,673)	(9,095,107)
Absorption of capital reserves			(9,000,434)		9,000,434				
Other comprehensive income						(24,681)	(24,681)	(2,638)	(27,319)
Balance at December 31, 2019	**32,538,937**	**(801,073)**	**3,906,771**	**(33,315)**	**(17,727,954)**	**(233,040)**	**17,650,326**	**146,180**	**17,796,506**

OI S.A. – under Judicial Reorganization and Subsidiaries

Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018
(In thousands of Brazilian reais - R$, unless otherwise stated)

	Company		Consolidated	
	2019	**2018**	**2019**	**2018**
Cash flows from operating activities				
Profit (loss) before taxes	(8,989,146)	22,005,345	(9,087,088)	21,340,608
Non-cash items				
Charges, interest income, inflation adjustment, and exchange differences	1,497,512	(1,285,286)	3,606,618	(2,043,357)
Fair value adjustment to borrowings and financing	138,502	(22,874,912)	527,465	(13,928,659)
Fair value adjustment to other liabilities	14,686	(382,373)	59,214	(1,167,043)
Gain on the restructuring of third-party borrowings (Note 6)		(3,269,609)		(11,054,800)
Transaction with derivative financial instruments (Note 6)	(55,025)		(55,025)	
Depreciation and amortization (Note 5)	1,736,318	1,707,298	6,873,945	5,811,123
Onerous obligation (Note 5)		1,333,228	1,230,820	4,883,620
Expected credit losses on trade receivables (Nota 5)	116,676	99,629	489,396	851,271
Impairment losses (Note 5)	2,111,022	291,758	2,111,022	291,758
Provisions/(Reversals) (Note 5)	(322,692)	(19,455)	216,438	93,026
Share of results of investees (Note 5)	6,169,801	3,034,064	5,174	13,492
Loss on disposal of non-current assets	44,464	68,532	235,535	215,398
Concession Agreement Extension Fee - ANATEL	76,715	22,925	359,465	68,333
Employee and management profit sharing	55,884	42,402	260,207	237,253
Tax recovery (Notes 5 and 6)	(1,491,170)		(3,617,919)	
Inflation adjustment to provisions/(reversals) (Note 6)	420,770	(52,901)	1,620,378	226,870
Inflation adjustment to tax refinancing program (Note 6)	9,331	20,667	16,159	28,079
Other	(729,384)	(262,649)	(538,974)	(637,251)
	804,264	478,663	4,312,830	5,229,721
Changes in assets and liabilities				
Accounts receivable	(306,254)	(299,535)	(306,240)	(365,771)
Inventories	11,835	(8,883)	(21,113)	(48,280)
Taxes	285,699	97,432	1,322,267	121,951
Held-for-trading cash investments	(293,869)	(536,754)	(428,432)	(1,191,664)
Redemption of held-for-trading cash investments	322,251	392,455	468,573	1,103,920
Trade payables	(752,451)	(151,096)	(678,046)	(860,900)
Payroll, related taxes and benefits	(53,953)	(63,410)	(313,169)	(253,902)
Licenses and concessions	(51,898)		(127,313)	
Provisions	(239,359)	(148,821)	(462,299)	(434,974)
Changes in assets and liabilities held for sale			(29,829)	(257,643)
Other assets and liabilities	73,158	387,195	(252,683)	525,660
	(1,004,841)	(331,417)	(828,284)	(1,661,603)
Financial charges paid - debt	(925,514)	(15,996)	(926,910)	(19,215)
Financial charges paid - other			(352)	(2,884)
Income tax and social contribution paid - Company	(2,766)	(4,155)	(85,680)	(495,038)
Income tax and social contribution paid - third parties	(57,447)		(159,966)	(188,445)
Dividends received		60,238		
	(985,727)	40,087	(1,172,908)	(705,582)
Net cash generated by operating activities	(1,186,304)	187,333	2,311,638	2,862,536

Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018
(In thousands of Brazilian reais - R$, unless otherwise stated)

(continued)

	Company		Consolidated	
	2019	**2018**	**2019**	**2018**
Cash flows from investing activities				
Purchases of tangibles and intangibles	(879,777)	(754,680)	(7,425,513)	(5,246,241)
Due from related parties and debentures - disbursements		(21,835)		
Due from related parties and debentures - receipts	162	125,638		
(Increase) decrease in investments	(2,710,765)	(1,949,024)	106,097	22,276
Dividends received from investments abroad (Note 33)			226,525	
Judicial deposits	(252,519)	(376,948)	(477,010)	(775,953)
Redemption of judicial deposits	516,100	744,138	719,223	
Net cash used in investing activities	(3,326,799)	(2,232,711)	(6,850,678)	(4,916,875)
Cash flows from financing activities				
Repayment of principal of borrowings, financing, and derivatives	(84)		(11,824)	(161,884)
Proceeds from derivative financial instrument transactions	72,113		72,113	
Due to related parties and debentures - Repayments		(110)		
Capital increase	4,000,000		4,000,000	
Commitment to investors premium	(58,489)		(58,489)	
Licenses and concessions				(1,491)
Tax refinancing program	(99,143)	(157,090)	(151,862)	(265,495)
Payment of dividends and interest on capital	(314)	(52)	(437)	(54)
Leases	(117,500)		(1,611,273)	
Share subscription warrants		4,580		4,580
Share buyback	(2,572)		(2,572)	
Net cash used in financing activities	3,794,011	(152,672)	2,235,656	(424,344)
Foreign exchange differences on cash equivalents		(8,032)		1,328
Cash flows for the year	(719,092)	(2,206,082)	(2,303,384)	(2,477,355)
Cash and cash equivalents				
Closing balance	949,967	1,669,059	2,081,945	4,385,329
Opening balance	1,669,059	3,875,141	4,385,329	6,862,684
Changes in the year	(719,092)	(2,206,082)	(2,303,384)	(2,477,355)

Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018
(In thousands of Brazilian reais - R$, unless otherwise stated)

Additional Disclosures Relating to the Statement Of Cash Flows

Non-cash transactions

	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Variance between economic and financial investment (acquisition of PP&E and intangible assets)	373,731	574,131	490,395	1,034,475
Offset of judicial deposits against provisions and other obligations	172,628	152,200	395,143	845,088
Shares issued to the backstop investors	337,475		337,475	
Capital increase in subsidiary	7,437,061	1,035,958		
Settlement of payables for own shares (Notes 1 and 26 (b))	46,680		46,680	
Conversion of debt into shares (Note 26)		11,624,028		11,624,028

Reconciliation of liabilities resulting from financing activities

The changes in financial charges and the settlement of the debt resulting from financing activities are presented in Note 20.

1. GENERAL INFORMATION

Oi S.A. – under Judicial Reorganization ("Company" or "Oi"), is a Switched Fixed-line Telephony Services ("STFC") concessionaire, operating since July 1998 in Region II of the General Concession Plan ("PGO"), which covers the Brazilian states of Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Goiás, Paraná, Santa Catarina and Rio Grande do Sul, and the Federal District, in the provision of STFC as a local and intraregional long-distance carrier. Since January 2004, the Company also provides domestic and international long-distance services in all Regions and local services outside Region II started to be provided in January 2005. These services are provided under concessions granted by Agência Nacional de Telecomunicações - ANATEL (National Telecommunications Agency), the regulator of the Brazilian telecommunications industry ("ANATEL" or "Agency").

The Company is headquartered in Brazil, in the city of Rio de Janeiro, at Rua do Lavradio, 71 – 2º andar.

The Company also holds: (i) through its wholly-owned subsidiary Telemar Norte Leste S.A. – in Judicial Reorganization ("Telemar") a concession to provide fixed telephone services in Region I and nationwide International Long-distance services; and (ii) through its indirect subsidiary Oi Móvel S.A. – in Judicial Reorganization ("Oi Móvel") a license to provide mobile telephony services in Region I, II and III.

In Africa, the Company provides fixed and mobile telecommunications services through own subsidiaries and the subsidiaries of Africatel Holdings B.V. ("Africatel"), and in Asia the Company provides fixed, mobile, and other telecommunications services basically related through its subsidiary Timor Telecom (Note 31).

The Company is registered with the Brazilian Securities and Exchange Commission ("CVM") and the U.S. Securities and Exchange Commission ("SEC"). Its shares are traded on B3 S.A. – Brasil, Stock Exchange, OTC ("B3") and its American Depositary Receipts ("ADRs") representing Oi common shares and preferred shares are traded on the New York Stock Exchange ("NYSE").

Concession agreements

The local and nationwide STFC long-distance concession agreements entered into by the Company and its subsidiary Telemar with ANATEL are effective until December 31, 2025. These concession agreements provide for reviews on a five-year basis and in general have a higher degree of intervention in the management of the business than the licenses to provide private services. At the end of 2018, ANATEL published Public Hearing No. 51/2018 to address the revision of the Concession Agreements for the concession's last five-year period (2021-2025). The contribution period to the Public Hearing ended on March 26, 2019, and the draft in being analyzed by ANATEL. It is worth noting that the recently enacted Law 13879/2019 creates the legal possibility to migrate from the public utility regime to the STFC provision under private law (still subject to regulation by ANATEL), as well as the possibility of successive renewals of the Concession over a 20-year period.

On December 21, 2018, the Government enacted Decree 9619/2018, which repeals Decree 7512/2011 and approves a New PGMU ("PGMU IV"). The highlight of the New PGMU is the fact that the New PGMU introduces a significant reduction in the plant of payphones ("TUP") currently in use. As a replacement for the payphones no longer required, the concessionaires are required to implement wireless fixed access systems supporting broadband connections in certain locations, the deadline of which is December 2023.

With the approval of the Judicial Reorganization Plan ("PRJ" or "Plan"), ANATEL initiated some procedures aiming at monitoring the Company's financial situation, as well as to assess its Company's ability to discharge its obligations arising from the terms of the concession agreements. In March 2019, ANATEL decided, among other issues, to maintain the special monitoring of the provision of telecommunications services of the Oi Group companies in 2019 by imposing actions related to transparency, corporate governance, and corporate control, financial and operating performance, and asset and credit management, as informed in the Notice to the Market disclosed by the Company on May 8, 2019.

On February 10, 2020, as reported in the Notice to the Market released by the Company, ANATEL's Board of Directors concluded there was no longer the need for special monitoring based on the decision issued in May 2019 as it considers that the Company's and its subsidiaries' short-term liquidity risk has been extinguished and revoked the obligations previously imposed on the Oi Group companies.

Corporate Authorization

The Company's financial statements were analyzed and approved by the Board of Directors, and authorized for issuance at the meeting held on March 25, 2020.

Judicial Reorganization

On June 20, 2016, the Company – under Judicial Reorganization and its direct and indirect wholly owned subsidiaries Oi Móvel, Telemar, Copart 4 Participações S.A. – under Judicial Reorganization ("Copart 4), Copart 5 Participações S.A. – under Judicial Reorganization ("Copart 5", merged, see Nota 32), Portugal Telecom International Finance B.V. - under Judicial Reorganization, and Oi Brasil Holdings Cooperatief U.A. - under Judicial Reorganization ("Oi Holanda") (collectively with the Company, the "Oi Companies") filed a petition for judicial reorganization with the Court of the State of Rio de Janeiro ("Judicial Reorganization Proceeding").

On December 19, 2017, after confirming that the required quorum of classes I, II, III, and IV creditors was in attendance, the General Creditors' Meeting was held and the Oi Companies' judicial reorganization plan ("Plan" or "PRJ") was approved by a vast majority of creditors on December 20, 2017.

On January 8, 2018, the judicial reorganization court ("Judicial Reorganization Court") issued a decision that ratified the JRP and granted the judicial reorganization to the Oi Companies, which was published on February 5, 2018.

On July 31, 2018, the restructuring of the Oi Companies' financial debt was completed with the implementation of the applicable terms and conditions provided for in the JRP, including the completion of the first capital increase provided for in the JRP, Capital Increase – Claim Capitalization.

On January 25, 2019 the Company completed the second capital increase provided for in the JRP ("Capital Increase - New Funds"), with the issue of 3,225,806,451 book-entry, registered common shares, without par value, including new common shares represented by ADSs, pursuant to the JRP and the subscription and commitment agreement entered into by the Company, its subsidiaries, and the Backstop Investors.

Capital Increase – New Funds

Exercise of Subscription Warrants and American Depositary Warrants ("ADWs")

On October 28, 2018, Oi commenced the issuance and delivery of all warrants and ADWs exercised by their holders. The process was completed on January 4, 2019. All warrants that were not exercised on or prior to January 2, 2019 have been cancelled.

Preferential offer and completion of the Capital Increase – New Funds, pursuant to the commitment agreement terms

As contemplated by Section 6 of the JRP, on November 13, 2018 the Company commenced a preemptive offering of common shares that was registered with the SEC under the Securities Act under which holders of common shares and preferred shares, including the ADS Depositary and The Bank of New York Mellon, as depositary of the Preferred ADS program, received transferable rights for each common share or preferred share held as of November 19, 2018, which refers to as subscription rights.

The subscription rights expired on January 4, 2019. On January 16, 2019, the Company issued 1,530,457,356 common shares to holders of subscription rights that had exercised those subscription rights with respect to the initial common shares. On January 21, 2019, the Company issued 91,080,933 common shares to holders of subscription rights that had requested subscriptions for excess common shares. The proceeds of these subscriptions totaled R$2,011 million.

On January 25, 2019, the Company issued 1,604,268,162 common shares, representing the total number of common shares that were offered in the preemptive offering less the total number of initial common shares and excess common shares, to the Backstop Investors in a private placement under the terms of the commitment agreement for the aggregate amount of R$1,989 million ("Share Balance"). Because of the subscription and payment of the Share Balance, the Company completed, on this date, the Capital Increase – New Funds, through the subscription and payment of all 3,225,806,451 New Common Shares issued as part of the Capital Increase – New Funds, representing a contribution of new funds for the Company totaling R$4.0 billion. In addition, under the terms of the commitment agreement, on that date the Company issued, as compensation for their commitments under the commitment agreement, 272,148,705 common shares in a private placement to the Backstop Investors and paid US$13 million to the Backstop Investors. As a result of the outcome of the subscription and payment of the Capital Increase – New Funds and the Commitment Shares, the Company's share capital increased to R$32,538,937,370.00, represented by 5,954,205,001 shares, divided into 5,796,477,760 registered common shares and 157,727,241 registered preferred shares, without par value.

Litigation discontinuation settlement between the Company and Pharol

On February 8, 2019, in order to discontinue any disputes that might harm the implementation of the JRP, the Company disclosed a Material Fact Notice informing that its Board of Directors approved, in accordance with CVM Instruction 567/2015, the acquisition of 1,800,000 preferred shares issued by the Company to ensure the compliance of the commitment assumed by the Company to transfer its treasury shares to Bratel, wholly-owned subsidiary of Pharol SGPS, S.A., in the context of the settlement entered into, subject matter of the Material Fact Notice of January 8, 2019 ("Settlement"), in transactions conducted in B3's OTC to deliver the treasury shares to Bratel, which would be made within four business days from the confirmation of the settlement by the Judicial Reorganization Court.

On February 18, 2019, the Court issued a decision suspending conflict of jurisdiction injunction No. 157.099 during the period requested by the parties.

On April 3, 2019, the Company disclosed a notice to the market to inform on the confirmation of the settlement, referred to above, because the fifteen-day term for the publication of the related court decision has run out. Accordingly, as determined in the Settlement, the term for the compliance with the second part of the obligations established by both parties to the Settlement started on this same date, including: (a) the request to discontinue all the litigation involving the parties named in the Agreement and (b) the delivery to Bratel of 33.8 million Oi shares there were held in treasury, including 32 million common shares and 1.8 million preferred shares.

In addition, several obligations and rights of the parties described in the Material Fact Notice released by Oi and the Communication released by Pharol, both on January 9, 2019, were fully clearly established.

Default Payment Method provided for by Clause 4.3.6 of the Plan - Bondholders

On May 20, 2019, in strict compliance with the decision issued under Chapter 15 that determined that the cancelation of the notes regulated by New York Law should take place on June 14, 2019, the Company announced that it started the procedure so that the holders of the notes (a) Portugal Telecom International Finance B.V.'s €500,000,000 in 4.375% notes maturing in 2017 (ISIN No.: XS0215828913); (b) Portugal Telecom International Finance B.V.'s €750,000,000 in 5.875% notes maturing in 2018 (ISIN No.: XS0843939918); (c) Portugal Telecom International Finance B.V.'s €750,000,000 in 5.00% notes maturing in 2019 (ISIN No.: XS0462994343); (d) Portugal Telecom International Finance B.V.'s €1,000,000,000 in 4.625% notes maturing in 2020 (ISIN No.: XS0927581842); (e) Portugal Telecom International Finance B.V.'s €500,000,000 in 4.5% notes maturing in 2025 (ISIN No.: XS0221854200); (f) Oi Brasil Holdings Coöperatief U.A.'s €600,000,000 in 5.625% notes maturing in 2021 (ISIN No.: XS1245245045); (g) Oi Brasil Holdings Coöperatief U.A.'s US$1,500,000,000 in 5.75% notes maturing in 2022 (ISIN No.: US10553MAD39); (h) Oi S.A.'s €750,000,000 in 5.125% notes maturing in 2017 (ISIN No.: XS0569301327); (i) Oi S.A.'s US$750,000,000 9.500% maturing in 2019 (ISIN No.: 87944LAD1); (j) Oi S.A.'s BRL1,100,000,000 in 9.75% maturing in 2016 (ISIN No. US10553MAC55); and (k) Oi S.A.'s US$1,000,000,000 in 5.500% maturing in 2020 (ISIN No. 144A: US87944LAE92) (the "Legacy Notes") are able to support their claims to receive on a future date or on the Company's payment dates pursuant to Clause 4.3.6 of the Plan.

The procedure detailed above is not applicable for the holders of the 6.25% Notes issued by Portugal Telecom International Finance B.V. – in Judicial Reorganization maturing in 2016 (ISIN No.: PTPTCYOM0008). The Company will provide at the appropriate time the information on the procedure to register the beneficiaries of the Default Payment Method provided for by Clause 4.3.6 of the Plan with regard to such series.

Prepetition Financing – Clause 5.3 of the Plan

On December 23, 2019, the Company disclosed a Material Fact Notice informing that its subsidiary Oi Móvel entered into a 1st issue indenture of collateralized, simple, nonconvertible debentures, with additional trust security, in a single series, for private placement, in the total amount of up to R$2,500,000,000.00 ("Debentures" and "Issue", respectively). The main features of the Issue and the Debentures are as follows: (i) Term and Maturity Date: twenty-four (24) months from the issue date, except in the case of early redemption and early maturity of the Debentures set forth in the Debenture Indenture; (ii) Payout: U.S. dollar foreign exchange fluctuation plus interest of (i) twelve point sixty-six percent (12.66%) per year (PIK) for the first twelve months after the first repayment is made; and (ii) thirteen point sixty-one percent (13.61%) per year thereafter; and (iii) Guarantees: the Debentures will be backed by collaterals and trust guarantees provided by Oi Móvel, the Company and its subsidiary Telemar.

The Issue was approved based on the provisions of Clause 5.3 of the Plan and is part of the context of prepetition financing, in the "Debtor in Possession Financing" ("DIP Financing") modality.

Subsequently to the Material Fact Notice disclosed on December 23, 2019, the Company disclosed a Notice to the Market on February 4, 2020 informing shareholders and the general market that the subscription and payment of the Oi Móvel Issue had been completed, described above, for private placement in the amount of R$2,500,000,000.00.

Extension of the Judicial Reorganization

On December 6, 2019, the Company released a Material Fact Notice informing that the Oi Companies filed a petition with the Judicial Reorganization Court requesting that the court oversight of the Oi Companies not to be terminated on February 4, 2020, the date when the Plan's homologation completes two years.

The non-termination of the judicial oversight does not introduce any changes to the current position of the Oi Companies and has no impact on the compliance with the Plan in force or on current receivables, or any other new funds that might be obtained by the Oi Companies. It is worth noting that the continuity of court oversight at the end of the two-year period is a natural measure that has been applied in most judicial reorganization proceedings.

Notwithstanding the good progress of the Plan implementation, which has already concluded most of the steps provided for the proceeding, which were important for the Company's recovery, said petition presents the Judicial Reorganization Court with circumstances related to the complexity inherent to the Judicial Reorganization Proceeding's magnitude and to the reforms underway in the legal and regulatory environment, and which require actions still to be implemented within the scope of the Judicial Reorganization Proceeding.

(In thousands of Brazilian reais - R$, unless otherwise stated)

On February 28, 2020, the Company released a Material Fact Notice informing its shareholders and the general market that on February 28, 2020 the Oi Companies filed with the Judicial Reorganization Court a petition exposing its interest in submitting for deliberation to a new general creditors' meeting ("New GCM") an amendment to the Plan aimed at achieving greater operating and financial flexibility to continue its investment project and the compliance with its strategic transformation plan ("Strategic Plan"), both broadly disclosed to the market.

In line with the foregoing, on March 6, 2020, the Company disclosed a Material Fact Notice informing that the Judicial Reorganization Court awarded a decision, on the same date, granting the Company's request for a New General Creditors' Meeting to deliberate on an amendment to the Plan, prescribing that:

(i) the Oi Companies file with the court, within 180 days from the decision's issue date, the draft amendment to the JRP; and

(ii) the Trustee organize the New General Creditors' Meeting, which shall be held within 60 days from the submission of the amendment proposal to the JRP.

Accordingly, taking into consideration that the decision above was issued on March 11, 2020, the Company shall submit the amendment to the JRP to the court by September 8, 2020, with the New GCM expected to occur on November 6, 2020.

The purpose of the amendment proposal to the JRP will be increasing the flexibility of the JRP by creating a more efficient corporate and operating structure, aiming at maximizing the Company's value to the benefit of all its stakeholders. This initiative is fully aligned with the Strategic Plan, which is being transparently implemented.

Company subsidiaries

The table below shows the equity interests held in the capital of the Company's subsidiaries:

Companies related to the continuing operations

Company	Core business	Home country	Direct 2019	Indirect 2019	Direct 2018	Indirect 2018
Oi Holanda	Raising funds in the international market	The Netherlands	100%		100%	
Portugal Telecom Internacional Finance B.V	Raising funds in the international market	The Netherlands	100%		100%	
CVTEL, BV	Investment management	The Netherlands	100%		100%	
Carrigans Finance S.à.r.l.	Investment management	Luxembourg	100%		100%	
Rio Alto Gestão de Créditos e Participações S.A. ("Rio Alto")	Receivables portfolio management and interests in other entities	Brazil	100%		100%	
Oi Serviços Financeiros S.A. ("Oi Serviços Financeiros")	Financial services	Brazil	99.87%	0.13%	99.87%	0.13%
Bryophyta SP Participações Ltda.	Property investments	Brazil	99.80%	0.20%	99.80%	0.20%
Telemar	Fixed telephony – Region I	Brazil	100%		100%	
Oi Móvel	Mobile telephony – Regions I, II, and III	Brazil		100%		100%
Paggo Empreendimentos S.A.	Payment and credit systems	Brazil		100%		100%
Paggo Acquirer Gestão de Meios de Pagamentos Ltda.	Payment and credit systems	Brazil		100%		100%
Paggo Administradora Ltda. ("Paggo Administradora")	Payment and credit systems	Brazil		100%		100%
Serede – Serviços de Rede S.A. ("Serede")	Network services	Brazil	17.51%	82.49%	17.51%	82.49%
Brasil Telecom Comunicação Multimídia Ltda. ("BrT Multimídia")	Data traffic	Brazil		100%		100%
Dommo Empreendimentos Imobiliários Ltda.	Purchase and sale of real estate	Brazil		100%		100%

(In thousands of Brazilian reais - R$, unless otherwise stated)

Company	Core business	Home country	Direct 2019	Indirect 2019	Direct 2018	Indirect 2018
Brasil Telecom Call Center S.A. ("BrT Call Center")	Call center and telemarketing services	Brazil		100%		100%
BrT Card Serviços Financeiros Ltda. ("BrT Card")	Financial services	Brazil		100%		100%
Pointer Networks S.A. ("Pointer")	Wi-Fi internet	Brazil		100%		100%
Pointer Peru S.A.C	Wi-Fi internet	Peru		100%		100%
VEX Venezuela C.A	Wi-Fi internet	Venezuela		100%		100%
VEX USA Inc.	Wi-Fi internet	United States of America		100%		100%
VEX Ukraine LLC	Wi-Fi internet	Ukraine		40%		40%
PT Participações, SGPS, S.A. ("PT Participações")	Management of equity investments	Portugal	100%		100%	
Oi Investimentos Internacionais S.A. ("Oi Investimentos")	Business consulting and management services, preparation of projects and economic studies, and investment management	Portugal		100%		100%
Africatel GmbH & Co.KG.	Investment management	Germany		100%		100%
Africatel GmbH	Investment management	Germany		100%		100%
Africatel Holdings, BV	Investment management	The Netherlands		86%		86%
TPT - Telecomunicações Publicas de Timor, S.A. ("TPT")	Provision of telecommunications, multimedia and IT services, and purchase and sale of related products in Timor	Portugal		76.14%		76.14%

Companies classified as assets held for sale

Company	Core business	Home country	Direct 2019	Indirect 2019	Direct 2018	Indirect 2018
PT Ventures, SGPS, S.A.	Management of equity interests in the context of international investments	Portugal		86%		86%
Directel - Listas Telefónicas Internacionais, Lda. ("Directel")	Telephone directory publishing and operation of related databases, in international operations	Portugal		86%		86%
Directel Cabo Verde – Serviços de Comunicação, Lda.	Telephone directory publishing and operation of related databases in Cape Verde	Cape Verde		51.60%		51.60%
Kenya Postel Directories, Ltd.	Production, publishing and distribution of telephone directories and other publications	Kenya		51.60%		51.60%
Elta - Empresa de Listas Telefónicas de Angola, Lda.	Telephone directory publishing	Angola		47.30%		47.30%
Timor Telecom, S.A.	Telecommunications services concessionaire in Timor	Timor		44%		44%
CST – Companhia Santomense de Telecomunicações, S.A. R.L.	Operation of fixed and mobile telecommunication public services in Sao Tomé and Principe	São Tomé		43.86%		43.86%
LTM - Listas Telefónicas de Moçambique, Lda.	Management, publishing, operation and sale of telecommunications subscriber and classified ads directories	Mozambique		43%		43%

(In thousands of Brazilian reais - R$, unless otherwise stated)

The equity interests in joint arrangements and interests in associates are measured using the equity method and are as follows:

Company	Core business	Home country	Direct 2019	Indirect 2019	Direct 2018	Indirect 2018
Companhia AIX de Participações (“AIX”)	Data traffic	Brazil		50%		50%
Paggo Soluções e Meios de Pagamento S.A. (“Paggo Soluções”)	Financial company	Brazil		50%		50%
Gamecorp S.A. (“Gamecorp”)	Pay TV service, except programmers	Brazil		29.90%		29.90%
Hispamar Satélites S.A. (“Hispamar”)	Satellite operation	Brazil		19.04%		19.04%

Going concern

The financial statements for the year ended December 31, 2019, has been prepared assuming that the Company will continue as a going concern and in compliance with the legal requirements applicable to a judicial reorganization. The judicial reorganization is aimed at ensuring the continuation of the Oi Companies as going concerns. This continuity was strengthen with the approval of the JRP and, as a result, the borrowings and financing were novated and the related balances were recalculated under the terms and conditions of the JRP, including the Capital Increase with Claim Capitalization and the Capital Increase with New Funds.

The continuity of the Company as a going concern is ultimately depending on the successful outcome of the judicial reorganization and the realization of other forecasts of the Oi Companies.

The Company has been successfully discharging the obligations set forth in the judicial reorganization proceedings and even though there are no indications in this regard, we emphasize that these conditions and circumstances indicate, by their own nature, uncertainties that may affect the success of the judicial reorganization and possibly cast doubts as to the Oi Companies’ ability to continue as going concerns. As at December 31, 2019 and after the implementation of the JRP, total shareholders’ equity was R$17,796,506 (R$17,650,326 in the Company), loss for the year then ended was R$9,095,107 (R$9,000,434 in the Company), and working capital totaled R$6,157,364 (R$6,050,559 in the Company). As at December 31, 2018 and after the recognition of the effects of the JRP, total shareholders’ equity was R$22,895,811 (R$22,652,320 in the Company), profit for the year then ended was R$24,615,555 (R$24,591,140 in the Company), and working capital totaled R$10,624,025 (R$13,706,450 in the Company).

To date, the Company has not identified any material impacts related to COVID-19 and it is too soon to accurately determine the extent of its medium- and long-term impacts on the global and Brazilian economic scenarios. However, as it is not possible yet to predict the duration and effects of this crisis, there is a risk of material impacts on operations and sales, especially for the fiber.

Additionally, the Company and its subsidiaries are subject to some covenants existing in certain loan and financing agreements, based on financial ratios, including the Gross debt-to-EBITDA ratio. The Company monitors on a quarterly basis these terms and conditions and for the year ended December 31, 2019, the Company and its subsidiaries were compliant with all relevant covenants of the agreements.

Failure to comply with these financial ratios might result in the accelerated maturity of the debt balance. As a result of the COVID-19 pandemic and the high foreign exchange volatility, the Company preventively initiated talks with its creditors to obtain a waiver in the event it fails to comply with certain covenants throughout 2020, and thus avoid the contractually provided for consequences. See Notes 3 and 20 for further information.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The Company's individual and consolidated financial statements have been prepared and are being presented in accordance with the pronouncements, guidelines and interpretations issued by the Accounting Pronouncements Committee (CPC) and approved by the Brazilian Securities and Exchange Commission (CVM), which are consistent with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). All relevant information part of the financial statements, and only this information, corresponds to the information the Company's management uses while managing the Company.

(a) Reporting basis

The financial statements have been prepared based on the historic cost, except for certain financial instruments measured at their fair values, as described in the accounting policies in item (b) of the accounting policies below.
The preparation of financial statements requires the use of certain critical accounting estimates and the exercise of judgment by the Company's management in the application of the Group's accounting policies. Those areas that involve a higher degree of judgment or complexity or areas where assumptions and estimates are significant are disclosed in item (c) below.

(b) Significant accounting policies

Consolidation criteria of subsidiaries by the full consolidation method

Full consolidation was prepared in accordance with IFRS 10/CPC 36 (R3) - Consolidated Financial Statements and incorporates the financial statements of the Company's direct and indirect subsidiaries. The main consolidation procedures are as follows:

- the balances of assets, liabilities, income and expenses are consolidated, according to their accounting nature;
- intragroup assets and liabilities and material revenue and expenses are eliminated;
- investments and related interests in the equity of subsidiaries are eliminated;
- non-controlling interests in equity and profit or loss for the year are separately stated; and
- exclusive investment funds (Note 8) are consolidated;

The assets and liabilities related to the operations in Africa are consolidated and stated in a single line item of the balance sheet as held-for-sale assets as a result of Management's expectation and decision to hold these assets and liabilities for sale. In the statement of profit or loss, however, costs/expenses and revenue/gains are stated under the full consolidation method because these assets do not meet the criteria to be classified as 'discontinued operation', as provided for by IFRS 5.

Functional and presentation currency

The Company and its subsidiaries operate mainly as telecommunications industry operators in Brazil, Africa, and Asia, and engage in activities typical of this industry. The items included in the financial statements of each group company are measured using the currency of the main economic environment where it operates ("functional currency"). The individual and consolidated financial statements are presented in Brazilian reais (R$), which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency-denominated transactions are translated into the functional currency using the exchange rates prevailing on the transaction dates. Foreign exchange gains and losses arising on the settlement of the transaction and the translation at the exchange rates prevailing at yearend, related foreign currency-denominated monetary assets and liabilities are recognized in the income statement, except when qualified as hedge accounting and, therefore, deferred in equity as cash flow hedges.

Group companies with a different functional currency

The profit or loss and the financial position of all Group entities, none of which uses a currency from a hyperinflationary economy, whose functional currency is different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translating at the rate prevailing at the end of the reporting period;
- revenue and expenses disclosed in the statement of profit or loss are translated using the average exchange rate;
- all the resulting foreign exchange differences are recognized as a separate component of equity in other comprehensive income; and
- goodwill and fair value adjustments, arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate.

(In thousands of Brazilian reais - R$, unless otherwise stated)

As at December 31, 2019 and 2018, the foreign currency-denominated assets and liabilities were translated into Brazilian reais using mainly the following foreign exchange rates:

	Closing rate		Average rate	
Currency	**2019**	**2018**	**2019**	**2018**
Euro	4.5305	4.4390	4.4159	4.3094
US dollar	4.0307	3.8748	3.9461	3.6558
Cape Verdean escudo	0.0411	0.0403	0.0401	0.0391
Sao Tomean dobra	0.000192	0.000185	0.000188	0.000177
Kenyan shilling	0.0398	0.0381	0.0387	0.0361
Namibian dollar	0.2878	0.2698	0.2732	0.2764
Mozambican metical	0.0631	0.0627	0.0627	0.0601
Angolan kwanza	0.0084	0.0126	0.0111	0.0147

Segment reporting

The information about operating segments is presented consistently with the internal report provided to the Company's main decision-making body, its Board of Directors. The results of operations are frequently reviewed with regard to the resources to be allocated to assess their performance and for strategic decision-making (Note 28).

Business combinations

The Company uses the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred, and the equity instruments issued. The consideration transferred includes the fair value of assets and liabilities resulting from a contingent consideration contract, where applicable. The identifiable assets acquired and the liabilities and contingent liabilities assumed in a business combination are measured initially measured as their fair values at the date of acquisition. The Company depreciates amounts recognized based on the appreciation of the acquired assets, according to the useful lives of the underlying assets, and tests such assets to determine any asset impairment losses when there is evidence of impairment; on the other hand, the Company tests for impairment amounts based on future profitability (goodwill) on an annual basis.

Cash and cash equivalents

Comprise cash and imprest cash fund, banks, and highly liquid short-term investments (usually maturing within less than three months), immediately convertible into a known cash amount, and subject to an immaterial risk of change in value, which are stated at fair value at the end of the reporting period and which do not exceed their market value, and whose classification is determined as shown below (Note 8).

Financial assets

Financial assets are classified according to their purpose into: (i) amortized cost; (ii) fair value through other comprehensive income; and (iii) fair value through profit or loss.

The Company classifies its financial assets into the following measurement categories: (1) assets measured at amortized cost—i.e., financial assets that meet the following conditions: (i) the business model under which financial assets are held to obtain contractual cash flows; and (ii) the contractual terms of the financial asset generate, on specified dates, cash flows that are only payments of principal and interest on the outstanding principal (accounts receivables, loans and cash equivalents). Amortized cost is written down by impairment losses; (2) financial assets at fair value through other comprehensive income. Interest income is calculated using the effective interest method, foreign exchange gains and losses, and impairment are recognized in profit or loss. Other net earnings (losses) are recognized in other comprehensive income. Upon derecognition, accumulated losses in other comprehensive income are reclassified to profit or loss; and (3) financial assets at fair value through profit or loss. Net earnings (losses), including interest, are recognized directly in profit or loss.

Accounts receivable

Accounts receivable from telecommunications services provided are stated at the tariff or service amount on the date they are provided and do not differ from their fair values.

These receivables also include receivables from services provided and not billed by the end of the reporting period and receivables related to handset, SIM cards, and accessories. The loss allowance for trade receivables is measured at an amount equal to the life-time expected credit losses as allowed for by IFRS 9 (Note 9).

Non-current assets held for sale and discontinued operations

Non-current assets are classified as assets held for sale when their carrying amount is recoverable, principally through a sale, and when such sale is highly probable. These assets are stated at the lower of their carrying amount and their fair value less costs to sell. Any impairment loss on a group of assets held for sale is initially allocated to goodwill and, then, to the remaining assets and liabilities on a pro rata basis.

A discontinuing operation is a component of an entity or a business unit that can be clearly distinguished operationally from the rest of the Company. The classification of a discontinuing operation is made when the operation is sold or meets the criteria to be classified as held for sale (Note 31).

Investments

Financial information on subsidiaries and joint ventures, as well as associates, is recognized in the individual financial statements of the Parent Company using the equity method of accounting. Other investments are carried at cost, less an allowance for write-down to realizable value, when applicable.

The financial statements of the subsidiaries are fully consolidated in the Consolidated Financial Statements from the time control is obtained until the date it no longer exists. The investments in joint ventures are recognized in the Consolidated Financial Statements by the equity method of accounting.

The accounting policies of the subsidiaries and joint ventures are aligned with the policies adopted by the Company (Note 15).

Property, plant and equipment

Property, plant and equipment are stated at cost of purchase or construction, less accumulated depreciation. Historical costs include expenses directly attributable to the acquisition of assets. They also include certain costs on facilities, when it is probable that the future economic benefits related to such costs will flow into the Company, and asset dismantlement, removal and restoration costs. The borrowings and financing costs directly attributable to the purchase, construction or production of a qualifying asset are capitalized in the initial cost of such asset. Qualifying assets are those that necessarily require a significant time to be ready for use.

Subsequent costs are added to the carrying amount as appropriate, when, and only when, these assets generate future economic benefits and can be reliably measured. The residual balance of the replaced asset is derecognized. Maintenance and repair costs are recorded in profit or loss for the period when they are incurred, and they are capitalized when, and only when, they clearly represent an increase in installed capacity or the useful lives of assets.

Assets under finance leases are recorded in property, plant and equipment at the lower of fair value or the present value of the minimum lease payments, from the initial date of the agreement.

Depreciation is calculated on a straight-line basis, based on the estimated useful lives of the assets, which are annually reviewed by the Company (Note 16).

Intangible assets

Acquired intangible assets with finite useful lives are recognized at cost, less amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over the asset's estimated useful life. The estimated useful life and method of amortization are reviewed at the end of each annual reporting period, and the effect of any changes in estimates is accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Software licenses purchased are capitalized based on the costs incurred to purchase the software and make it ready for use.

Software maintenance costs are expensed as incurred.

Regulatory licenses related to the merged capital gains are amortized over the STFC concession period. The other regulatory licenses for the operation of the mobile telephony services are recognized at cost of acquisition and amortized over the effective period of the related licenses (Note 17).

Impairment of long-lived assets

Assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts might be impaired. Impairment losses, if any, are recognized in the 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. For impairment test purposes, assets are grouped into the smallest identifiable group for which there is a cash-generating unit (CGU), which is identified pursuant to the operating segment (Note 28).

These calculations required the use of judgments and assumptions that 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 provided by the Company to the market. The use of different assumptions can significantly change the financial information.

In July 2019, the Company disclosed its Strategic Plan, focused on improving operating and financial performance, using a sustainable business model that aims at maximizing the Company's value in the context of judicial reorganization.

Based on the Strategic Plan, the Company conducted an impairment test of its long-lived assets and identified an impairment loss of R$2,111 million driven basically by the following: (i) revision of said plan; and (ii) increased market competitiveness, mainly in the residential market, intensifying the drop in the revenues from fixed telephony and DTH services.

The Company used the cash flow forecasts described in the Strategic Plan. These forecasts cover a ten-year period and take into consideration the average useful lives of the assets, the cash flow period of the judicial reorganization plan, and are consistent with previous years. The discount rate used in the cash flows corresponds to the weighted average cost of capital of 10.94% (11.55% in 2018), which is reviewed at least annually by the Company.

Pursuant to CPC 01/IAS 36, an impairment loss is to be allocated to write down the carrying amount of the cash generating unit's assets, which is allocated to the regulatory licenses (Notes 5 and 17).

Adjustment to present value

The Company values its financial assets and financial liabilities to identify instances of applicability of the discount to present value. For recognition purposes, the adjustment to present value is calculated taking into consideration the contractual cash flows and stated interest rates, and the interest rate of liabilities in certain cases.

Generally, when applicable, the discount rate used is the average return rate on investments for financial assets or interest charged on Company borrowings for financial liabilities. The balancing item is the asset or liability that has originated the financial instrument, when applicable, and the deemed borrowing costs are allocated to the Company's profits over the transaction term.

Under the terms and conditions of the JRP, certain balances of trade payables and contingencies involving ANATEL were adjusted to fair value on the date of the novation of prepetition liabilities, pursuant to the requirements of IFRS 9/CPC 48, equivalent to the present value at the time, calculated based on an internal valuation that took into consideration the cash flows of these liabilities and assumptions related to the discount rates, consistent with the maturity and currency of each financial liability.

The present value of the lease agreements is measured by discounting fixed future payment flows, which do not take into account projected inflation, using the incremental interest rate, according to market conditions, estimated using the Company-specific risk spread.

Additionally, assets acquired under lease agreements, as well as unrecognized revenue generated by the assignment of communication towers are adjusted to present value.

Impairment of financial assets

The Company assesses at yearend whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is considered impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of the asset, and that loss event had an impact on the estimated future cash flows of that asset that can be estimated reliably.

In the case of equity investments classified as available for sale, a significant or prolonged decline in their fair value below cost is also objective evidence of impairment.

Borrowings and financing

Borrowings and financing are stated at amortized cost, plus inflation adjustment or foreign exchange differences and interest incurred through the end of the reporting period (Note 20).

On the restructuring/novation date of financial liabilities subject to judicial reorganization, the Company recognized loan borrowing and financing commitments at fair value pursuant to the requirements of IFRS 9/CPC 48. The fair value at the restructuring date of each financial liability was calculated based on an internal valuation that took into consideration the cash flows from these liabilities and assumptions related to the discount rates, consistent with the maturity and the currency of each financial liability.

Transaction costs incurred are measured at amortized cost and recognized in liabilities, as a reduction to the balance of borrowings and financing, and are expensed over the relevant agreement term.

Leases

The Company recognizes a right-to-use asset and a lease liability in its balance sheet with respect to the leased assets. The right-to-use asset is measured at cost, which consists of the initial amount of the lease liability measurement, plus initial direct costs incurred, estimated costs to decommission and remove the asset at the end of the lease, other payments made before the lease commencement date, and calculated at present value, discounted by the incremental lending rate. The discount rates used by the Company were obtained in accordance with market conditions, estimated using the Company-specific risk spread.

Financial liabilities and equity instruments

Debt or equity instruments issued the Company and its subsidiaries are classified as financial liabilities or equity instruments, according to the contractual substance of the transaction.

Provisions

The amount recognized as provision is the best estimate of the disbursement required to settle the present obligation at the end of the reporting period, based on the opinion of the management and its in-house and outside legal counsel, and the amounts are recognized based on the cost of the expected outcome of ongoing lawsuits (Note 24).

For measuring the amount of the provisions to be recognized, the Company basically adopts two methodologies: (i) the statistical measurement model and (ii) the individual measurement model. In order to choose the methodology to be used, the Company takes into consideration, among other criteria, the number of lawsuits, the lawsuit amount, the estimated amount of a possible payment, and the nature of the lawsuit.

The statistical measurement model is usually used in situations where there are (i) a significant volume of administrative or judicial proceedings with similar nature; (ii) individually the proceedings have a low amounts; and (iii) it is possible to determine a statistical model based on historic information about the rates of unfavorable sentences, the amount of the payments, and the changes in the number of proceedings. Usually in this model the Company uses the calculation of the expected amount, as prescribed by paragraph 39 of CPC 25 (IAS 37), and requests opinions from outside specialists to assess the likelihood of a loss. The main contingencies measured under this model are labor and civil (PEX and small claims) lawsuits.

The individual measurement model is usually used in situations where (i) the proceeding involves a high amount; (ii) it is reasonably possible to make an individual assessment of likelihood that a disbursement will be required; and (iii) there is no similarity in the nature of the proceedings. In this model the Company uses opinions from outside specialists in the involved areas to assess the likelihood of a loss. The main contingencies measured under this model are tax and strategic civil proceedings.

The increase in the obligation as a result of the passage of time is recognized as financial expenses.

Onerous obligation

The Company recognizes a present obligation when events render the contracting of services onerous.

A contract becomes onerous when: (i) the obligations under the contract exceed the economic benefits expected to be received over the contract period; and (ii) the costs are unavoidable.

The Company measures the onerous obligation according to the lower net cost of fulfilling the contract, which is determined based on the lower of: (i) the cost of fulfilling the contract or (ii) the cost of any compensation or penalties derived from the noncompliance of the contract.

The base assumptions used to calculate the onerous obligation must be periodically reviewed and measured whenever there are significant changes of these assumptions.

Employee benefits

Pension plans: private pension plans and other postretirement benefits sponsored by the Company and its subsidiaries for the benefit of their employees are managed by two foundations. Contributions are determined based on actuarial calculations, when applicable, and charged to profit or loss on the accrual basis (Note 27).

The Company and its subsidiaries have defined benefit and defined contribution plans.

In the defined contribution plan, the sponsor makes fixed contributions to a fund managed by a separate entity. The contributions are recognized as employee benefit expenses as incurred. The sponsor does not have the legal or constructive obligation of making additional contributions, in the event the fund lacks sufficient assets to pay all employees the benefits related to the services provided in the current year and prior years.

The defined benefit is annually calculated by independent actuaries, who use the projected unit credit method. The present value of the defined benefit is determined by discounting the estimated future cash outflows, using the projected inflation rate plus long-term interest. The obligation recognized in the balance sheet as regards the defined benefit pension plans presenting a deficit, corresponds to the present value of the benefits defined at the balance sheet date, less the fair value of the plan's assets.

The actuarial gains and losses resulting from the changes in the actuarial valuations of the pension plans, whose actuarial obligations or actuarial assets are recorded by the Company, are fully recognized in other comprehensive income, in equity (Note 26).

The asset recognized in balance sheet corresponds to the present value of available economic benefits, consisting of refunds or reductions in future contributions to the plan.

Employee profit sharing: the provision for the employee profit sharing plan is accounted on an accrual basis, which is paid by April of the year following the recognition of the provision, takes into consideration a set of operating and financial goals approved with the employees' labor union, under a specific collective labor agreement. This cost is recognized annually in personnel expenses.

Revenue recognition

Revenues correspond basically to the amount of the payments received or receivable from sales of services in the regular course of the Company's and its subsidiaries' activities.

Revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services

The Company applied the judgments that significantly affect the determined amount and the recognition timing of the revenue from a contract with a customer, taking into account the five-step recognition model: (i) identify the contract; (ii) identify the separate performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations; and (v) recognition da revenue when (or as) the entity satisfies a performance obligation.

Service revenue is recognized when services are provided. Local and long distance calls are charged based on time measurement according to the legislation in effect. The services charged based on monthly fixed amounts are calculated and recorded on a straight-line basis. Prepaid services are recognized as unearned revenues and recognized in revenue as services are used by customers.

Revenue from sales of handsets and accessories is recognized when these items are delivered and accepted by the customers. Discounts on services provided and sales of cell phones and accessories are taken into consideration in the recognition of the related revenue. Revenues involving transactions with multiple elements are identified in relation to each one of their components and the recognition criteria are applied on an individual basis.

Revenue arising from the receipt of trade receivables that had already been written off as losses but were subsequently recovered and received in the collection process, are recognized in profit or loss, in line item 'Other operating income'.

Revenue is not recognized when there is significant uncertainty as to its realization (Notes 4 and 5).

Expense recognition

Expenses are recognized on the accrual basis, considering their relation with revenue realization. Prepaid expenses attributable to future years are deferred over the related periods. The incremental costs to obtain a contract with a customer (contract compliance costs), consisting basically of sales, are recognized in profit or loss on a systematic basis, consistent with the transfer of goods and services to the customers.

Financial income and expenses

Financial income is recognized on an accrual basis and comprises interest on receivables settled after the due date, gains on short-term investments and gains on derivative instruments. Financial expenses consist primarily of interest effectively incurred, adjustments to present value, and other charges on borrowings, financing, and financial derivative contracts. They also include banking fees and costs, financial intermediation costs on the collection of trade receivables, and other financial transactions (Notes 5 and 6).

Current and deferred income tax and social contribution

Income tax and social contribution are recorded on an accrual basis. Taxes attributed to temporary differences and tax loss carryforwards are recorded in assets or liabilities, as applicable, only under the assumption of future realization or payment. The Company prepares technical studies that consider the future generation of taxable income, based on management expectations, considering the continuity of the companies as going concerns. The Company writes down the carrying amount of deferred tax assets to the extent it is no longer probable that sufficient taxable income will be available to allow the utilization of all or part of the deferred tax assets.

Any write-down of deferred tax assets is reversed when it is probable that sufficient taxable income will be available. The technical studies are updated annually, approved by the Board of Directors and reviewed by the Supervisory Board, and the tax credits are adjusted based on the results of these reviews. Deferred tax assets and liabilities are measured using the tax rates applicable for the period in which the liability is expected to be settled or the asset is expected to be realized, based on the tax rates set forth in the tax law prevailing at the end of each reporting period, or when new legislation has been substantially enacted. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of each reporting period, to recover or settle the carrying amount of these assets and liabilities (Note 7).

Earnings per share

Basic earnings per share are calculated through profit or loss for the year attributable to the owners of the Company, divided by the weighted average number of common and preferred shares outstanding in the year. Diluted earnings per share are calculated using said weighted average number of outstanding shares adjusted by potentially dilutive instruments convertible into shares in the reporting years, pursuant to CPC 41 (IAS 33). (Note 26 (f).)

(c) Estimates and critical accounting judgments

The Company's management uses estimates and assumptions based on historical experience and other factors, including expected future events, which are considered reasonable and relevant, and also requires judgments related to these matters. Actual results of operations and the financial position may differ from these estimates. The estimates that represent a significant risk of causing material adjustments to the carrying amounts of assets and liabilities are as follows:

Revenue recognition and accounts receivables

The Company's revenue recognition policy is significant as it is a material component of operating results. Determining the amount and the timing of revenue recognition by Management, collection ability, and the rights to receive certain network usage revenue is based on judgment related to the nature of the tariff collected for the services provided, the price of certain products, and the right to collect this revenue. If changes in conditions cause management to conclude that such criteria are not met in certain operations, the amount of trade receivables might be affected. In addition, the Company depends on guidelines to measure certain revenue set by ANATEL (Brazilian telecommunications industry regulator).

Expected credit losses on trade receivables

The expected credit losses on trade receivables are determined to recognize probable losses on accounts receivable taking into account the measures implemented to restrict the provision of services to and collect late payments from defaulting customers. The estimate of expected credit loss on trade receivables is recognized in an amount considered sufficient to cover possible losses on the realization of these receivables and is prepared based on historical default rates and projections of future conditions that impact collections.

There are cases of agreements with certain customers to collect past-due receivables, including agreements that allow customers to settle their debts in installments. The actual amounts not received may be different from the allowance recognized, and additional accruals might be required.

Depreciation and amortization of assets with finite useful lives

Property, plant and equipment items and intangible assets with finite useful lives are depreciated and amortized, respectively, on a straight-line basis, over the useful lives of the related asset. The depreciation and amortization rates of the most significant assets are shown in Notes 16 and 17, respectively.

The useful lives of certain assets may vary as they are used in the fixed-line or mobile telephony segments. The Company reviews the useful lives of assets annually.

Impairment of long-lived assets

The recoverable amounts of long-lived assets are determined by comparing the calculations of their value in use and their sales prices. These calculations required the use of judgments and assumptions that 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 the Company to the market. The use of different assumptions may significantly change our financial statements.

For impairment assessment purposes of the Cash-generating Unit (CGU), the Company defined the value in use of its assets.

In measuring the value in use, the Company based its cash flow projections according to the aforementioned Strategic Plan, approved by Management and already disclosed to the market in a material fact notice. These forecasts cover a ten-year period, taking into account the useful lives of the assets and are consistent with prior years' cash flows. The discount rate used on the cash flows corresponds to a weighted average cost of capital of 10.94% (11.55% in 2018), which is reviewed by the Company at least annually.

Pursuant to CPC 01 R1 (IAS 36), an impairment loss is allocated to reduce the carrying amount of the assets of a cash-generating unit, firstly to reduce the carrying amount of any goodwill based on expected future profitability and, subsequently, the other assets of the cash-generating unit proportionately to the carrying amount of asset of the cash-generating units. The impairment loss was fully allocated to the appreciation of regulatory licenses (Notes 5 and 17).

Leases

The assumptions related to the appropriated discount rates used in the fair value calculation of the present value of the lease payments are subject to significant fluctuations due to different external and internal factors, including economic trends and the Company's financial performance. The use of different assumptions to measure the present value of our leases may have a material impact on the estimated present value of the right-of-use asset and the lease liability in the balance sheet.

Fair value of financial liabilities

The assumptions on the discount rates used in the fair value calculation of our financial liabilities are subject to significant fluctuations due to different external and internal factors, including economic trends and the Company's financial performance. The use of different assumptions to measure the fair value of the financial liabilities can have a material impact on the estimated fair value of these financial liabilities and the amounts recognized as borrowings and financing in the balance sheet, as well as the amounts recognized in profit or loss.

Provisions

Pursuant CPC 25 (IAS 37), the Company recognized provisions for contingencies basically originated at the juridical and administrative levels, with labor, tax, and civil nature, as detailed in Note 24.

(In thousands of Brazilian reais - R$, unless otherwise stated)

Depending on the nature of the contingency, the Company's management uses the statistical measurement or the individual measurement methodology to calculate provisions for contingencies. In any of these methodologies, the Company uses a set of assumptions, information, an internal and external risk assessment, and statistical models that management considers to be appropriate, including the successful implementation of the Judicial Reorganization Plan; however, it is possible that these change in the future, which could result in change in the future provisions for losses.

Deferred income tax and social contribution

The Company recognizes and settles taxes on income based on the results of operations determined in accordance with the Brazilian corporate law, taking into consideration the provisions of the tax law, which are materially different from the amounts calculated for CPC and IFRS purposes. Pursuant to CPC 32 (IAS 12), the Company recognizes deferred tax assets and liabilities based on the differences between the carrying amounts and the taxable bases of the assets and liabilities.

The Company regularly tests deferred tax assets for impairment and recognizes an allowance 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 calculations require the use of estimates and assumptions. The use of different estimates and assumptions could result in the recognition of an allowance for impairment losses for the entire or a significant portion of the deferred tax assets.

Employee benefits

The actuarial valuation is based on assumptions and estimates related to interest rates, return on investments, inflation rates for future periods, mortality indices, and an employment level projection related the pension fund benefit liabilities. The accuracy of these assumptions and estimates will determine the creation of sufficient reserves for the costs of accumulated pensions and healthcare plans, and the amount to be disbursed annually on pension benefits.

These assumptions and estimates are subject to significant fluctuations due to different internal and external factors, such as economic trends, social indicators, and our capacity to create new jobs and retain our employees. All assumptions are reviewed at the end of the reporting period. If these assumptions and estimates are not accurate, there may be the need to revise the reserves for pension benefits, which could significantly impact Company results.

Reclassifications of the comparative period's accounting balances

The Company made some reclassifications in the statement of profit or loss for the year ended December 31, 2018 for better comparability and understanding of the transactions and balances in the Individual and Consolidated Financial Statements for the period ended December 31, 2019. These reclassifications do not affect the Company's or equity as at December 31, 2019 and profit or loss for the year then ended. We highlight below the stated reclassifications:

	COMPANY		CONSOLIDATED	
	Currently stated 2018	**Originally stated 2018**	**Currently stated 2018**	**Originally stated 2018**
Cost of sales and/or services	(3,279,569)	(3,222,241)	(16,179,100)	(15,584,650)
Selling expenses			(3,853,002)	(4,134,030)
Other operating expenses	(1,813,616)	(1,870,944)	(6,748,094)	(7,061,516)

(In thousands of Brazilian reais - R$, unless otherwise stated)

(d) New and revised standards and interpretations

(d.1) New standards adopted as at January 1, 2019

New and revised standards		**Effective beginning on or after:**
Annual improvements to IFRSs	2015-2017 Cycle	January 1, 2019
IFRS 16	*Leases*	January 1, 2019
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019
Amendment to IAS 19	Change, reduction, or settlement of defined benefit plans	January 1, 2019
Amendment to IFRS 9	Prepayment Features with Negative Compensation	January 1, 2019
Amendment to IAS 28	Long-term Interests in Associates and Joint Ventures	January 1, 2019

Among the standards, changes, and interpretations referred to above, on IFRS 16/CPC 06 (R2) had an impact on the Company and subsidiaries' financial position as from January 1, 2018, as detailed below.

IFRS 16/CPC 06 (R2) *Leases*

IFRS 16/CPC 06 (R2) *Leases* establishes the principles for the recognition, measurement, presentation, and disclosures, and requires that lessees account for all the leases under a single model in the balance sheet. The standard includes two recognition exemptions for lessees: leases of low value assets (for example, personal computers) and short-term leases (i.e., with a lease tem of twelve months or less). At the lease commencement date, the lessee recognizes a liability related to the lease payments (i.e., a lease liability) and a lease asset that represents the right to use the underlying asset during the lease term (i.e., a right-of-use asset). The lessees are required to separately recognize an interest expense on the lease liability and a depreciation expense on the right-of-use asset. The lessees shall also revalue the lease liability should certain events occur (for example, any change in the lease term, a change in the future lease payments as a result of a change in the index or rate used to determine such payments). As a rule, the lessee recognizes the revised amount of the lease liability as an adjustment to the right-of-use asset.

<u>Transition</u>

The Company adopted IFRS 16 pursuant to the modified retrospective approach (i.e., beginning January 1, 2019, taking into account the right-of-use equal to the lease liability upon the first-time adoption), without any restatement of comparative information. The Company elected to apply the standard to agreements that were identified as leases pursuant to the previous standard. As a result, the Company did not apply the standard to agreements that have not previously been identified as containing a lease by applying IAS 17 and IFRIC 4, and excluded lease agreements maturing in the next twelve months, without probable renewal intention, in addition to applying a single discount rate to leases with similar characteristics and excluding to direct initial costs in the measurement of the right-of-use.

<u>Exemptions</u>

The Company elected to use the exemptions proposed by the standard on short-term agreements (i.e., that will be end within 12 months from the commencement date), lease agreements for which there is an underlying low value asset.

Impacts

The impacts refer basically to the lease agreements of towers, properties, stores, vehicles, and sites (physical spaces) and as described in Notes 16 and 22.

Upon the initial adoption of IFRS 16/CPC 06 (R2), the Company recognized a right-of-use asset and a lease liability in balance sheet. The right-of-use asset is measured at cost, which consists of the initial amount of the lease liability measurement, any initial direct costs incurred by the Company, an estimate of any costs to disassemble and remove the asset at the end of the lease, and any lease payments made before the lease commencement date (net of any incentives received), calculated at present value.

The Company depreciates the right-of-use assets on a straight-line basis from the commencement of the lease to the termination of the lease.

The Company also assesses impairment when such indicators exist, taking into account the concept of forming asset groups for impairment purposes.

At the commencement date, the Company measured the lease liability at the present value of the consideration paid or payable, discounted using the Company's incremental lending rate.

The lease payments included in the lease liability measurement consist of fixed payments and variable payments based on either an index or a rate.

After the initial measurement, the liability will be written down by the payments made and increased by the interest incurred. If necessary, the liability is recalculated to reflect any remeasurement or change, or if there are changes in the substance of the fixed payments.

When there is a significant contractual change, a lease liability is remeasured and the corresponding adjustment is reflected in the right-of-use asset, or in profit or loss, if the right-of-use asset is already written down to nil.

The Company elected to use the exemptions proposed by the standard for lease agreements, for short-term and low value contracts. Accordingly, instead of recognizing a right-of-use asset and a lease liability, these are recognized as an expense in profit or loss over the lease period.

The Company individually measured any new agreement entered into after January 1, 2019 if such agreement contained a lease. A lease is defined as an "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration."

To apply this definition the Company assessed whether a contract meets the three key characteristics:

- The agreement contains an identified asset, which is explicitly identified in the agreement or implicitly specified to be identified at the time that the asset is made available to the Company;

- The Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use, considering its rights within the scope set out in the agreement; and

(In thousands of Brazilian reais - R$, unless otherwise stated)

- The Company has the right to direct the use of the identified asset throughout the period of use the and right to direct "how and for what purpose" the asset is used throughout the period of use.

The Company recognizes the impacts of temporary differences in deferred income tax and social contribution arising from the new standard IFRS 16/CPC 06 (R2).

The Company adopted IFRS 16, taking into account the modified retrospective application permitted by the respective standards. Accordingly, we present below the consolidated results for the years period ended December 31, 2019 and 2018, less the effects recognized as a result of this application.

	Balance in 2019 (with IFRS 16)	IFRS 16 adjustments	Balance in 2019 (w/o IFRS 16)	Balance in 2018
Net operating revenue	20,136,183		20,136,183	22,060,014
Cost of sales and/or services	(15,314,814)	(589,861)	(15,904,675)	(16,179,100)
Gross profit (loss)	4,821,369	(589,861)	4,231,508	5,880,914
Operating income (expenses)				
Share of results of investees	(5,174)		(5,174)	(13,492)
Selling expenses	(3,547,684)	(7,516)	(3,555,200)	(3,853,002)
General and administrative expenses	(2,782,300)	(5,810)	(2,788,110)	(2,738,718)
Other operating income	4,527,710		4,527,710	2,204,134
Other operating expenses	(5,991,291)		(5,991,291)	(6,748,094)
	(7,798,739)	(13,326)	(7,812,065)	(11,149,172)
Profit (loss) before financial income (expenses) and taxes	(2,977,370)	(603,187)	(3,580,557)	(5,268,258)
Financial income	2,662,463		2,662,463	30,950,461
Financial expenses	(8,772,181)	948,973	(7,823,208)	(4,341,595)
Financial income (expenses)	(6,109,718)	948,973	(5,160,745)	26,608,866
Pre-tax profit (loss)	(9,087,088)	345,786	(8,741,302)	21,340,608
Income tax and social contribution				
Current	(77,060)		(77,060)	115,706
Deferred	69,041		69,041	3,159,241
Profit (loss) for the year	(9,095,107)	345,786	(8,749,321)	24,615,555

ICPC 22/IFRIC 23 *Uncertainty over Income Tax Treatments*

Applies to taxes within the scope of CPC 32/IAS 12, which governs situations when there is uncertainty over the tax treatment adopted by the Company with respect to: (i) whether an entity should assess uncertain tax treatments separately; (ii) what estimates an entity should make about the examination of tax treatments by tax authorities, (iii) how an entity determines taxable income or tax loss, tax bases, unutilized tax loss carryforwards, and untimely tax credits; and (iv) how an entity considers changes in facts and circumstances.

The Company, together with its legal advisors, reviewed this matter and concluded that there is no significant impact to the Company's financial statements.

(d.2) New standards and interpretations not yet adopted

The new and revised standards and interpretations issued by the IASB that are effective in future reporting periods and that the Company decided not to early adopt are the following, effective for periods beginning on or after January 1, 2020:

New and revised standards		**Effective beginning on or after:**
IAS 1	*Presentation of Financial Statements*	January 1, 2020
IAS 8	*Accounting Policies, Changes in Accounting Estimates and Errors* (Amendment - Definition of material)	January 1, 2020
IFRS 3	*Business Combinations* (Revised - definition of business) Conceptual framework revised for financial reports	January 1, 2020

The Company is assessing the impact of these changes on the accounting standards.

3. FINANCIAL INSTRUMENTS AND RISK ANALYSIS

3.1. Fair value measurement

CPC 46/IFRS 13 defines fair value as the price for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties, in an arm’s length transaction on measurement date. The standard clarifies that the fair value must be based on the assumptions that market participants would consider in pricing an asset or a liability, and establishes a hierarchy that prioritizes the information used to build such assumptions. The fair value measurement hierarchy attaches more importance to available market inputs (i.e., observable data) and a less weight to inputs based on data without transparency (i.e., unobservable data). Additionally, the standard requires that an entity consider all nonperformance risk aspects, including the entity’s credit, when measuring the fair value of a liability.

CPC 40/IFRS 7 establishes a three-level hierarchy to measure and disclose fair value. The classification of an instrument in the fair value measurement hierarchy is based on the lowest level of input significant for its measurement. We present below a description of the three-level hierarchy:

Level 1—inputs consist of prices quoted (unadjusted) in active markets for identical assets or liabilities to which the entity has access on measurement date;
Level 2—inputs are different from prices quoted in active markets used in Level 1 and consist of directly or indirectly observable inputs for the asset or liability. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability or that can support the observed market inputs by correlation or otherwise for substantially the entire asset or liability.
Level 3—inputs used to measure an asset or liability are not based on observable market variables. These inputs represent management’s best estimates and are generally measured using pricing models, discounted cash flows, or similar methodologies that require significant judgment or estimate.

(In thousands of Brazilian reais - R$, unless otherwise stated)

The Company and its subsidiaries have measured their financial assets and financial liabilities at their market or actual realizable values (fair value) using available market inputs and valuation techniques appropriate for each situation. The interpretation of market inputs for the selection of such techniques requires considerable judgment and the preparation of estimates to obtain an amount considered appropriate for each situation. Accordingly, the estimates presented may not necessarily be indicative of the amounts that could be obtained in an active market. The use of different assumptions for the calculation of the fair value may have a material impact on the amounts obtained.

As a result of the implementation of the measures approved on the Plan ratified on January 8, 2018 and the related accounting recognition in calendar year 2018, some financial liabilities classified at amortized cost were remeasured at their fair values as at the date of the novation of these financial liabilities and recognized at amortized cost in the subsequent measurement, pursuant to the accounting guidance of IFRS 9/CPC 48.

The carrying amounts and the estimated fair values of our main financial assets and financial liabilities as at December 31, 2019 and 2018 are summarized as follows:

	Accounting measurement	COMPANY		CONSOLIDATED	
		2019			
		Carrying amount	Fair value	Carrying amount	Fair value
Assets					
Cash and banks	Fair value	152,465	152,465	575,863	575,863
Cash equivalents	Fair value	797,502	797,502	1,506,082	1,506,082
Cash investments	Fair value	182,696	182,696	217,792	217,792
Due from related parties	Amortized cost	5,583,816	5,583,816		
Accounts receivable (i)	Amortized cost	1,383,264	1,383,264	6,334,526	6,334,526
Dividends and interest on capital	Amortized cost	3,499	3,499	426	426
Financial asset at fair value	Fair value			40,689	40,689
Held-for-sale assets					
Held-for-sale financial asset (Note 31)	Fair value	1,474,699	1,474,699	1,474,699	1,474,699
Dividends receivable (Note 31)	Amortized cost	2,435,014	2,435,014	2,435,014	2,435,014
Liabilities					
Trade payables (i)	Amortized cost	1,960,453	1,960,453	8,887,367	8,887,367
Derivative financial instruments	Fair value	1,152	1,152	1,152	1,152
Borrowings and financing (ii)					
Borrowings and financing	Amortized cost	2,060,582	2,060,582	8,354,777	8,354,777
Due to related parties	Amortized cost	783,404	783,404		
Public debentures	Amortized cost	2,344,962	2,344,962	3,652,353	3,652,353
Senior Notes	Amortized cost	6,219,619	6,565,782	6,219,619	6,565,782
Dividends and interest on capital	Amortized cost	4,761	4,761	5,731	5,731
Licenses and concessions payable (iii)	Amortized cost			58,582	58,582
Tax refinancing program (iii)	Amortized cost	263,684	263,684	417,503	417,503
Leases payable (iv)	Amortized cost	656,359	656,359	8,150,026	8,150,026

Appendix – Statement of Value Added
For the Years Ended December 31, 2019 and 2018
(In thousands of Brazilian reais - R$, unless otherwise stated)

	Accounting measurement	COMPANY		CONSOLIDATED	
		2018			
		Carrying amount	Fair value	Carrying amount	Fair value
Assets					
Cash and banks	Fair value	152,454	152,454	287,491	287,491
Cash equivalents	Fair value	1,516,605	1,516,605	4,097,838	4,097,838
Cash investments	Fair value	195,639	195,639	238,962	238,962
Due from related parties	Amortized cost	11,960,680	11,960,680		
Accounts receivable (i)	Amortized cost	1,193,687	1,193,687	6,516,555	6,516,555
Held-for-sale assets					
Held-for-sale financial asset (Note 31)	Fair value	1,843,778	1,843,778	1,843,778	1,843,778
Dividends receivable (Note 31)	Amortized cost	2,566,935	2,566,935	2,566,935	2,566,935
Liabilities					
Trade payables (i)	Amortized cost	2,244,382	2,244,382	8,818,870	8,818,870
Borrowings and financing (ii)					
Borrowings and financing	Amortized cost	1,759,635	1,759,635	7,140,960	7,140,960
Due to related parties	Amortized cost	377,184	377,184		
Public debentures	Amortized cost	1,992,339	1,992,339	3,103,106	3,103,106
Senior Notes	Amortized cost	6,205,840	6,937,764	6,205,840	6,937,764
Dividends and interest on capital	Amortized cost	5,075	5,075	6,168	6,168
Licenses and concessions payable (iii)	Amortized cost	22,925	22,925	85,619	85,619
Tax refinancing program (iii)	Amortized cost	353,496	353,496	553,206	553,206

For the closing of the year ended December 31, 2019:

(i) The balances of accounts receivables have near terms and, therefore, they are not adjusted to fair value. The balances of trade receivables, subject to the judicial reorganization, were adjusted to their fair value, at the date of the novation of the liabilities and are represented by the amounts that are expected that the obligations are discharged (Note 18).

(ii) The balance of the borrowings and financing with the BNDES, Local Banks, and ECAs correspond to exclusive markets, and the fair value of these instruments is similar to their carrying amounts. The balances of borrowings and financing refers to the bonds issued in the international market, for which is there is a secondary market, and their fair values differ from their carrying amounts.

(iii) The licenses and concessions payable and the tax refinancing program are stated at the amounts that these obligations are expected to be discharged and are not adjusted to fair value.

(iv) The leases payable are represented by the amounts that the obligations are expected to be settled, adjusted at present value.

(In thousands of Brazilian reais - R$, unless otherwise stated)

The levels of the financial assets, cash and cash equivalents and cash investments, held-for-sale assets, and derivative financial instruments at fair value as at December 31, 2019 and 2018 are as follows:

	Fair value measurement hierarchy	COMPANY		CONSOLIDATED	
		Fair value 2019	Fair value 2018	Fair value 2019	Fair value 2018
Assets					
Cash and banks	Level 1	152,465	152,454	575,863	287,491
Cash equivalents	Level 2	797,502	1,516,605	1,506,082	4,097,838
Cash investments	Level 2	182,696	195,639	217,792	238,962
Held-for-sale financial asset	Level 3	1,474,699	1,843,778	1,474,699	1,843,778
Liabilities					
Derivative financial instruments	Level 2	1,152		1,152	

There were no transfers between levels in the years ended December 31, 2019 and 2018.

The Company and its subsidiaries have measured their financial assets and financial liabilities at their market or actual realizable values (fair value) using available market inputs and valuation techniques appropriate for each situation, as follows:

(a) Cash, cash equivalents and cash investments

Foreign currency-denominated cash equivalents and cash investments are basically kept in checking deposits denominated in euro and US dollars and, to a lesser extent, in euros.

The fair value of securities traded in active markets is equivalent to the amount of the last closing quotation available at the end of the year, multiplied by the number of outstanding securities.

For the remaining contracts, the Company carries out an analysis comparing the current contractual terms and conditions with the terms and conditions effective for the contract when they were originated. When terms and conditions are dissimilar, fair value is calculated by discounting future cash flows at the market rates prevailing at the end of the year, and when similar, fair value is similar to the carrying amount on the reporting date.

(b) Held-for-sale assets

Represents the indirect interest held by PT Ventures in the dividends receivable and the fair value of the financial investment in Unitel, both classified as held for sale. The assets from the investment held in PT Ventures are measure substantially at the fair value of the investment for sale, which occurred on January 23, 2020. See Notes 31 and 33 for further information.

(c) Derivative financial instruments

The Company conducts derivative transactions to manage certain market risks, mainly the foreign exchange risk. At the closing date of for the year ended December 31, 2019, these instruments include Non-deliverable Forward (NDF) contracts. The Company does not use derivatives for any purposes other than hedging against these risks.

The method used to calculate the fair value of the derivative instruments contracted throughout the year was the future cash flows method associated to each contracted instrument, discounted using the market rates prevailing at the reporting date.

3.2. Financial risk management

The Company's and its subsidiaries' activities expose them to several financial risks, such as: market risk (including currency fluctuation risk, interest rate risk on fair value, interest rate risk on cash flows), credit risk, and liquidity risk. According to their nature, financial instruments may involve known or unknown risks, and it is important to assess to the best judgment the potential of these risks. The Company and its subsidiaries may use derivative financial instruments to mitigate certain exposures to these risks.

The Company's risk management process is a three-step process, taking into account its consolidated structure: strategic, tactical, and operational. At the strategic level, the Company's executive committee agrees with the Board of Directors the risk guidelines to be followed. A Financial Risk Management Committee is responsible for overseeing and ensuring that Oi comply with the existing policies. At the operating level, risk management is carried out by the Company's treasury officer, in accordance with the policies approved by the Board of Directors.
The Financial Risk Management Committee meets on a monthly basis and currently consists of the Chief Finance Officer, the Regulation, Wholesale and International Affairs Officer, the Legal Tax Officer, the Chief Controller, the Investor Relations Officer, and the Treasury Officer.

The Hedging and Cash Investments Policies, approved by the Board of Directors, document the management of exposures to market risk factors generated by the financial transactions of the Oi Group companies.

In the aftermath of the approval of the JRP, based on the measured new risk factors, the Company approved with the Board of Directors a new strategy to the Board of Directors to mitigate the risks arising on the foreign exchange exposure of its financial liabilities, as is ready to implement it as from this point in time. In line with the Hedging Policy pillars, the strategy is focused on the preservation of the Company's cash flows, maintaining its liquidity, and complying with the financial covenants.

3.2.1. Market risk

(a) Foreign exchange risk

Financial assets

The Company is not exposed to any material foreign exchange risk involving foreign currency-denominated financial assets as at December 31, 2019, except with regard to the assets held for sale, for which the Company does not enter into any currency hedging transaction.

(In thousands of Brazilian reais - R$, unless otherwise stated)

Financial liabilities

The Company and its subsidiaries have foreign currency-denominated or foreign currency-indexed borrowings and financing. The risk associated with these liabilities is related to the possibility of fluctuations in foreign exchange rates that could increase the balance of such liabilities. The Company's and its subsidiaries' borrowings and financing exposed to this risk represent approximately 52.3% of total liabilities from borrowings and financing (2018 – 53.6%), less the contracted currency hedging transactions. To minimize this type of risk, the Company entered into currency hedges with financial institutions for part of the foreign currency-denominated interest payments made in 2019. The Company hedged 67% of its total dollar-denominated debt service in 2019 through hedging transactions in the form of currency forwards and foreign currency-denominated cash investments. At the end of December 2019, approximately 32% of the US dollar-denominated debt for 2020 was hedged by cash in US dollars (natural hedge). Additionally, the Company hedged part of the Company's US dollar-denominated operating expenses.

The currency hedging percentage for purposes of covenant compliance and the financial expenses of the existing borrowings and financing, including the impacts of changes in foreign exchange rates on the fair value adjustment gain, is 50.1%.

Foreign currency-denominated financial assets and financial liabilities are presented in the balance sheet as follows (includes intragroup balances transferred to Company amounts):

	COMPANY			
	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and banks	108,160	108,160	39,779	39,779
Cash equivalents			153,428	153,428
Due from related parties	5,583,816	5,583,816	11,960,680	11,960,680
Held-for-sale assets				
Held-for-sale financial asset	1,474,699	1,474,699	1,843,778	1,843,778
Dividends receivable	2,435,014	2,435,014	2,566,935	2,566,935
Financial liabilities				
Borrowings and financing (Note 20)	7,683,578	7,683,578	7,131,350	7,863,274
Derivative financial instruments	1,152	1,152		

	CONSOLIDATED			
	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and banks	400,874	400,874	70,116	70,116
Cash equivalents	1,096	1,096	154,514	154,514
Held-for-sale assets				
Held-for-sale financial asset	1,474,699	1,474,699	1,843,778	1,843,778
Dividends receivable	2,435,014	2,435,014	2,566,935	2,566,935
Financial liabilities				
Borrowings and financing (Note 20)	9,521,291	9,521,291	8,816,766	9,548,690
Derivative financial instruments	1,152	1,152		

(In thousands of Brazilian reais - R$, unless otherwise stated)

The amounts of the derivative financial instruments are summarized as follows:

	Derivatives designated for hedge accounting					
			COMPANY		CONSOLIDATED	
			Fair value		Fair value	
	Notional (US$)	Maturity (years)	Amounts (payable)/receivable		Amounts (payable)/receivable	
			2019	2018	2019	2018
USD/R$ Non-deliverable forwards (NDF)	17,000.00	< 1 year	(1,152)		(1,152)	

At yearend, the main hedging transactions conducted with financial institutions with the objective minimizing the foreign exchange risk co cambial are as follows:

Non-deliverable Forward (NDF) contracts

US$/R$: Refer to future dollar purchase transactions using NDFs to hedge against the depreciation of the Brazilian real against the US dollar. The key strategy for these contracts is to eliminate foreign exchange differences during the contract period, mitigating unfavorable changes in foreign exchange rates on dollar-denominated debts or operating expenses.

As at December 31, 2019 and 2018, the Company recognized as result of derivative transactions the amounts shown below:

	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Forward currency transaction – financial results	55,025		55,025	
Forward currency transaction – operating results	17,088		17,088	
Total	**72,113**		**72,113**	

And the movements in foreign exchange hedges designated for hedge accounting were recognized in other comprehensive income.

Table of movements in hedge accounting effects in other comprehensive income		
	COMPANY	CONSOLIDATED
Balance in 2018		
Results of designated hedges	11,901	11,901
Amortization of hedges to profit or loss	(13,053)	(13,053)
Balance in 2019	**(1,152)**	**(1,152)**

Foreign exchange risk sensitivity analysis

As established by CVM Instruction 475, as at December 31, 2019, management estimated the depreciation scenarios of the Brazilian real in relation to other currencies, at the end of the reporting period.

For purposes of this Instruction, however, the rates used for the probable scenario were the rates prevailing at the end of December 2019. The probable rates were then depreciated by 25% and 50% and used as benchmark for the possible and remote scenarios, respectively.

(In thousands of Brazilian reais - R$, unless otherwise stated)

	Rate	
Description	**2019**	**Depreciation**
Probable scenario		
U.S. dollar	4.0307	0%
Euro	4.5305	0%
Possible scenario		
U.S. dollar	5.0384	25%
Euro	5.6631	25%
Remote scenario		
U.S. dollar	6.0461	50%
Euro	6.7958	50%

The impacts of foreign exchange exposure on the foreign currency-denominated debt, considering offshore derivatives and cash, in the sensitivity scenarios estimated by the Company, are shown in the table below (excludes intragroup balances):

		2019					
		COMPANY			CONSOLIDATED		
Description	**Individual risk**	***Probable scenario***	***Possible scenario***	***Remote scenario***	***Probable scenario***	***Possible scenario***	***Remote scenario***
US dollar debts	Dollar appreciation	9,200,284	11,500,355	13,800,426	15,594,278	19,492,848	23,391,418
US dollar cash	Dollar depreciation	(68,124)	(85,155)	(102,186)	(283,409)	(354,261)	(425,113)
Euro debt	Euro appreciation	185,237	231,547	277,856	2,711,459	3,389,323	4,067,188
Euro cash	Euro depreciation	(40,036)	(50,045)	(60,054)	(112,796)	(140,995)	(169,194)
Fair value adjustment	Dollar/euro depreciation	(2,434,118)	(3,042,647)	(3,651,176)	(8,772,305)	(10,965,381)	(13,158,458)
Total assets/liabilities indexed to exchange fluctuation		**6,843,243**	**8,554,055**	**10,264,866**	**9,137,227**	**11,421,534**	**13,705,841**
Total (gain) loss			**1,710,812**	**3,421,623**		**2,284,307**	**4,568,614**

(b) Interest rate risk

Financial assets

Cash equivalents and cash investments in local currency are substantially maintained in financial investment funds exclusively managed for the Company and its subsidiaries, and investments in private securities issued by prime financial institutions.

The interest rate risk linked to these assets arises from the possibility of decreases in these rates and consequent decrease in the return on these assets.

Financial liabilities

The Company and its subsidiaries have borrowings and financing subject to floating interest rates, based on the Long-term Interest Rate (TJLP), the CDI, or the Benchmark Rate in the case of real-denominated debt as at December 31, 2019. After the approval of the JRP, the Company does not have borrowings and financing subject to foreign currency-denominated floating interest rate.

As at December 31, 2019, approximately 47.5% (46.0% at December 31, 2018) of the incurred debt was subject to floating interest rates. The most material exposure of Company's and its subsidiaries' debt after is to CDI. Therefore, a continued increase in this interest rate would have an adverse impact on future interest payments.
These assets and liabilities are presented in the balance sheet as follows:

(In thousands of Brazilian reais - R$, unless otherwise stated)

	COMPANY			
	2019		2018	
	Carrying amount	Market value	Carrying amount	Market value
Financial assets				
Cash equivalents	797,502	797,502	1,363,177	1,363,177
Cash investments	182,696	182,696	195,639	195,639
Financial liabilities				
Borrowings and financing (Note 20)	3,724,989	3,724,989	3,203,648	3,203,648

	CONSOLIDATED			
	2019		2018	
	Carrying amount	Market value	Carrying amount	Market value
Financial assets				
Cash equivalents	1,504,986	1,504,986	3,943,324	3,943,324
Cash investments	217,792	217,792	238,962	238,962
Financial liabilities				
Borrowings and financing (Note 20)	8,705,458	8,705,458	7,633,140	7,633,140

Interest rate fluctuation risk sensitivity analysis

Management believes that the most material risk related to interest rate fluctuations arises from its liabilities pegged to the CDI and TJLP. This risk is associated to an increase in those rates. The TJLP rate remained stable at 7.0% p.a. from April 1, 2017 to December 31, 2017. Beginning January 1, 2018, the TJLP was being successively reduced: 6.75% per year up to March 2018, 6.6% per year from April to June 2018, and 6.56% from July to September 2018. In turn, from October to December 2018 this rate was increased to 6.98% per year, it was increased to 7.03%, from January to March 2019, to 7.03%, and reduced again from April to June to 6.26%, from July to September to 5.95%, and from October to December to 5.57%. At the end of the quarter the National Monetary Council decided to reduce this rate again to 5.09% per year, effective for January-March 2020.

As required by CVM Instruction 475, Management estimated the fluctuation scenarios of the rates CDI and TJLP as at December 31, 2019. The rates used for the probable scenario were the rates prevailing at the end of the reporting year.

For purposes of this Instruction, however, these rates have been stressed by 25% and 50%, and used as benchmark for the possible and remote scenarios.

2019					
Interest rate scenarios					
Probable scenario		Possible scenario		Remote scenario	
CDI	TJLP	CDI	TJLP	CDI	TJLP
4.59%	5.57%	5.74%	6.96%	6.89%	8.36%

Such sensitivity analysis considers payment outflows in future dates. Thus, the aggregate of the amounts for each scenario is not equivalent to the fair values, or even the present values of these liabilities.

(In thousands of Brazilian reais - R$, unless otherwise stated)

The impacts of exposure to interest rates, in the sensitivity scenarios estimated by the Company, are shown in the table below:

		2019					
		COMPANY			CONSOLIDATED		
Description	**Individual risk**	***Probable scenario***	***Possible scenario***	***Remote scenario***	***Probable scenario***	***Possible scenario***	***Remote scenario***
Debt pegged to CDI	CDI increase	2,592,351	3,326,581	4,095,263	4,601,044	5,330,277	6,583,653
Debt pegged to TJLP	TJLP increase	863,312	1,029,691	1,203,081	3,221,576	4,232,356	4,972,246
Total assets/liabilities pegged to the interest rate		**3,455,663**	**4,356,272**	**5,298,344**	**7,822,620**	**9,562,633**	**11,555,899**
Total (gain) loss			**900,609**	**1,842,681**		**1,740,013**	**3,733,279**

3.2.2. Credit risk

The concentration of credit risk associated to trade receivables is immaterial due to the diversification of the portfolio. Doubtful receivables are adequately covered by an allowance for doubtful accounts.

Transactions with financial institutions (cash investments and borrowings and financing) are made with prime entities, avoiding the concentration risk. The credit risk of financial investments is assessed by setting caps for investment in the counterparts, taking into consideration the ratings released by the main international risk rating agencies for each one of such counterparts. As at December 31, 2019, approximately 80.92% of the consolidated cash investments were made with counterparties with an AAA, AA, A, and sovereign risk rating.

3.2.3. Liquidity risk

The liquidity risk also arises from the possibility of the Company being unable to discharge its liabilities on maturity dates and obtain cash due to market liquidity restrictions. Management uses its resources mainly to fund capital expenditures incurred on the expansion and upgrading of the network, invest in new businesses.

The Company's management monitors the continual forecasts of the liquidity requirements to ensure that the company has sufficient cash to meet its operating needs and fund capital expenditure to modernize and expand its network.

At the beginning of 2019, Oi completed the capital increase provided for in the JRP. With this increase, the Company received R$4.0 billion, which were allocated to the incremental CAPEX Plan, directed to the expansion of the mobile and fixed infrastructure, while focused primarily on the fiber optics project. In addition to the capital increase, to finance the incremental CAPEX associated to the Strategic Plan, the Company plans to divest unessential and release cash through non-operating event such as, for example, tax credits. Added to this debt is the issue of up to R$2.5 billion in simple, nonconvertible debentures by Oi Móvel, a prepetition financing line, in the form of DIP Financing, in line with the provisions of Clause 5.3 of the Company's PRJ.

Capital management

The Company seeks to manage its equity structure according to best market practices.

(In thousands of Brazilian reais - R$, unless otherwise stated)

The objective of the Company's capital management strategy is to ensure that liquidity levels and financial leverage allow the sustained growth of the Group, the compliance with the strategic investment plan, and generation of returns to our shareholders.

We may change our capital structure, according to existing economic and financial conditions, to optimize our financial leverage and debt management.

The indicators used to measure capital structure management are: gross debt to accumulated twelve-month EBITDA (earnings before interest (financial income and expenses), taxes, depreciation, and amortization), and the interest coverage ratio, as shown below:

Goss debt-to-EBITDA .... between 2x and 4.0x
Interest coverage ratio **(*)** .... higher than 1.75

(*) Measure the Company's capacity to cover its future interest obligations.

3.2.4. Risk of accelerated maturity of borrowings and financing

Any default event in some debt instruments of the Company and its subsidiaries might result in accelerated maturity of other borrowings and financing. Currently, the Company does not anticipate any risk of default on any of its regular cash obligations.

The risk of accelerated maturity arising from noncompliance of financial covenants associated to the debt is detailed in Note 20, in the section 'Covenants'.

4. NET OPERATING REVENUE

	COMPANY		CONSOLIDATED	
	2019	**2018**	**2019**	**2018**
Gross operating revenue	**4,919,559**	**6,018,117**	**27,218,787**	**30,426,548**
Deductions from gross revenue	**(1,192,859)**	**(1,487,366)**	**(7,082,604)**	**(8,366,534)**
Taxes	(1,188,127)	(1,480,121)	(5,641,876)	(6,725,356)
Other deductions	(4,732)	(7,245)	(1,440,728)	(1,641,178)
Net operating revenue	**3,726,700**	**4,530,751**	**20,136,183**	**22,060,014**

Appendix – Statement of Value Added
For the Years Ended December 31, 2019 and 2018
(In thousands of Brazilian reais - R$, unless otherwise stated)

5. REVENUE AND EXPENSES BY NATURE

	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Net operating revenue	**3,726,700**	**4,530,751**	**20,136,183**	**22,060,014**
Operating income (expenses):				
Interconnection	(93,123)	(155,689)	(487,413)	(658,068)
Personnel (i)	(436,163)	(447,970)	(2,528,823)	(2,594,464)
Third-party services	(1,130,455)	(1,175,096)	(6,030,542)	(5,924,556)
Grid maintenance service	(635,591)	(685,633)	(1,014,432)	(1,104,015)
Handset and other costs			(170,860)	(196,347)
Advertising and publicity	(91,187)	(87,107)	(497,278)	(382,091)
Rentals and insurance (ii)	(440,359)	(556,500)	(2,575,862)	(4,200,212)
(Provisions)/reversals	322,692	(131,630)	(216,438)	(202,268)
Expected losses on trade receivables	(116,676)	(99,622)	(489,396)	(697,324)
Impairment losses (iii)	(2,111,022)	(291,758)	(2,111,022)	(291,758)
Taxes and other income (expenses) (iv)	(5,445,549)	(2,611,724)	(110,568)	(249,688)
Other operating income (expenses), net (v)	572,047	(1,194,783)	(6,974)	(5,016,358)
Operating expenses excluding depreciation and amortization	**(9,605,386)**	**(7,437,512)**	**(16,239,608)**	**(21,517,149)**
Depreciation and amortization (ii)	(1,736,318)	(1,707,298)	(6,873,945)	(5,811,123)
Total operating expenses	**(11,341,704)**	**(9,144,810)**	**(23,113,553)**	**(27,328,272)**
Loss before financial income (expenses) and taxes	**(7,615,004)**	**(4,614,059)**	**(2,977,370)**	**(5,268,258)**
Financial income (expenses):				
Financial income	2,653,026	30,118,209	2,662,463	30,950,461
Financial expenses (ii)	(4,027,168)	(3,498,805)	(8,772,181)	(4,341,595)
Total financial income (expenses)	**(1,374,142)**	**26,619,404**	**(6,109,718)**	**26,608,866**
Pre-tax profit (loss)	**(8,989,146)**	**22,005,345**	**(9,087,088)**	**21,340,608**
Income tax and social contribution	(11,288)	2,585,795	(8,019)	3,274,947
Profit (loss) for the year	**(9,000,434)**	**24,591,140**	**(9,095,107)**	**24,615,555**
Profit (loss) attributable to the Company's owners	(9,000,434)	24,591,140	(9,000,434)	24,591,140
Profit (loss) attributable to non-controlling interests			(94,673)	24,415
Operating expenses by function:				
Cost of sales and/or services	(3,063,156)	(3,279,569)	(15,314,814)	(16,179,100)
Selling expenses	(826,647)	(834,002)	(3,547,684)	(3,853,002)
General and administrative expenses	(860,290)	(889,557)	(2,782,300)	(2,738,718)
Other operating income	1,747,031	705,998	4,527,710	2,204,134
Other operating expenses	(2,168,841)	(1,813,616)	(5,991,291)	(6,748,094)
Share of results of investees	(6,169,801)	(3,034,064)	(5,174)	(13,492)
Total operating expenses	**(11,341,704)**	**(9,144,810)**	**(23,113,553)**	**(27,328,272)**

(i) Takes into consideration employee training expenses amounting to R$34,551 (R$9,478 in 2018) on a consolidated basis.

(ii) The semiannual comparison was impacted by the adoption of IFRS 16/CPC 06 (R2) *Leases* beginning January 1, 2019 (Note 2(d)).

(In thousands of Brazilian reais - R$, unless otherwise stated)

(iii) As required by CPC 01/IAS 36, the Company conducts annually an impairment test of its assets with finite useful lives and recognizes an impairment loss related to the expected future profitability of such assets. The Company took into consideration in its assumptions for the 2019 impairment test, among other aspects, the Strategic Plan disclosed in July 2019. The plan rests on transformation actions, focused on improving operational and financial performance (see Note 17).

(iv) Includes the share of profit (loss) of investees.

(v) In 2019, refers primarily to: (a) the recognition of other income from PIS and COFINS credits arising on the deduction of ICMS from PIS and COFINS tax base, as well as the recovery of unduly paid amounts on that tax base, as ruled in the final and unappealable court decision issued in March and September 2019, amounting to R$592,770 in the Company and R$1,517,919 on a consolidated basis (Note 11) and (b) the recognition of expenses on the provision related to an onerous contract for the supply of satellite capacity, amounting to R$1,230,820 on a consolidated basis (Note 25), and (c) recognition of expenses related to the derecognition arising from the reconciliation of prior periods' tax credits and incentives, which are not expected to be realized, amounting to R$167,395 on a consolidated basis. In 2018 refers basically to: (a) expenses on the provision related to the recognition of the onerous contract for the provision of submarine cable capacity, amounting to R$1,333,228 in the Company and R$4,883,620 on a consolidated basis; and (b) recognition of income from the reversal of the provision for the contingency, amounting to R$151,085 in the Company and R$109,242 on a consolidated basis, arising from the reprocessing of the provision estimation model taking into account the new profile and history of discontinuation of lawsuits in the context of the approval and ratification of the JRP.

6. FINANCIAL INCOME (EXPENSES)

	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Financial income				
Fair value adjustment (i)	15,567	5,256,401	48,756	13,290,262
Inflation adjustment and foreign exchange differences on the fair value adjustment	107,295	441,963	334,269	1,398,594
Gain on the restructuring of third-party borrowings (ii)		3,269,609		11,054,800
Interest on and inflation adjustment to other assets (iii)	945,770	474,278	1,922,176	808,764
Income from cash investments	161,772	126,740	238,828	316,880
Interest and foreign exchange differences on intragroup loans (iv)	1,344,267	20,026,653		
Exchange differences on translating foreign cash investments	(51,542)	(8,033)	(52,013)	1,329
Reversal of interest and other income (v)	129,897	530,598	170,447	4,079,832
Total	**2,653,026**	**30,118,209**	**2,662,463**	**30,950,461**

Appendix – Statement of Value Added
For the Years Ended December 31, 2019 and 2018
(In thousands of Brazilian reais - R$, unless otherwise stated)

	COMPANY		CONSOLIDATED	
	2019	**2018**	**2019**	**2018**
Financial expenses and other charges				
a) Borrowing and financing costs				
Recognition of fair value adjustment	(408,633)	(338,221)	(910,491)	(760,197)
Inflation adjustment to and exchange losses on third-party borrowings (vi)	(345,931)	(1,294,236)	(640,068)	(2,493,618)
Interest on borrowings from third parties (vii)	(891,140)	622,237	(1,295,545)	1,299,094
Interest on debentures (vii)	(206,870)	596,279	(322,218)	493,833
Interest and foreign exchange differences on intragroup loans (viii)	(930,426)	(1,857,517)		
Subtotal:	**(2,783,000)**	**(2,271,458)**	**(3,168,322)**	**(1,460,888)**
b) Other charges				
Interest on leases	(74,479)		(948,973)	
Gain (loss) on cash investments classified as held for sale	145,325	292,079	(237,593)	292,700
Tax on transactions and bank fees	(123,512)	(422,319)	(456,579)	(870,488)
Interest on, inflation adjustment to, and foreign exchange differences on other liabilities (ix)	(556,332)	(417,944)	(1,854,304)	(1,251,215)
Inflation adjustment to (provisions)/reversals (x)	(420,770)	52,901	(1,620,378)	(226,870)
Interest on taxes in installments - tax financing program	(9,331)	(20,667)	(16,159)	(28,079)
Derivative transactions	55,025		55,025	
Other expenses (x)	(260,094)	(711,397)	(524,898)	(796,755)
Subtotal:	**(1,244,168)**	**(1,227,347)**	**(5,603,859)**	**(2,880,707)**
Total	**(4,027,168)**	**(3,498,805)**	**(8,772,181)**	**(4,341,595)**
Financial income (expenses)	**(1,374,142)**	**26,619,404**	**(6,109,718)**	**26,608,866**

(i) In 2018, refers to the recognition of the fair value of third-party borrowings and financing arising from the impacts of the ratification of the JRP.

(ii) In 2018, refers basically to the positive impact of the novation of the debt represented by the qualified Senior Notes, calculated pursuant to the JRP.

(iii) In 2019, refers to the accounting recognition amounting to R$894 million in the Company and R$2,100 million on a consolidated basis related to the inflation adjustment to PIS and COFINS credits arising from the deduction of ICMS from the tax base of PIS and COFINS, as well as the recovery of unduly paid amounts as PIS and COFINS, under a final and unappealable court decision reached in March and September 2019, as described in Note 11.

(iv) In 2018, in the Company includes R$18,672 million in fair value adjustment to intragroup loans.

(v) In 2018, represented mainly by the reversal of the interest expenses on debt included in the JRP, adjusted in the period prior to the ratification of the Plan amounting to R$3,013 million and adjustment of trade payables and default payment to fair value amounting to R$877 million, on a consolidated basis.

(vi) In 2018, in the Company and on a consolidated basis, includes R$555 million related to the capital gain associated to the novation of debts arising on the Senior Notes.

(vii) In 2018, on a consolidated basis, represented mainly by the reversal of interest on the debt included in the JRP amounting to R$3,115 million and interest expenses on novated debt and debentures totaling R$167 million.

(In thousands of Brazilian reais - R$, unless otherwise stated)

(viii) In 2018, in the Company includes R$1,157 million in fair value adjustment to intragroup loans.

(ix) This line item includes interest related to the present value adjustment associated with the liabilities of onerous contracts and trade payables subject to the Judicial Reorganization.

(x) In 2019, includes the impact arising on the review of the provision estimate calculation methodology of the labor and civil contingencies, supported by the loss risk assessment made by the Company's legal advisors.

(xi) Represented mainly by financial banking fees and commissions.

7. INCOME TAX AND SOCIAL CONTRIBUTION

Income taxes encompass the income tax and the social contribution. The income tax rate is 25% and the social contribution rate is 9%, generating aggregate nominal tax rate of 34%.

The provision for income tax and social contribution is broken down as follows:

	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Income tax and social contribution				
Current taxes	797	(24,557)	(77,060)	115,706
Deferred taxes (Note 10)	(12,085)	2,610,352	69,041	3,159,241
Total	**(11,288)**	**2,585,795**	**(8,019)**	**3,274,947**

	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Pre-tax profit (loss)	**(8,989,146)**	**22,005,345**	**(9,087,088)**	**21,340,608**
Income tax and social contribution				
Income tax and social contribution on taxed income	3,056,310	(7,481,817)	3,089,610	(7,255,807)
Equity in investees	(2,097,732)	(1,031,582)	(1,759)	(4,587)
Tax effect of interest on capital	(22)			
Tax incentives (basically, operating profit) (i)	37	62	1,263	3,068
Permanent deductions (add-backs) (ii)	(38,419)	8,351,671	(312,512)	13,285,260
Reversal of (Allowance for) impairment losses on deferred tax assets (iii)	(931,462)	2,747,461	(2,474,232)	(2,757,044)
Tax effects of deferred tax assets of foreign subsidiaries (iv)			(310,389)	4,057
Income tax and social contribution effect on profit or loss	**(11,288)**	**2,585,795**	**(8,019)**	**3,274,947**

(i) Refers basically to the exploration profit recognized in the profit or loss of subsidiary Oi Móvel pursuant to Law 11638/2007.

(ii) In 2019, the tax effects from permanent add-backs are represented mainly by the recognition of the fair value adjustment to the restructured liabilities included in the JRP. In 2018 the main tax effects from permanent deductions arising from the recognition of the restructuring of the liabilities included in the JRP.

(iii) Refers to the reversal (recognition) of the allowance for the realizable value (impairment) of deferred tax assets (Note 10).

(In thousands of Brazilian reais - R$, unless otherwise stated)

(iv) Refers to the effects of unrecognized deferred tax assets held by foreign subsidiaries that do not have a history of profitability and/or an expectation to generate taxable income.

8. CASH, CASH EQUIVALENTS AND CASH INVESTMENTS

Cash investments made by the Company and its subsidiaries in the years ended December 31, 2019 and 2018 are measured at their fair values.

(a) Cash and cash equivalents

	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Cash and banks	152,465	152,454	575,863	287,491
Cash equivalents	797,502	1,516,605	1,506,082	4,097,838
Total	**949,967**	**1,669,059**	**2,081,945**	**4,385,329**

	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Repurchase agreements	619,892	868,834	1,192,708	2,742,731
Certificated of Bank Deposit (CDB)	90,427	127,685	173,854	301,632
Private securities	84,467	364,014	134,818	895,073
Time deposits		153,428	1,096	154,514
Other	2,716	2,644	3,606	3,888
Cash equivalents	**797,502**	**1,516,605**	**1,506,082**	**4,097,838**

(b) Cash investments

	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Private securities	167,084	180,159	196,203	213,653
Government securities	15,612	15,480	21,589	25,309
Total	**182,696**	**195,639**	**217,792**	**238,962**
Current	177,869	190,779	183,850	201,975
Non-current	4,827	4,860	33,942	36,987

The Company and its subsidiaries hold cash investments in Brazil and abroad for the purpose of earning interest on cash, benchmarked to CDI in Brazil, LIBOR for the US dollar-denominated portion, and EURIBOR for the euro-denominated portion.

The amounts of cash equivalents and short-term investments are basically invested through exclusive investment funds, and most of the portfolio consists of Government Securities with yield pegged to the SELIC rate. The portfolio is preferably allocated to highly liquid spot market instruments for all investments.

(In thousands of Brazilian reais - R$, unless otherwise stated)

9. ACCOUNTS RECEIVABLE

	COMPANY[1]		CONSOLIDATED	
	2019	2018	2019	2018
Billed services	1,348,859	1,014,798	5,910,643	5,699,817
Unbilled services	401,008	453,985	842,726	984,062
Handheld devices, accessories, and other assets	95,354	115,632	354,928	619,821
Subtotal	**1,845,221**	**1,584,415**	**7,108,297**	**7,303,700**
Expected losses on trade receivables	(461,957)	(390,728)	(773,771)	(787,145)
Total	**1,383,264**	**1,193,687**	**6,334,526**	**6,516,555**

[1] This amount includes the related-party balances, as shown in Note 29.

The aging list of trade receivables is as follows:

	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Current	1,617,990	1,259,070	5,118,874	5,167,408
Past-due up to 60 days	114,255	177,222	527,459	672,673
Past-due from 61 to 90 days	17,282	29,906	104,694	131,798
Past-due from 91 to 120 days	12,066	26,078	99,299	132,562
Past-due from 121 to 150 days	12,004	19,840	83,083	104,628
Over 150 days past-due	71,624	72,299	1,174,888	1,094,631
Total	**1,845,221**	**1,584,415**	**7,108,297**	**7,303,700**

The movements in expected credit losses on trade receivables are as follows:

	COMPANY	CONSOLIDATED
Balance at Jan 1, 2018	**(330,845)**	**(547,485)**
Expected losses on trade receivables	(99,629)	(843,681)
Trade receivables written off as uncollectible	162,221	976,998
CPC 48/IFRS 9 adoption (*)	(122,475)	(372,977)
Balance in 2018	**(390,728)**	**(787,145)**
Expected losses on trade receivables	(116,676)	(488,269)
Trade receivables written off as uncollectible	45,447	501,643
Balance in 2019	**(461,957)**	**(773,771)**

(*) Impact of the first-time recognition, at January 1, 2018, of CPC 48/IFRS 9 as a contra entry to Accumulated losses in Shareholders' equity.

10. CURRENT AND DEFERRED INCOME TAXES

	ASSETS			
	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Current recoverable taxes				
Recoverable income tax (IRPJ) (i)	13,215	72,936	209,513	287,472
Recoverable social contribution (CSLL) (i)	3	4,349	81,215	91,996
IRRF/CSLL - withholding income taxes (ii)	61,506	69,141	251,998	241,778
Total current	**74,724**	**146,426**	**542,726**	**621,246**
Deferred recoverable taxes				
Income tax and social contribution on temporary differences1			99,175	23,050
Total non-current			**99,175**	**23,050**

Appendix – Statement of Value Added
For the Years Ended December 31, 2019 and 2018
(In thousands of Brazilian reais - R$, unless otherwise stated)

	LIABILITIES			
	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Current taxes payable				
Income tax payable		705	54,358	21,628
Social contribution payable		258	12,296	5,398
Total current		**963**	**66,654**	**27,026**
Deferred taxes payable				
Income tax and social contribution on temporary differences[1]	12,085			
Total non-current	**12,085**			

[1] See movements table below

(i) Refer mainly to prepaid income tax and social contribution that will be offset against federal taxes payable in the future.

(ii) Refer to withholding income tax (IRRF) credits on cash investments, derivatives, intragroup loans, government entities, and other amounts that are used as deductions from income tax payable for the years, and social contribution withheld at source on services provided to government agencies.

Movements in deferred income tax and social contribution

	COMPANY			
	Balance in 2018	Recognized in deferred tax benefit/ expenses	Recognized directly in equity	Balance in 2019
Deferred tax assets arising on:				
Temporary differences				
Provisions	736,907	(396,466)		340,441
Provisions for suspended taxes	20,369	101,436		121,805
Provisions for pension funds and impacts of CPC 33 (R1) (IAS 19 R)	(14,762)	(3,341)	4,846	(13,257)
Expected losses on trade receivables	173,766	545		174,311
Profit sharing	18,115	(962)		17,153
Foreign exchange differences	732,978	210,077		943,055
Merged goodwill (i)	1,690,507	(278,759)		1,411,748
Other temporary add-backs and deductions	212,929	14,841	2,557	230,327
Onerous obligation	417,123	13,641		430,764
Deferred taxes on temporary differences	**3,987,932**	**(338,988)**	**7,403**	**3,656,347**
CSLL tax loss carryforwards	4,125,910	286,241	25,095	4,437,246
Total deferred tax assets	**8,113,842**	**(52,747)**	**32,498**	**8,093,593**
Deferred tax liabilities				
Temporary differences and income tax and social contribution of goodwill (ii)	(2,150,343)	972,125		(1,178,218)
Allowance for impairment loss (iii)	(5,963,499)	(931,463)	(32,498)	(6,927,460)
Total deferred tax assets (liabilities)		**(12,085)**		**(12,085)**

(In thousands of Brazilian reais - R$, unless otherwise stated)

	CONSOLIDATED				
	Balance in 2018	**Recognized in deferred tax benefit/ expenses**	**Recognized directly in equity**	**Add-backs/ Offsets**	**Balance in 2019**
Deferred tax assets arising on:					
Temporary differences					
Provisions	1,244,246	(68,999)			1,175,247
Provisions for suspended taxes	29,555	134,999			164,554
Provisions for pension funds and impacts of CPC 33 (R1) (IAS 19 R)	(14,095)	(3,341)	3,331		(14,105)
Expected losses on trade receivables	478,827	(46,407)			432,420
Profit sharing	94,504	(13,185)			81,319
Foreign exchange differences	1,403,193	333,740			1,736,933
Merged goodwill (i)	1,690,508	(278,759)			1,411,749
Other temporary add-backs and deductions	177,085	773,610	2,557		953,252
Onerous obligation	1,527,924	449,900			1,977,824
Deferred taxes on temporary differences	**6,631,747**	**1,281,558**	**5,888**		**7,919,193**
CSLL tax loss carryforwards	13,703,529	1,033,425	25,095	38	14,762,087
Total deferred tax assets	**20,335,276**	**2,314,983**	**30,983**	**38**	**22,681,280**
Deferred tax liabilities					
Temporary differences and income tax and social contribution of goodwill (ii)	(2,532,682)	235,338			(2,297,344)
Allowance for impairment loss (iii)	(17,779,544)	(2,474,234)	(30,983)		(20,284,761)
Total deferred tax assets (liabilities)	**23,050**	**76,087** [2]		**38**	**99,175**

[2] The expenses on deferred taxes disclosed in Note 6 include R$7,046 in deferred taxes of foreign operations classified as held-for-sale assets.

(i) Refer to: (i) deferred income tax and social contribution assets calculated as tax benefit originating from the goodwill paid on acquisition of the Company and recognized by the merged companies in the course of 2009. The realization of the tax credit arises from the amortization of the goodwill balance based on the STFC license and in the appreciation of property, plant and equipment, the utilization of which is estimated to occur through 2025, and (ii) deferred income tax and social contribution assets originating from the goodwill paid on the acquisition of interests in the Company in 2008-2011, recognized by the companies merged with and into Telemar Participações S.A. (“TmarPart”) and by TmarPart merged with and into the Company on September 1, 2015, which was based on the Company’s expected future profitability and the amortization of which is estimated to occur through 2025.

(ii) Refers basically to the tax effects on the appreciation of property, plant and equipment and intangible assets, merged from TmarPart.

(iii) The Company, based on the schedule of expected generation of future taxable income, supported by a technical feasibility study and the comparison with the estimate of the annual realization amount of asset and liability temporary differences, revised its deferred taxes recovery estimate and identified and recognized an allowance at recoverable amount.

(In thousands of Brazilian reais - R$, unless otherwise stated)

The stock of tax loss carryforwards in Brazil and foreign subsidiaries is approximately R$32,805,092 and R$14,433,424, and corresponds to R$11,153,731 and R$3,608,356 in deferred tax assets, respectively, which can be carried forward indefinitely and offset against taxes payable in the future.

11. OTHER TAXES

	ASSETS			
	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Recoverable State VAT (ICMS) (i)	254,684	280,166	1,301,684	1,240,353
PIS and COFINS (ii)	1,463,569	100,181	2,736,009	215,860
Other	54	23	47,257	63,015
Total	**1,718,307**	**380,370**	**4,084,950**	**1,519,228**
Current	485,428	232,961	1,089,391	803,252
Non-current	1,232,879	147,409	2,995,559	715,976

	LIABILITIES			
	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
State VAT (ICMS)	141,147	197,606	526,618	556,693
ICMS Convention No. 69/1998	46,681	23,602	220,467	34,113
PIS and COFINS (iii)	311,597	23,731	574,063	235,319
FUST/FUNTTEL/broadcasting fees (iv)	204,219	199,528	669,193	655,022
Other (v)	7,338	12,242	120,460	181,437
Total	**710,982**	**456,709**	**2,110,801**	**1,662,584**
Current	172,674	233,714	886,763	1,033,868
Non-current	538,308	222,995	1,224,038	628,716

(i) Recoverable ICMS arises mostly from prepaid taxes and credits claimed on purchases of property, plant and equipment, which can be offset against ICMS payable within 48 months, pursuant to Supplementary Law 102/2000.

(ii) The Company and its subsidiaries filed legal proceedings to claim the right to deduct ICMS from the PIS and COFINS tax bases and the recovery of past unduly paid amounts, within the relevant statute of limitations.

In 2019, the 1st and 2nd Region Federal Courts (Brasília and Rio de Janeiro) issued final and unappealable decisions favorable to the Company on two of the three main lawsuits of the Company relating to the discussion about the non-levy of PIS and COFINS on ICMS.

These credits were cleared for offset by the Federal Revenue Service between May and October 2019 so that the Company has been using them to pay federal taxes due since June 2019. The total amount of the credit was approximately R$3 billion, added to the three lawsuits.

(iii) Refers basically to the Social Integration Program Tax on Revenue (PIS) and Social Security Funding Tax on Revenue (COFINS) on revenue, financial income, and other income.

(iv) The Company and its subsidiaries Telemar and Oi Móvel filed lawsuits to discuss the correct calculation of the contribution to the FUST and in the course of the lawsuits made escrow deposits to suspend its collection. These discussions are also being judged by higher courts and a possible transformation of the deposited amounts into definitive payments should not occur within two (2) years.

(In thousands of Brazilian reais - R$, unless otherwise stated)

(v) Consisting primarily of inflation adjustment to suspended taxes and withholding tax on intragroup loans and interest on capital.

12. JUDICIAL DEPOSITS

In some situations the Company makes, as ordered by courts or even at its own discretion to provide guarantees, judicial deposits to ensure the continuity of ongoing lawsuits. These judicial deposits can be required for lawsuits with a likelihood of loss, as assessed by the Company based on the opinion of its legal counselors, as probable, possible, or remote.

As set forth by relevant legislation, judicial deposits are adjusted for inflation.

	COMPANY		CONSOLIDATED	
	2019	**2018**	**2019**	**2018**
Civil	3,201,414	3,746,025	5,027,848	5,849,978
Tax	771,995	801,340	2,301,986	2,337,508
Labor	337,741	583,723	883,125	1,197,144
Subtotal:	**4,311,150**	**5,131,088**	**8,212,959**	**9,384,630**
Estimated loss (i)	(20,920)	(444,407)	(47,112)	(649,910)
Total	**4,290,230**	**4,686,681**	**8,165,847**	**8,734,720**
Current	1,198,219	1,348,700	1,514,464	1,715,934
Non-current	3,092,011	3,337,981	6,651,383	7,018,786

(i) This amount represents the estimated loss of balances of judicial deposits, which are in the process of reconciliation with the obtained statements.

13. PREPAID EXPENSES

	COMPANY		CONSOLIDATED	
	2019	**2018**	**2019**	**2018**
Costs incurred on the performance of a contract (IFRS 15)	236,319	238,648	1,016,337	912,538
Advertising and publicity	814	580	55,695	135,049
Bank guarantee	6,888	15,840	31,297	40,690
Insurance	10,868	22,458	25,807	48,865
Contractual prepaid expenses		16,195		47,771
Other	6,437	10,873	124,944	81,590
Total	**261,326**	**304,594**	**1,254,080**	**1,266,503**
Current	155,513	191,087	670,344	743,953
Non-current	105,813	113,507	583,736	522,550

14. OTHER ASSETS

	COMPANY		CONSOLIDATED	
	2019	**2018**	**2019**	**2018**
Sureties from related parties	56,754	67,621		
Advances to and amounts recoverable from suppliers	124,760	382,783	767,900	621,376
Amounts receivable from the sale of property, plant and equipment items	81,998	85,684	302,947	305,155
Amounts receivable	9,589	211,786	53,406	202,834
Advances to employees	17,178	15,948	79,830	69,635
Other	45,895	43,234	85,739	131,532
Total	**336,174**	**807,056**	**1,289,822**	**1,330,532**
Current	303,509	787,119	852,155	1,079,670
Non-current	32,665	19,937	437,667	250,862

15. INVESTMENTS

	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Investment in subsidiaries	14,483,150	16,917,150		
Joint arrangements			28,632	31,488
Investments in associates			48,578	44,124
Tax incentives, net of allowances for losses	10,273	10,273	31,876	31,876
Other investments	3,799	3,799	24,679	10,352
Total	**14,497,222**	**16,931,222**	**133,765**	**117,840**

Summary of the movements in investment balances

	COMPANY	CONSOLIDATED
Balance at Jan 1, 2018	**5,706,817**	**136,510**
Share of results of investees (Note 5)	(3,034,064)	(13,492)
Share of subsidiaries’ and associates’ equity in investees	251,682	(2,270)
Reclassification of equity in investees to held-for-sale assets	89,802	5,491
Reclassification of equity in investees to the provision for equity deficiency	10,864,056	
Capital increase in subsidiary (*)	3,000,000	
Dividends and interest on capital	(23,899)	
Other	76,828	(8,399)
Balance in 2018	**16,931,222**	**117,840**
Share of results of investees (Note 5)	(6,169,801)	(5,174)
Subsidiaries’ and associates’ share of other comprehensive income	6,926	2,469
Reclassification of equity in investees to held-for-sale assets	429,635	3,514
Reclassification of equity in investees to the provision for equity deficiency	462,676	
Advance for future capital increase in subsidiary (**)	2,720,368	
Dividends and interest on capital	(3,509)	
Other	119,705	15,116
Balance in 2019	**14,497,222**	**133,765**

(*) Refers to the capital increase in subsidiary Telemar with the capitalization of receivables amounting to R$1,035,958 and R$1,964,042 in cash. Said capital increase used preapproved by ANATEL.
(**) Refers to the advance for capital increase held by subsidiary Telemar to discharge its universal service and quality maintenance obligations, totaling an approved R$2,900,000, which were included in January 2020. The actual capital increase will depend on a preapproval from ANATEL.

The main data related to direct equity interests in subsidiaries, for equity accounting purposes, are as follows:

			COMPANY			
			2019			
			In thousands of shares		Equity interests - %	
Subsidiaries	Shareholders’ equity	Profit (loss) for the year	Common	Preferred	Total capital	Voting capital
Telemar	14,521,304	(5,277,122)	154,032,213	189,400,783	100	100
Rio Alto	4,004	176	215,538,129	215,538,129	100	100
Oi Holanda	(1,493,529)	(129,937)	100		100	100
Oi Serviços Financeiros	3,287	4,394	799		100	100
PTIF	(2,919,419)	(300,105)	0.042		100	100
CVTEL	(1,325)	(394)	18		100	100
Carrigans	107		0.100		100	100
PT Participações	3,421,062	(429,634)	1,000,000		100	100
Serede	(316,820)	(184,123)	24,431,651		17.51	17.51

Appendix – Statement of Value Added
For the Years Ended December 31, 2019 and 2018
(In thousands of Brazilian reais - R$, unless otherwise stated)

	COMPANY		
	2019		
Subsidiaries	Equity in investees	Investment value	Provision for negative shareholders' equity
Telemar	(5,277,122)	14,521,304	
Rio Alto	176	4,004	
Oi Holanda	(129,937)		1,493,529
Oi Serviços Financeiros	4,394	3,287	
PTIF	(300,105)		2,919,419
CVTEL	(394)		1,325
Carrigans		107	
Serede	(32,240)		55,476
Unrealized profits or losses with investees	(4,938)	(45,552)	
Subtotal:	**(5,740,166)**	**14,483,150**	**4,469,749**
PT Participações (i)	(429,635)	3,421,062	
Total	**(6,169,801)**	**17,904,212**	**4,469,749**

			COMPANY			
			2018			
			In thousands of shares		Equity interests - %	
Subsidiaries	Shareholders' equity	Profit (loss) for the year	Common	Preferred	Total capital	Voting capital
Telemar	16,951,431	7,993,697	154,032,213	189,400,783	100	100
Rio Alto	5,179	1,290	215,538,129	215,538,129	100	100
Oi Holanda	(4,154,419)	(3,184,592)	100		100	100
Oi Serviços Financeiros	1,050	6,749	799		100	100
PTIF	(7,232,738)	(7,772,366)	0.042		100	100
CVTEL	(902)	(343)	18		100	100
Carrigans	105		0.100		100	100
PT Participações (i)	3,721,549	(89,802)	1,000,000		100	100
Serede	(132,696)	103,164	24,431,651		17.51	17.51

	COMPANY		
	2018		
Subsidiaries	Equity in investees	Investment value	Provision for negative shareholders' equity
Telemar	7,993,697	16,951,431	
Rio Alto	1,290	5,179	
Oi Holanda	(3,184,592)		4,154,419
Oi Serviços Financeiros	6,749	1,050	
PTIF	(7,772,366)		7,255,948
CVTEL	(343)		902
Carrigans		105	
Serede	18,962		23,235
Unrealized profits or losses with investees	(7,659)	(40,615)	
Subtotal:	**(2,944,262)**	**16,917,150**	**11,434,504**
PT Participações (i)	(89,802)	3,721,549	
Total	**(3,034,064)**	**20,638,699**	**11,434,504**

(i) Refers to the share of profit (loss) of investees and the amount of the investments held in the operations in Africa and Asia, classified as held-for-sale assets.

(In thousands of Brazilian reais - R$, unless otherwise stated)

(ii) With the approval of the JRP, the Oi companies' debts, represented by the bonds, were consolidated at Oi. To document these transactions it was necessary to enter into loan agreements between Oi and Oi Holanda, as well as between Oi and PTIF. These agreements provided for the possibility of paying and settling he total amount due through a capital increase, which was the approach effectively applied by Oi on January 31, 2019, amounting to €665,639,602.32 at Oi Holanda and €1,100,259.843.00 at PTIF.

Summarized financial information

	2019		
Subsidiaries	**Assets**	**Liabilities**	**Revenue**
Telemar (1)	34,884,055	20,362,751	5,953,040
Oi Holanda (1)	1,090,870	2,584,399	
PTIF (1)	832,548	3,751,967	
Rio Alto	5,332	1,328	
Oi Serviços Financeiros	21,372	18,085	643
CVTEL	9	1,334	
Serede	1,362,990	1,679,809	2,610,353

(i) Amounts adjusted for consolidation and equity accounting purposes.

	2018		
Subsidiaries	**Assets**	**Liabilities**	**Revenue**
Telemar (1)	33,718,348	16,766,917	6,818,068
Oi Holanda (1)	549,905	4,704,324	
PTIF (1)	686,409	7,919,147	
Rio Alto	5,269	90	
Oi Serviços Financeiros	22,853	21,803	966
CVTEL	95	997	
Serede	1,049,482	1,182,178	1,782,086

(1) Amounts adjusted for consolidation and equity accounting purposes.

(In thousands of Brazilian reais - R$, unless otherwise stated)

16. PROPERTY, PLANT AND EQUIPMENT

	COMPANY							
	Works in progress	**Automatic switching equipment**	**Transmission and other equipment [1]**	**Infrastructure**	**Buildings**	**Right of use - leases**	**Other assets**	**Total**
Cost of PP&E (gross amount)								
Balance at Jan 1, 2018	**647,305**	**6,301,222**	**23,868,268**	**5,515,961**	**1,956,268**		**2,170,474**	**40,459,498**
Additions	1,054,261		94,134	171,948	2,694		3,467	1,326,504
Write-offs	(4,458)		(3,553)	(87,616)	(3,344)		(1,559)	(100,530)
Transfers	(1,236,973)	3,882	476,311	729,435	7,057		20,288	
Balance in 2018	**460,135**	**6,305,104**	**24,435,160**	**6,329,728**	**1,962,675**		**2,192,670**	**41,685,472**
Initial adoption of IFRS 16						624,232		624,232
Contractual changes						60,503		60,503
Additions	1,043,428		77,364	116,892		41,242	10,395	1,289,321
Write-offs	(20,089)		(38,925)	(95,302)		(16,237)	(72)	(170,625)
Transfers	(1,391,233)	3,315	787,364	492,602	13,039		94,913	
Transfer to held-for-sale assets				(332)	(178,729)			(179,061)
Balance in 2019	**92,241**	**6,308,419**	**25,260,963**	**6,843,588**	**1,796,985**	**709,740**	**2,297,906**	**43,309,842**
Accumulated depreciation								
Balance at Jan 1, 2018		**(6,186,986)**	**(20,949,781)**	**(4,069,039)**	**(1,578,494)**		**(1,694,086)**	**(34,478,386)**
Depreciation expenses		(19,310)	(438,858)	(381,076)	(37,005)		(40,001)	(916,250)
Write-offs			3,433	27,295	215		1,055	31,998
Balance in 2018		**(6,206,296)**	**(21,385,206)**	**(4,422,820)**	**(1,615,284)**		**(1,733,032)**	**(35,362,638)**
Depreciation expenses		(18,311)	(486,768)	(445,440)	(33,148)	(54,590)	(37,986)	(1,076,243)
Write-offs			35,409	82,114		3,981	(7,599)	113,905
Transfers			492	(546)	112		(58)	
Transfer to held-for-sale assets				325	135,320			135,645
Balance in 2019		**(6,224,607)**	**(21,836,073)**	**(4,786,367)**	**(1,513,000)**	**(50,609)**	**(1,778,675)**	**(36,189,331)**
PP&E, net								
Balance in 2018	**460,135**	**98,808**	**3,049,954**	**1,906,908**	**347,391**		**459,638**	**6,322,834**
Balance in 2019	**92,241**	**83,812**	**3,424,890**	**2,057,221**	**283,985**	**659,131**	**519,231**	**7,120,511**
Annual depreciation rate (average)		10%	12%	10%	9%	8%	15%	

(1) Transmission and other equipment include transmission and data communication equipment.

Appendix – Statement of Value Added
For the Years Ended December 31, 2019 and 2018
(In thousands of Brazilian reais - R$, unless otherwise stated)

	CONSOLIDATED							
	Works in progress	**Automatic switching equipment**	**Transmission and other equipment [(1)]**	**Infrastructure**	**Buildings**	**Right of use - leases**	**Other assets**	**Total**
Cost of PP&E (gross amount)								
Balance at Jan 1, 2018	**3,434,113**	**20,008,955**	**59,082,061**	**28,341,491**	**4,471,481**		**6,217,467**	**121,555,568**
Additions	5,117,872	487	383,088	388,988	10,721		39,471	5,940,627
Write-offs	(47,465)		(45,211)	(601,087)	(3,344)		(3,403)	(700,510)
Transfers	(5,152,907)	68,518	2,672,783	2,214,139	(15,168)		212,635	
Balance in 2018	**3,351,613**	**20,077,960**	**62,092,721**	**30,343,531**	**4,463,690**		**6,466,170**	**126,795,685**
Initial adoption of IFRS 16						8,167,932		8,167,932
Contractual changes						520,809		520,809
Additions	6,870,257		226,022	295,795	5,054	283,494	96,435	7,777,057
Write-offs	(104,781)		(61,464)	(1,059,118)		(136,734)	(421)	(1,362,518)
Transfers	(7,958,762)	135,576	5,076,356	2,463,974	39,025		243,831	
Transfer to held-for-sale assets				(50,854)	(271,292)			(322,146)
Reclassified from held-for-sale assets							781	781
Balance in 2019	**2,158,327**	**20,213,536**	**67,333,635**	**31,993,328**	**4,236,477**	**8,835,501**	**6,806,796**	**141,577,600**
Accumulated depreciation								
Balance at Jan 1, 2018		**(18,648,010)**	**(45,677,425)**	**(22,230,047)**	**(2,758,012)**		**(5,253,427)**	**(94,566,921)**
Depreciation expenses		(292,524)	(2,251,574)	(1,246,471)	(90,348)		(407,396)	(4,288,313)
Write-offs			40,387	442,589	215		1,921	485,112
Transfers		(36)	(151)	(353)	33,570		(33,030)	
Balance in 2018		**(18,940,570)**	**(47,888,763)**	**(23,034,282)**	**(2,814,575)**		**(5,691,932)**	**(98,370,122)**
Depreciation expenses		(271,449)	(2,519,706)	(1,456,608)	(101,432)	(952,225)	(247,836)	(5,549,256)
Write-offs			53,452	979,614		22,315	(7,514)	1,047,867
Transfers		85	(565)	(787)	776		491	
Transfer to held-for-sale assets				16,267	189,198			205,465
Reclassified from held-for-sale assets							(720)	(720)
Balance in 2019		**(19,211,934)**	**(50,355,582)**	**(23,495,796)**	**(2,726,033)**	**(929,910)**	**(5,947,511)**	**(102,666,766)**
PP&E, net								
Balance in 2018	**3,351,613**	**1,137,390**	**14,203,958**	**7,309,249**	**1,649,115**		**774,238**	**28,425,563**
Balance in 2019	**2,158,327**	**1,001,602**	**16,978,053**	**8,497,532**	**1,510,444**	**7,905,591**	**859,285**	**38,910,834**
Annual depreciation rate (average)		10%	12%	10%	9%	11%	15%	

(1) Transmission and other equipment include transmission and data communication equipment.

Additional disclosures

Pursuant to ANATEL’s concession agreements, the property, plant and equipment items of the Concessionaires that are indispensable for the provision of the Switched Fixed-line Telephony Services (“STFC”) provided for in said agreements are considered returnable assets.

As at December 31, 2019, the residual balance of the Company’s returnable assets is R$3,040,263 (R$2,900,922 in 2018 and consists of assets and installations in progress, switching and transmission equipment, payphones, outside network equipment, power equipment, and systems and operation support equipment. On a consolidated basis, this balance amounts to R$9,048,877 (R$8,218,006 in 2018).

Appendix – Statement of Value Added
For the Years Ended December 31, 2019 and 2018
(In thousands of Brazilian reais - R$, unless otherwise stated)

In the year ended December 31, 2019, financial charges and transaction costs incurred on works in progress were capitalized at the average rate of 7% per year.

Movements in the rights of use - leases

	COMPANY				
	Towers	**Physical space**	**Vehicles**	**Real estate**	**Total**
Balance in 2018					
Initial adoption of IFRS 16	577,340	45,342		1,550	624,232
Contractual changes	59,944	559			60,503
Additions	14,342	1,816	25,084		41,242
Write-offs	(7,544)	(8,415)	(278)		(16,237)
Balance in 2019	**644,082**	**39,302**	**24,806**	**1,550**	**709,740**
Accumulated depreciation					
Balance in 2018					
Depreciation expenses	(45,096)	(6,108)	(3,175)	(211)	(54,590)
Write-offs	3,655	294	32		3,981
Balance in 2019	**(41,441)**	**(5,814)**	**(3,143)**	**(211)**	**(50,609)**
Right of use, net					
Balance in 2018					
Balance in 2019	**602,641**	**33,488**	**21,663**	**1,339**	**659,131**

	CONSOLIDATED					
	Towers	**Physical space**	**Stores**	**Vehicles**	**Real estate**	**Total**
Balance in 2018						
Initial adoption of IFRS 16	7,353,507	521,523	117,480	93,615	81,807	8,167,932
Contractual changes	500,690	6,614	6,680		6,825	520,809
Additions	65,559	29,008	13,555	174,455	917	283,494
Write-offs	(35,836)	(82,091)	(8,701)	(8,804)	(1,302)	(136,734)
Balance in 2019	**7,883,920**	**475,054**	**129,014**	**259,266**	**88,247**	**8,835,501**
Accumulated depreciation						
Balance in 2018						
Depreciation expenses	(737,439)	(92,896)	(31,456)	(70,787)	(19,647)	(952,225)
Write-offs	13,176	3,967	1,580	3,028	564	22,315
Balance in 2019	**(724,263)**	**(88,929)**	**(29,876)**	**(67,759)**	**(19,083)**	**(929,910)**
Right of use, net						
Balance in 2018						
Balance in 2019	**7,159,657**	**386,125**	**99,138**	**191,507**	**69,164**	**7,905,591**

(In thousands of Brazilian reais - R$, unless otherwise stated)

17. INTANGIBLE ASSETS

	COMPANY				
	Intangibles in progress	Data processing systems	Regulatory licenses	Other	Total
Cost of intangible assets (gross amount)					
Balance at Jan 1, 2018	**12,773**	**2,524,469**	**14,477,394**	**527,620**	**17,542,256**
Additions	2,270			11,655	13,925
Transfers	(2,387)	2,001		386	
Balance in 2018	**12,656**	**2,526,470**	**14,477,394**	**539,661**	**17,556,181**
Additions	5,392			36	5,428
Transfers	(5,559)	70,294		(64,735)	
Balance in 2019	**12,489**	**2,596,764**	**14,477,394**	**474,962**	**17,561,609**
Accumulated amortization					
Balance at Jan 1, 2018		**(2,472,465)**	**(8,473,474)**	**(457,396)**	**(11,403,335)**
Amortization expenses		(38,320)	(750,737)	(1,991)	(791,048)
Impairment loss expenses (see Note 5 (iii))			(291,758)		(291,758)
Balance in 2018		**(2,510,785)**	**(9,515,969)**	**(459,387)**	**(12,486,141)**
Amortization expenses		(33,412)	(624,616)	(2,047)	(660,075)
Impairment loss expenses (see Note 5 (iii))			(2,111,022)		(2,111,022)
Balance in 2019		**(2,544,197)**	**(12,251,607)**	**(461,434)**	**(15,257,238)**
Intangible assets, net					
Balance in 2018	**12,656**	**15,685**	**4,961,425**	**80,274**	**5,070,040**
Balance in 2019	**12,489**	**52,567**	**2,225,787**	**13,528**	**2,304,371**
Annual amortization rate (average)		20%	20%	23%	

	CONSOLIDATED				
	Intangibles in progress	Data processing systems	Regulatory licenses	Other	Total
Cost of intangible assets (gross amount)					
Balance at Jan 1, 2018	**17,047**	**8,743,013**	**18,602,742**	**1,812,090**	**29,174,892**
Additions	263,305	4,524		73,471	341,300
Write-offs	(14)				(14)
Transfers	(253,143)	234,157		18,986	
Balance in 2018	**27,195**	**8,981,694**	**18,602,742**	**1,904,547**	**29,516,178**
Additions	369,695	8,402		44,248	422,345
Transfers	(384,526)	410,487		(25,961)	
Balance in 2019	**12,364**	**9,400,583**	**18,602,742**	**1,922,834**	**29,938,523**
Accumulated amortization					
Balance at Jan 1, 2018		**(7,673,193)**	**(11,559,717)**	**(1,591,297)**	**(20,824,207)**
Amortization expenses		(443,268)	(900,360)	(108,139)	(1,451,767)
Impairment loss expenses (see Note 5 (iii))			(291,758)		(291,758)
Balance in 2018		**(8,116,461)**	**(12,751,835)**	**(1,699,436)**	**(22,567,732)**
Amortization expenses		(381,874)	(772,179)	(107,851)	(1,261,904)
Transfers		8		(8)	
Impairment loss expenses (see Note 5 (iii))			(2,111,022)		(2,111,022)
Balance in 2019		**(8,498,327)**	**(15,635,036)**	**(1,807,295)**	**(25,940,658)**
Intangible assets, net					
Balance in 2018	**27,195**	**865,233**	**5,850,907**	**205,111**	**6,948,446**
Balance in 2019	**12,364**	**902,256**	**2,967,706**	**115,539**	**3,997,865**
Annual amortization rate (average)		20%	20%	23%	

(In thousands of Brazilian reais - R$, unless otherwise stated)

18. TRADE PAYABLES

	COMPANY		CONSOLIDATED	
	2019	**2018**	**2019**	**2018**
ANATEL (*)	2,340,556	2,209,199	7,572,101	7,147,137
Services	734,669	1,030,308	3,423,011	3,397,413
Infrastructure, network and plant maintenance materials	500,272	685,303	2,607,888	2,861,712
Rental of polls and rights-of-way	79,102	83,553	118,966	191,723
Other	24,656	50,106	289,508	647,856
Fair present adjustment	(1,718,802)	(1,814,087)	(5,124,107)	(5,426,971)
Total	**1,960,453**	**2,244,382**	**8,887,367**	**8,818,870**
Current	1,025,052	1,301,537	5,593,940	5,225,862
Non-current	935,401	942,845	3,293,427	3,593,008
Trade payables subject to the Judicial Reorganization	1,172,006	1,013,342	4,093,058	3,794,610
Trade payables not subject to the Judicial Reorganization	788,447	1,231,040	4,794,309	5,024,260
Total	**1,960,453**	**2,244,382**	**8,887,367**	**8,818,870**

(*) Refers for prepetition claims of the Management Regulatory Agency of the Federal Attorney General's Office (AGU) to be settle pursuant to the JRP (see Note 24).

19. DERIVATIVE FINANCIAL INSTRUMENTS

	COMPANY		CONSOLIDATED	
	2019	**2018**	**2019**	**2018**
Liabilities				
Non-deliverable Forward (NDF) contracts	1,152		1,152	
Total	**1,152**		**1,152**	
Current	1,152		1,152	

(In thousands of Brazilian reais - R$, unless otherwise stated)

20. BORROWINGS AND FINANCING

Borrowings and financing by type

	COMPANY		CONSOLIDATED			
					Contractual maturity	
	2019	2018	2019	2018	Principal	Interest
Foreign currency Senior Notes	6,980,817	7,068,263	6,980,817	7,068,263	Jul 2025	Semiannual
Public debentures	4,565,236	4,358,366	7,110,737	6,788,519	Aug 2023 to Feb 2035	Semiannual
Financial institutions						
Local currency						
BNDES	1,009,982	925,271	3,947,137	3,616,074	Mar 2024 to Feb 2033	Monthly
Other	599,115	545,485	2,071,209	1,905,786	Jan 2020 to Feb 2035	Monthly and semiannual
Foreign currency	957,642	904,553	6,725,591	6,353,322	Aug 2023 to Feb 2035	Semiannual
Foreign currency multilateral financing	360,161	326,376	360,161	326,376	Aug 2024 to Feb 2030	Semiannual
Default payment						
Local currency	151,989	151,989	207,035	207,035	Feb 2038 to Feb 2042	Single installment
Foreign currency	1,086,900	1,048,285	4,239,168	4,125,317	Feb 2038 to Feb 2042	
Loan and debentures from subsidiaries (Note 29)	19,088,767	18,610,408				
Subtotal	**34,800,609**	**33,938,996**	**31,641,855**	**30,390,692**		
Incurred debt issuance cost	(12,307)	(10,629)	(13,911)	(12,126)		
Fair value adjustment (*)	(23,379,735)	(23,593,369)	(13,401,195)	(13,928,660)		
Total	**11,408,567**	**10,334,998**	**18,226,749**	**16,449,906**		
Current	319,569	660,172	326,388	672,894		
Non-current	11,088,998	9,674,826	17,900,361	15,777,012		

(*) The calculation takes into consideration the contractual flows provided for in the JRP, discounted using rates that range from 12.6% per year to 16.4% per year, depending on the maturities and currency of each instrument.

Debt issuance costs by type

	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Financial institutions	11,996	10,298	13,306	11,481
Public debentures	311	331	605	645
Total	**12,307**	**10,629**	**13,911**	**12,126**
Current	1,404	1,290	1,404	1,290
Non-current	10,903	9,339	12,507	10,836

Debt breakdown by currency

	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Euro	514,837	252,659	311,309	198,931
US dollar	7,168,741	6,878,691	9,209,982	8,617,835
Brazilian reais	3,724,989	3,203,648	8,705,458	7,633,140
Total	**11,408,567**	**10,334,998**	**18,226,749**	**16,449,906**

(In thousands of Brazilian reais - R$, unless otherwise stated)

Debt breakdown by index

	Index/rate	COMPANY 2019	COMPANY 2018	CONSOLIDATED 2019	CONSOLIDATED 2018
Fixed rate	1.75% p.a. – 10.00% p.a.	6,830,365	6,708,094	9,078,998	8,562,117
CDI	80% CDI	2,645,959	2,235,675	4,694,687	3,949,639
TJLP	2.95% p.a. + TJLP	1,009,691	924,957	3,945,972	3,614,820
TR	0% p.a.	16,637	10,593	22,662	14,430
Other	0% p.a.	905,915	455,679	484,430	308,900
Total		**11,408,567**	**10,334,998**	**18,226,749**	**16,449,906**

Maturity schedule of the long-term debt and debt issuance costs allocation schedule

	Long-term debt		Debt issuance costs	
	COMPANY	CONSOLIDATED	COMPANY	CONSOLIDATED
	2019			
2021	2,029	3,953	1,697	1,811
2022	219	970	1,697	1,811
2023	118,266	313,181	1,697	1,811
2024	289,936	773,745	1,697	1,811
2025 and thereafter	34,069,185	30,222,214	4,114	5,263
Total	**34,479,635**	**31,314,063**	**10,902**	**12,507**

Guarantees

BNDES financing facilities are originally collateralized by receivables of the Company and its subsidiaries Telemar and Oi Móvel. The Company provides guarantees to its subsidiaries Telemar and Oi Móvel for such financing facilities, totaling R$2,937 million.

Covenants

The Company and its subsidiaries are subject to some covenants existing in certain loan and financing agreements, based on financial ratios, including the Gross debt-to-EBITDA ratio. The Company monitors on a quarterly basis these terms and conditions and for the year ended December 31, 2019, the Company and its subsidiaries were compliant with all relevant covenants of the agreements.

Failure to comply with these financial ratios might result in the accelerated maturity of the debt balance due. As a result of the COVID-19 pandemic and the high foreign exchange volatility, the Company preventively initiated talks with its creditors to obtain a waiver in the event it fails to comply with certain covenants throughout 2020, and thus avoid the contractually provided for consequences.

Changes in borrowings and financing

	2018	Interest, inflation adjustment, and exchange differences	Fair value allocation	Principal and interest payment	Tax and other payments	Transfers and other	2019
Borrowings and financing	16,449,906	2,252,008	527,465	(935,243)	(171,962)	104,575	18,226,749

The Company made the interest payments of the Qualified Bonds, which do not have a grace period for the interest, in August 2019.

(In thousands of Brazilian reais - R$, unless otherwise stated)

21. LICENSES AND CONCESSIONS PAYABLE

	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Personal Mobile Services (SMP)			58,582	29,530
STFC concessions		22,925		56,089
Total		**22,925**	**58,582**	**85,619**
Current		22,925	58,582	85,619

Correspond to the amounts payable to ANATEL for the radiofrequency concessions and the licenses to provide the SMP services, obtained at public auctions, and STFC service concessions.

22. LEASES PAYABLE

	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Towers	597,963		7,373,373	
Physical space	34,968		403,485	
Stores			103,792	
Real estate	1,403		72,719	
Vehicles	22,025		196,657	
Total	**656,359**		**8,150,026**	
Current	114,652		1,510,097	
Non-current	541,707		6,639,929	

Movements in leases payable

	COMPANY	CONSOLIDATED
Balance in 2018		
Initial adoption of IFRS 16	624,232	8,167,932
New contracts	26,899	237,575
Cancellations	(15,900)	(127,699)
Interest	76,852	958,573
Payments	(117,500)	(1,611,273)
Contractual changes	61,776	524,918
Balance in 2019	**656,359**	**8,150,026**

Aging list of long-term lease payments

	COMPANY	CONSOLIDATED
2021	125,101	1,501,799
2022	116,633	1,414,630
2023	109,418	1,307,923
2024	107,542	1,253,069
2025 to 2029	356,087	4,882,027
2030 and thereafter	334,319	3,613,174
Total	**1,149,100**	**13,972,622**
Interest	(607,393)	(7,332,693)
Non-current	**541,707**	**6,639,929**

The present value of leases payable was calculated, based on a projection of future fixed payments, which do not take into consideration the projected inflation, discounted using discount rates that range from 10.79% to 12.75% p.a.

(In thousands of Brazilian reais - R$, unless otherwise stated)

Contracts not recognized as leases payable

The Company elected not to recognize a leased not to recognize a lease liability for short-term leases (leases with expected period of 12 months or less) or leases of low value assets. As at December 31, 2019, the payments made under such leases were recognized in profit or loss and amounted to R$1,200, in the Company and R$78,134, on a consolidated basis. Additionally, the Company also recognized in profit or loss the amount R$257, in the Company and R$7,966, on a consolidated basis, related to variable lease payments.

Supplemental information

In compliance with Circular/CVM/SNC/SEP/No. 02/2019, of December 18, 2019 and Circular SNC/SEP01/20, of February 5, 2020, the table below shows required supplemental information:

COMPANY							
Maturity	**Average discount rate**	**2021**	**2022**	**2023**	**2024**	**2025 to 2029**	**After 2029**
Up to 2023	10.79%	16,617	8,149	934			
2024 to 2030	12.27%	8,165	8,165	8,165	7,223	9,870	162
2031 to 2034	12.58%	91,619	91,619	91,619	91,619	302,718	176,005
2035 onwards	12.75%	8,700	8,700	8,700	8,700	43,499	158,152
Total		**125,101**	**116,633**	**109,418**	**107,542**	**356,087**	**334,319**
Projected inflation[1]		4.72%	4.45%	4.51%	4.73%	5.27%	5.46%

CONSOLIDATED							
Maturity	**Average discount rate**	**2021**	**2022**	**2023**	**2024**	**2025 to 2029**	**After 2029**
Up to 2023	10.79%	235,621	148,452	41,745			
2024 to 2030	12.27%	665,412	665,412	665,412	652,303	2,375,643	10,257
2031 to 2034	12.58%	371,319	371,319	371,319	371,319	1,359,149	772,065
2035 onwards	12.75%	229,447	229,447	229,447	229,447	1,147,235	2,830,852
Total		**1,501,799**	**1,414,630**	**1,307,923**	**1,253,069**	**4,882,027**	**3,613,174**
Projected inflation[1]		4.72%	4.45%	4.51%	4.73%	5.27%	5.46%

[1]Source: Anbima

23. TAX REFINANCING PROGRAM

The outstanding balance of the Tax Debt Refinancing Program is broken down as follows:

	COMPANY		**CONSOLIDATED**	
	2019	**2018**	**2019**	**2018**
Law 11941/09 and Law 12865/2013 tax financing program	263,257	322,654	417,076	496,240
PRT (MP 766/2017) (i)		28,404		54,528
PERT (Law 13496/2017) (ii)	427	2,438	427	2,438
Total	**263,684**	**353,496**	**417,503**	**553,206**
Current	54,894	86,154	86,721	142,036
Non-current	208,790	267,342	330,782	411,170

The amounts of the tax refinancing program created under Law 11941/2009, Provisional Act (MP) 766/2017, and Law 13469/2017, divided into principal, fine and interest, which include the debt declared at the time the deadline to join the program (Law 11941/2009 installment plan) was reopened as provided for by Law 12865/2013 and Law 12996/2014, are broken down as follows:

(In thousands of Brazilian reais - R$, unless otherwise stated)

	CONSOLIDATED				
	2019				2018
	Principal	**Fines**	**Interest**	**Total**	**Total**
Tax on revenue (COFINS)	2,718		151,072	153,790	199,595
Income tax	1,317		36,678	37,995	44,967
Tax on revenue (PIS)	36,785		35,242	72,027	79,885
Social security (INSS – SAT)	650	371	2,018	3,039	4,774
Social contribution	580	22	10,713	11,315	12,503
Tax on banking transactions (CPMF)	18,950	2,137	29,486	50,573	50,132
PRT – Other debts - RFB					54,528
PERT – Other debts - RFB	240		187	427	2,438
Other	12,137	4,314	71,886	88,337	104,384
Total	**73,377**	**6,844**	**337,282**	**417,503**	**553,206**

The payment schedule is as follows:

	COMPANY	CONSOLIDATED
2020	54,894	86,718
2021	54,467	86,292
2022	54,467	86,292
2023	54,467	86,292
2024	45,389	71,909
Total	**263,684**	**417,503**

The tax debts, as is the case of the debts included in tax refinancing programs, are not subject to the terms of the judicial reorganization terms.

(i) Tax Compliance Program (PRT)

The Company elected to include and settle under said tax refinancing program, created by the Federal Government, under Provisional Act 766/2017 (PRT), the administrative proceedings with a probable likelihood of an unfavorable outcome and those where, while attributed a possible likelihood of an unfavorable outcome, the cost effectiveness of including them provided to be highly advantageous in light of the benefits offered by the program.

The Company elected the payment method that allows settling 76% of the consolidated debt utilizing tax credits arising on tax loss carryforwards amounting to R$1,035 million, and paid the remaining 24% in 24 monthly installments totaling R$327 million plus SELIC interest charged as from the adherence month. All the procedures necessary for the Company to join the PRT were completed within the statutory deadline, while MP 766/2017 was still in effect.

Subsequently, on June 1, 2017 the effective period of said Provisional Act ended because it was not passed into law within the relevant constitutional deadline. However, as established by the Federal Constitution, the legal relationships established and arising from actions taken while a provisional act not passed into law was effective, as in the case of the Company's joining the PRT, continue to be governed by the former provisional act, except where the National Congress provides for otherwise, by means of a legislative decree.

Note that the PRT, governed by MP 766/2017, is not equivalent to the tax installment plan established by MP 783/2017 (PERT), of May 31, 2017, because of differences in payment terms and conditions, plan scope, and access requirements.

(In thousands of Brazilian reais - R$, unless otherwise stated)

(ii) Special Tax Compliance Program (PERT)

The Company elected to include in and settle through PERT only tax debts that in aggregate do not exceed the fifteen million Brazilian reais (R$15,000,000.00) ceiling set by Article 3 of Law 13496/2017.

The tax debts included in said program were those being disputed at the administrative level in proceedings classified with a low likelihood of the Company winning and which, in the event of an unfavorable outcome, would result in a lawsuit—and entail all the associated costs—, the reason why the cost effectiveness of joining the program was quite positive, because of the benefits offered by PERT (especially the payment of just 5% of the debt in cash).

24. PROVISIONS

Balance breakdown

		COMPANY		CONSOLIDATED	
	Type	**2019**	**2018**	**2019**	**2018**
	Labor				
(i)	Overtime	288,819	193,343	855,722	602,673
(ii)	Indemnities	65,378	46,513	299,096	187,499
(iii)	Sundry premiums	47,617	35,720	221,743	166,963
(iv)	Stability/reintegration	76,508	52,144	215,449	160,442
(v)	Additional post-retirement benefits	61,053	44,683	108,827	94,691
(vi)	Salary differences and related effects	40,328	24,473	101,573	61,674
(vii)	Lawyer/expert fees	28,287	18,492	51,193	30,898
(viii)	Severance pay	8,647	6,700	38,261	31,521
(ix)	Labor fines	4,624	3,535	30,399	25,921
(x)	Employment relationship	197	275	18,758	15,952
(xi)	Severance Pay Fund (FGTS)	5,115	3,843	13,306	10,804
(xii)	Joint liability	182	135	3,100	889
(xiii)	Other claims	37,616	28,656	93,605	67,254
	Total	**664,371**	**458,512**	**2,051,032**	**1,457,181**
	Tax				
(i)	State VAT (ICMS)	72,286	67,786	746,481	503,332
(ii)	Tax on services (ISS)	7	1,269	69,208	76,389
(iii)	INSS (joint liability, fees, and severance pay)	453	442	23,847	23,100
(iv)	Real Estate Tax (IPTU)	58,541		150,223	
(v)	Other claims	14,906	14,373	61,189	47,262
	Total	**146,193**	**83,870**	**1,050,948**	**650,083**
	Civil				
(i)	ANATEL	123,625	152,445	570,283	580,182
(ii)	Corporate	397,946	1,124,037	397,946	1,124,037
(iii)	Small claims courts	47,444	108,503	118,910	191,839
(iv)	Other claims[1]	312,448	604,100	1,062,561	1,035,398
	Total	**881,463**	**1,989,085**	**2,149,700**	**2,931,456**
	Total provisions	**1,692,027**	**2,531,467**	**5,251,680**	**5,038,720**
	Current	286,604	429,075	547,996	680,542
	Non-current	1,405,423	2,102,392	4,703,684	4,358,178

[1] In 2018, includes R$157,809 related to the agreement entered into with Pharol, as described in Note 1 – Litigation Termination Settlement between the Company and Pharol, settled in the first quarter of 2019.

(In thousands of Brazilian reais - R$, unless otherwise stated)

In compliance with the relevant Law, the provisions are adjusted for inflation on a monthly basis.

Breakdown of contingent liabilities, per nature

The breakdown of contingent liabilities with a possible unfavorable outcome and, therefore, not recognized in accounting, is as follows:

	COMPANY		CONSOLIDATED	
	2019	**2018**	**2019**	**2018**
Labor	190,969	232,854	797,927	770,982
Tax	5,468,097	5,481,243	28,416,097	27,586,094
Civil	612,833	693,149	1,667,900	1,723,110
Total	**6,271,899**	**6,407,246**	**30,881,924**	**30,080,186**

Summary of movements in provision balances

	COMPANY			
	Labor	**Tax**	**Civil**	**Total**
Balance at Jan 1, 2018	**531,629**	**127,934**	**2,893,805**	**3,553,368**
Inflation adjustment	24,056	(13,469)	(63,488)	(52,901)
Additions/(reversals)	49,198	(20,936)	(47,717)	(19,455)
Write-offs for payment/terminations (i)	(146,371)	(9,659)	(793,515)	(949,545)
Balance in 2018	**458,512**	**83,870**	**1,989,085**	**2,531,467**
Inflation adjustment (ii)	193,914	(2,787)	229,643	420,770
Additions/(reversals) (ii)	(1,913)	397,952	(718,731)	(322,692)
Write-offs for payment/terminations	13,858	(332,842)	(618,534)	(937,518)
Balance in 2019	**664,371**	**146,193**	**881,463**	**1,692,027**

	CONSOLIDATED			
	Labor	**Tax**	**Civil**	**Total**
Balance at Jan 1, 2018	**1,596,418**	**660,302**	**5,526,414**	**7,783,134**
Inflation adjustment (i)	184,112	77,697	(34,939)	226,870
Additions/(reversals) (i)	99,805	(49,659)	42,734	92,880
Write-offs for payment/terminations (i)	(423,154)	(38,257)	(2,602,753)	(3,064,164)
Balance in 2018	**1,457,181**	**650,083**	**2,931,456**	**5,038,720**
Inflation adjustment (ii)	485,049	60,688	1,074,641	1,620,378
Additions/(reversals) (ii)	316,182	1,002,827	(1,102,571)	216,438
Write-offs for payment/terminations	(207,380)	(666,563)	(753,826)	(1,627,769)
Reclassified from held-for-sale assets		3,913		3,913
Balance in 2019	**2,051,032**	**1,050,948**	**2,149,700**	**5,251,680**

(i) This line item basically includes the amounts related to proceedings terminated and included in the list of the Company's judicial reorganization creditors, which were transferred to the line item trade payables and will be paid according to the terms of the JRP.

(ii) The Company continuously monitors its proceedings and revised the calculation methodology of provision estimates, taking into consideration the new profile and history of legal proceeding terminations, in the context of the JRP, as well as in the assessment of the risk of loss carried out by Management supported by its legal advisors.

Summary of the main matters related to the recognized provisions and contingent liabilities

Provisions

Labor

The Company is a party to a large number of labor lawsuits and calculates the related provision based on a statistical methodology that takes into consideration, but not limited to, the total number of existing lawsuits, the claims make in each lawsuit, the amount claimed in each lawsuit, the history of payments made, and the technical opinion of the legal counsel.

(i) Overtime - refers to the claim for payment of salary and premiums by alleged overtime hours;

(ii) Indemnities - refers to amounts allegedly due for occupational accidents, leased vehicles, occupational diseases, pain and suffering, and tenure;

(iii) Sundry premiums - refer to claims of hazardous duty premium, based on Article 193 of the Brazilian Labor Code (CLT), due to the alleged risk from employees' contact with the electric power grid, health hazard premium, pager pay, and transfer premium.

(iv) Stability/reintegration - claim due to alleged noncompliance with an employee's special condition which prohibited termination of the employment contract without cause;

(v) Supplementary retirement benefits - differences allegedly due on the benefit salary referring to payroll amounts;

(vi) Salary differences and related effects - refer mainly to claims for salary increases due to alleged noncompliance with trade union agreements. As for the effects, these refer to the impact of the salary increase allegedly due on the other amounts calculated based on the employee's salary;

(vii) Lawyers/expert fees - installments payable to the plaintiffs' lawyers and court appointed experts, when necessary for the case investigation, to obtain expert evidence;

(viii) Severance pay - claims of amounts which were allegedly unpaid or underpaid upon severance;

(ix) Labor fines - amounts arising from delays or nonpayment of certain amounts provided for in the employment contract, within the deadlines set out in prevailing legislation and collective bargaining agreements;

(x) Employment relationship - lawsuits filed by outsourced companies' former employees claiming the recognition of an employment relationship with the Company or its subsidiaries by alleging an illegal outsourcing and/or the existence of elements that evidence such relationship, such as direct subordination;

(xi) Supplement to FGTS fine - arising from understated inflation, refers to claims to increase the FGTS severance fine as a result of the adjustment of accounts of this fund due to inflation effects. The Company filed a lawsuit against Caixa Econômica Federal to assure the reimbursement of all amounts paid for this purpose;

(xii) Joint liability - refers to the claim to assign liability to the Company, filed by outsourced personnel, due to alleged noncompliance with the latter's labor rights by their direct employers;

(xiii) Other claims - refer to different litigation including rehiring, profit sharing, qualification of certain allowances as compensation, etc.

Tax

The provisions for tax lawsuits are calculated individually taking into consideration Management and the legal counsel's risk assessment. These contingencies are not included in the Judicial Reorganization Plan.

(i) ICMS - Refers to the provision considered sufficient by management to cover the various tax assessments related to: (a) levy of ICMS and not ISS on certain revenue; (b) claim and offset of credits on the purchase of goods and other inputs, including those necessary for network maintenance; and (c) tax assessments related to alleged noncompliance with accessory obligations.

(ii) ISS - the Company and TMAR have provisions for tax assessment notices challenged because of the levy of ISS on several value added, technical, and administrative services, and equipment leases.

(iii) INSS - Provision related basically to probable losses on lawsuits discussing joint liability and indemnities.

(iv) IPTU – Provision related to entries that refer to the collection of IPTU (municipal property tax) levied by several different municipalities where the Company owns properties.

(v) Other claims - Refer basically to provisions to cover several tax assessments related to the collection of income tax and social contribution collection.

Civil

(i) ANATEL – On June 30, 2016 the Company was a party to noncompliance administrative proceedings and lawsuits filed by ANATEL and the Federal Attorney General's Office (AGU) totaling an estimate R$14.5 billion, which were included in the JRP as electable for payment as provided for in this Plan. On this date, R$8.4 billion in liquid proceedings and R$6.1 billion in illiquid proceedings.

With regard to the proceedings included in the JRP and taking into consideration the decision that granted the judicial reorganization on February 5, 2018, the Company revised the criteria used to calculate the provision for these regulatory contingencies to start considering the estimate of discounted future cash flows associated to each one of the payment methods provided for in the JRP for this type of claims. As at December 31, 2019, this provision totals R$570 million.

For the contingencies not subject to the judicial reorganization, the takes into consideration the individual management of each noncompliance event, based on opinions of outside attorneys.

The Company disagrees and is challenging some of the alleged noncompliance events, and is also challenging the unfairness and unreasonableness of the amount of imposed fines in light of the pinpointed noncompliance event and has kept in balance sheet the amount it deems a probable loss.

The JRP prescribes in a specific clause how regulatory agencies' claims should be addressed. It is worth mentioning that part of the amount recognized in December 2017, related to ANATEL was transferred to Trade Payables (see Note 18) as part of the recognitions resulting from the JRP. Note also that ANATEL filed bill of review No. 001068-32.2018.8.19.0000 against the decision that ratifies the JRP alleging that Clause 4.3.4, which prescribes the payment method of this agency's claims, is null and void. This bill of review was denied by the 8th Civil Chamber of the Rio de Janeiro State Court of Justice, which have been sent to the 3rd Vice President of the Court to decide on whether the Special and Extraordinary Appeals filed by ANATEL against the said decision are admissible. In addition the 7th Corporate Court of the Rio de Janeiro State Court of Justice issued a decision establishing that withdrawal of the judicial deposit made by Telemar to settle the first twelve (12) installments to repay ANATEL's claim, as provided for in the JRP and, on June 28, 2019, Oi filed a new request, under the same standards of the precisions requests, to repay the 13th and 18th installments of the ANATEL's claim.

(ii) Corporate – Financial Participation Agreements: these agreements were governed by Administrative Rules 415/1972, 1181/1974, 1361/1976, 881/1990, 86/1991, and 1028/1996. When they entered into a financial participation agreement to acquire a telephone line, subscribers became holders of a financial interest in the concessionaire after paying in a certain amount, initially recorded as capitalizable funds and subsequently recorded in the concessionaire's equity, after a capital increase was approved by the shareholders' meeting, thus generating the issuance of shares. The lawsuits filed against the former CRT - Companhia Riograndense de Telecomunicações, a company merged by the Company, and other local carriers members of the Telebrás system, challenge the way shares were granted to subscribers based on said financial participation agreements.

The Company used to recognize a provision for the risk of unfavorable outcome in these lawsuits based on certain legal doctrine. In 2009 the Superior Court of Justice issued an Abstract—ruling that summarizes the majority understanding of a court on given matter—that led the Company to revise its assessment of the amount and the level of risk attributed to the lawsuits that discuss the matter. The Company, considering obviously the peculiarities of each decision and based on the assessment made by its legal department and outside legal counsel, changed its estimate on the likelihood of an unfavorable outcome from possible to probable. In 2009, the Company's management, based on the opinions of its legal department and outside legal counsel, revised the measurement criteria of the provision for contingencies related to the financial interest agreements. Said revision contemplated additional considerations regarding the dates and the arguments of the final and unappealable decisions on ongoing lawsuits, as well as the use of statistical criteria to estimate the amount of the provision for those lawsuits. Based on a methodology prepared with the support of its in-house and outside consultants, currently the Company provides for the lawsuits discussing this matter taking into consideration primarily, for purposes of calculating the amounts involved in the lawsuits within or the lawsuits out of the statute of limitations period, the following variables: (i) the number of lawsuits without payment; (ii) the average amount of historic losses; (iii) the average number of court settlements; and (iv) the effects of paying these contingencies under the judicial reorganization ratified on January 8, 2018. Specifically for the lawsuits for which settlements were reached in the mediation of illiquid amounts, the amount is considered settled.

At the end of 2010, the Superior Court of Justice set compensation criteria to be followed by the Company to the benefit of the shareholders of the former CRT for those cases new shares, possibly due, could not be issued because of the sentence issued. The criteria must be based on (i) the definition of the number of shares that each claimant would be entitled, measuring the capital invested at the book value of the share reported in CRT's monthly trial balance on the date it was paid-in, (ii) after said number of shares is determined, it must be multiplied by its quotation on the stock exchange at the closing of the trading day the final and unappealable decision is issued, when the claimant becomes entitled to sell or disposed of the shares, and (iii) the result obtain must be adjusted for inflation (IPC/INPC) from the trading day of the date of the final and unappealable decision, plus legal interest since notification. In the case of succession, the benchmark amount will be the stock market price of the successor company.

Based on the new profile and history of the termination of the judicial processes, in the context of the JRP, and, using the loss risk assessment, Management adjusted the estimate of the provisioning made in 2019. In addition, there may be significant changes in the items above, mainly regarding the market price of Company shares.

(iii) Small claims courts - claims filed by customers for whom the individual indemnification compensation amounts do not exceed the equivalent of forty (40) minimum wages; and

The Company is a party to a large number of lawsuits filed in small claims courts and calculates the related provision based on a statistical methodology that takes into consideration, but not limited to, the total number of existing lawsuits, the claims make in each lawsuit, the amount claimed in each lawsuit, the history of payments made, and the technical opinion of the legal counsel and the impacts of the Judicial Reorganization Plan ratified on January 8, 2018.

(iv) Other claims - refer to several of ongoing lawsuits discussing contract terminations, certain agencies requesting the reopening of customer service centers, compensation claimed by former suppliers and building contractors, in lawsuits filed by equipment vendors against Company subsidiaries, revision of contractual terms and conditions due to changes introduced by a plan to stabilize the economy, and litigation mainly involving discussions on the breach of contracts.

The provisions for these contingencies are calculated individually taking into consideration Management and the legal counsel's risk assessment.

Contingent liabilities

The Company and its subsidiaries are also parties to several lawsuits in which the likelihood of an unfavorable outcome is classified as possible, in the opinion of their legal counsel, and for which no provision for contingent liabilities has been recognized.

The main contingencies classified with possible likelihood of an unfavorable outcome, according to the Company´s management's opinion, based on its legal counsel's assessment, are summarized below:

Labor

Refer to several lawsuits claiming, but not limited to, the payment of salary differences, overtime, hazardous duty and health hazard premium, and joint liability, which total approximately R$797,927 (R$770,982 in 2018).

Tax

The main ongoing lawsuits have the following matters:

(i) ICMS - it refers to discussions concerning the levy of this tax on certain activities and/or the provision of certain services, such as, for example, the levy of ICMS on noncore activities, supplemental services, services provided to tax-exempt customers, subscriptions minimum contract period, or even the disallowance of tax credits because some States qualify them as undue, including, but not limited to, tax credits of capital assets, different calculation of the tax credit ratio (CIAP), totaling approximately R$13,470,008 (R$12,523,402 in 2018);

(ii) ISS – alleged levy of this tax on subsidiary telecommunications services and discussion regarding the classification of the services taxed by the cities listed in Supplementary Law 116/2003, amounting approximately to R$3,286,248 (R$3,505,366 in 2018);

(iii) INSS – tax assessments to add amounts to the contribution salary allegedly due by the Company, amounting approximately to R$649,803 (R$695,249 in 2018); and

(iv) Federal taxes - several tax assessment notifications regarding basically the disallowances made on the calculation of taxes, errors in the completion of tax returns, transfer of PIS and COFINS and FUST related to changes in the interpretation of these taxes tax bases by ANATEL. These lawsuits amount approximately to R$11,010,038 (R$10,862,077 in 2018).

Civil

The main ongoing lawsuits do not have any court decision which has been issued, and are mainly related, but not limited to, challenging of network expansion plans, compensation for pain and suffering and material damages, collection lawsuits, and bidding processes. These lawsuits total approximately R$1,667,900 (R$1,723,110 in 2018).

Fenapas civil actions filed with the 5th Corporate Court of Rio de Janeiro, against, in addition to SISTEL, the Company and other operators, aiming at the annulment of the spin-off of the PBS pension plan, alleging, in brief “the breakdown of the Fundação Sistel supplementary pension fund scheme”, which resulted in several specific PBS mirror plans, and the corresponding allocations of funds from the technical surplus and the tax contingency existing at the time of the spin-off. The amount involved cannot be estimated and it is not possible to settle the claims because they are unenforceable since this would require handing back the spun off net assets of SISTEL related to telecommunications operators belonging to the former Telebrás system.

(In thousands of Brazilian reais - R$, unless otherwise stated)

Guarantees

The Company has bank guarantee letters and guarantee insurance granted by several financial institutions and insurers to guarantee commitments arising from lawsuits, contractual obligations, and biddings with ANATEL. The adjusted amount of contracted bonds and guarantee insurances, effective at December 31, 2019 corresponds to R$4,541,051 (R$5,312,744 in 2018) in the Company and R$11,909,901 (R$13,750,739 in 2018) on a consolidated basis. The commission charges on these contracts are based on market rates.

25. OTHER PAYABLES

	COMPANY		CONSOLIDATED	
	2019	**2018**	**2019**	**2018**
Onerous obligation (i)	1,266,954	1,226,833	5,817,130	4,493,894
Unearned revenues (ii)	478,284	542,798	1,704,420	1,916,570
Provisions for indemnities payable	640,661	676,984	640,661	676,984
Advances from customers	49,763	15,778	313,163	215,228
Consignment to third parties	12,037	17,528	41,249	56,302
Provision for asset decommissioning	7,124	6,846	18,101	17,395
Other	194,382	255,876	404,455	510,867
Total	**2,649,205**	**2,742,643**	**8,939,179**	**7,887,240**
Current	438,613	505,784	1,405,013	1,381,919
Non-current	2,210,592	2,236,859	7,534,166	6,505,321

(i) The Company and its subsidiaries are parties to a telecommunications signals transmission capacity supply agreement using submarine cables that connect North America and South America, and also hires the supply of capacity of the space segment for the provision of the DTH TV service. Since (a) the agreement obligations exceed the economic benefits that are expected to be received throughout the agreement; and (b) the costs are unavoidable, the Company and its subsidiaries recognized, pursuant to CPC 25/IAS 37, an onerous obligation measured at the lowest of net output cost of the agreement brought to present value, in 2019, amounting to R$1.2 billion of the satellite transmission contract (DTH TV) and in 2018, amounting to R$4.5 billion of the transmission contract via submarine cables.

(ii) Refers to the amounts received a prepayment for the assignment of the commercial operation and the use of infrastructure assets that are recognized in revenue for the agreements’ effective period. Include also certification/installation rates of the service that are recognized in the revenue pursuant to the period that the services are used by the customers.

26. SHAREHOLDERS’ EQUITY

(a) Issued capital

The Capital Increase – Claim Capitalization amounting to R$10,600,097 with the issue of 1,514,299 new book-entry, registered common shares without par value was approved at the Company’s Extraordinary Shareholders’ Meeting held on September 17, 2018. The fair value of the shares issued was R$11,613,980.

On October 28, 2018, the Company commenced the issuance and delivery of warrants and ADWs exercised by their holders and issued 115,914 common shares. The process was completed on January 4, 2019. The Subscription Warrants that had not been exercised by January 2, 2019 were cancelled.

On January 25, 2019, the Company completed the capital increase provided for by the JRP (Capital Increase - New Funds), with the issue of 3,225,806,451 new common shares, and the issue of 272,148,705 new common shares for private placement aimed at the Backstop Investors, and the issue of 275,985 new common shares related to the Subscription Warrants, all registered, book-entry, and without par value. The capital increase attributed to the capital and the capital reserves was R$500,466 and R$3,837,009, respectively (Note 1).

Subscribed and paid-in capital is R$32,538,937 (R$32,038,471 in 2018), represented by the following shares, without par value:

	Number of shares (in thousands)	
	2019	**2018**
Total capital in shares		
Common shares	5,796,478	2,298,247
Preferred shares	157,727	157,727
Total	**5,954,205**	**2,455,974**
Treasury shares		
Common shares	30	32,030
Preferred shares	1,812	1,812
Total	**1,842**	**33,842**
Outstanding shares		
Common shares	5,796,448	2,266,217
Preferred shares	155,915	155,915
Total outstanding shares	**5,952,363**	**2,422,132**

As at December 31, 2019, the Company reported a loss for the year amounting to R$9,000,434. Pursuant to the Company's management proposal, subject to the Annual Shareholders' Meeting's approval, loss for the year was fully absorbed by capital reserves.

The Company is authorized to increase capital, through a Board of Directors' decision, either in common or preferred shares, until its share capital totals R$38,038,701,741.49, within the 2/3 legal cap of nonvoting shares in the case of issue of new nonvoting preferred shares.

By decision of the Shareholders' Meeting or the Board of Directors, the Company's share capital can be increased by capitalizing either retained earnings or prior reserves, allocated to this purpose by the Shareholders' Meeting. Under these terms, a capitalization can be made without changing the number of shares.

Issued capital is represented by common and preferred shares, without par value, and in case of capital increases there is not constraint to keep the current ratio between these two types of shares.

By decision of the Shareholders' Meeting or the Board of Directors, preemptive rights over the issue of shares, subscription warrants, or convertible debentures can be suspended in the cases provided for by Article 172 of the Brazilian Corporate Law.

At the Company's Annual Shareholders' Meeting held on April 26, 2019, it was approved the allocation of the profit for the year 2018, amounting to R$24,591,140 to offset prior years' accumulated losses.

(b) Treasury shares

On July 27, 2018, the Company delivered 116,251,405 common shares, previously held by PTIF, to the Qualified Bondholders, as part of the restructuring of the qualified bonds. The fair value related to the conversion of the Senior Notes settled with the delivery of treasury shares of R$773,072. The treasury shares delivered were written off as a contra entry to capital reserves, amounting to R$2,727,842.

In February 2019, the Company bought back 1,800,000 preferred shares, in trades in the stock market, at a total cost of R$2,572 to ensure the compliance of the obligation assumed by the Company to transfer own shares held in treasury to shareholder Bratel, wholly-owned subsidiary da Pharol, in the context of the settlement entered into by both companies (Note 1).

In April 2019, due to confirmation of the settlement entered into by Oi and Pharol, 32,000,000 common shares and 1,800,000 preferred shares were delivered to Bratel, totaling 33,800,000 shares as provided for by the settlement entered into by the parties (Note 1).

As at December 31, 2019, the Company keeps all its treasury preferred shares pledged as collateral in lawsuits.

	Common shares (*)	Preferred shares (*)
Balance at Jan 1, 2018	**148,282**	**1,812**
Delivery of treasury shares	(116,252)	
Balance in 2018	**32,030**	**1,812**
Share buyback		1,800
Delivery of treasury shares	(32,000)	(1,800)
Balance in 2019	**30**	**1,812**

(*) Number of shares in thousands

Fair value of treasury shares

The fair value of treasury shares at the end of the reporting period was as follows:

	2019		2018	
	Preferred	Common	Preferred	Common
Number of treasury shares in thousands	1,812	31	1,812	32,030
Quotation per share on BOVESPA (R$)	1.23	0.86	1.26	1.25
Market value	2,229	27	2,283	40,039

The table below shows the deduction of the amount of treasury shares from the reserve balances that resulted in the repurchase:

	2019	2018
Carrying amount of capital reserves	3,906,771	11,532,995
Treasury shares	(33,315)	(2,803,250)
Balance, net of treasury shares	**3,873,456**	**8,729,745**

(In thousands of Brazilian reais - R$, unless otherwise stated)

(c) Capital reserves

The capital reserves consist mainly of the reserves described below and according to the following practices:

Special merger goodwill reserve: represents the net amount of the balancing item to goodwill recorded in assets, as provided for by CVM Instruction 319/1999.

Special merger reserve - net assets: represented by: (i) the net assets merged by the Company under the Corporate Reorganization approved on February 27, 2012; and (ii) the net assets merged with and into the Company upon the merger of TmarPart approved on September 1, 2015, pursuant to the provisions of CVM Instruction 319/1999.

Other capital reserves:

Other capital reserves: represented mainly by: (i) R$1,933,200 arising from the capitalization of the earnings reserves in February 2015; (ii) R$3,837,009 related to the capital increase with new funds, as mentioned in this Note, item (a); and (iii) R$2,462,799 related to the absorption of capital reserves, due to the delivery of treasury shares to Bratel, pursuant to the agreement entered into, as mentioned in this Note, item (b).

(d) Other comprehensive income

For purposes presentation of CVM's Empresas.Net form, were included in other comprehensive income and are stated below:

	Other comprehensive income	Share issue costs	Valuation adjustments to equity	Total
Balance at Jan 1, 2018	**(100,411)**	**(377,429)**	**(141,871)**	**(619,711)**
Actuarial gain, net of taxes	69,640			69,640
Exchange losses on investment abroad	(35,717)			(35,717)
Balance in 2018	**(66,488)**	**(377,429)**	**(141,871)**	**(585,788)**
Share issue costs		(423,644)		(423,644)
Hedge accounting loss	(1,152)			(1,152)
Actuarial loss, net of taxes	(9,795)			(9,795)
Exchange losses on investment abroad	(13,734)			(13,734)
Balance in 2019	**(91,169)**	**(801,073)**	**(141,871)**	**(1,034,113)**

(e) Share issue costs

As mentioned in item (a) of this Note, under the commitment agreement entered into with the backstoppers, the Company issued 272,148,705 new common shares, as compensation for the commitments assumed in said agreement, at a cost of R$337,464, recognized in share issuance cost as a contra entry to the capital increase, plus R$86,180 related to expenses incurred in the issue process.

(f) Basic and diluted earnings per share

On January 16, 2019, the Company issued 1,530,457,356 common shares to the holders of subscription warrants. On January 21, 2019, the Company issued 91,080,933 common shares to the holders of subscription rights that requested subscriptions of the excess common shares. On January 25, 2019, 1,604,268,162 New Common Shares were subscribed and paid in. The end of the capital increase process, through the subscription and payment of all 3,225,806,451 New Common Shares issued as part of the Capital Increase - New Funds, represented a contribution of new funds to the Company totaling R$4,000,000,000.00. This transaction had an impact on earnings per share, since the shareholders were diluted.

The common and preferred shareholders have different rights in terms of dividends, voting rights, and liquidation, as prescribed by the Company's bylaws. Accordingly, basic and diluted earnings (losses) per share were calculated based on profit (loss) for the year available to the common and preferred shareholders.

Basic

Basic earnings (losses) per share are calculated by dividing the profit attributable to the owners of the Company, available to common and preferred shareholders, by the weighted average number of common and preferred shares outstanding during the year.

Diluted

Diluted earnings (loss) per share are calculated by adjusting the weighted average number of outstanding common and preferred shares, to estimate the dilutive effect of all convertible securities. Currently the Company does not have any potentially dilutive shares.

The table below shows the calculations of basic and diluted earnings per share:

	2019	**2018**
Profit (loss) attributable to owners of the Company	**(9,000,434)**	**24,591,140**
Profit (loss) allocated to common shares - basic and diluted	(8,764,803)	22,036,074
Profit (loss) allocated to preferred shares – basic and diluted	(235,631)	2,555,066
Weighted average number of outstanding shares (in thousands of shares)		
Common shares - basic and diluted	5,788,447	1,344,686
Preferred shares - basic and diluted	155,615	155,915
Profit (loss) per share (in reais):		
Common shares - basic and diluted	(1.51)	16.39
Preferred shares - basic and diluted	(1.51)	16.39

Preferred shares will become voting shares if the Company does not pay minimum dividends to which preferred shares are entitled under the Company's Bylaws during three consecutive years.

(In thousands of Brazilian reais - R$, unless otherwise stated)

27. EMPLOYEE BENEFITS

(a) Pension plans

The Company and its subsidiaries sponsor retirement benefit plans ("Pension Funds") for their employees, provided that they elect to be part of such plan, and current beneficiaries. The table below shows the benefit plans existing at December 31, 2019.

Benefit plans	Sponsors	Manager
TCSPREV	Oi, Oi Móvel and BrT Multimídia	FATL
TelemarPrev	Oi, Telemar and Oi Móvel	FATL
PAMEC	Oi	Oi
PBS-A	Telemar e Oi	SISTEL
PBS-Telemar	Telemar	FATL
PBS-TNC	Oi Móvel	FATL
CELPREV	Oi Móvel	FATL
PAMA	Oi and Telemar	SISTEL

SISTEL – Fundação Sistel de Seguridade Social
FATL – Fundação Atlântico de Seguridade Social

Whenever mentioned in this Note, for purposes of the pension plans, the Company may also be referred to as the "Sponsor".

The sponsored plans are valued by independent actuaries at the end of the annual reporting period. For the year ended December 31, 2019, the actuarial valuations were performed by PREVUE Consultoria. The Bylaws provide for the approval of the supplementary pension plan policy, and the joint liability attributed to the defined benefit plans is ruled by the agreements entered into with the pension fund entities, with the agreement of the National Pension Plan Authority (PREVIC), as regards the specific plans. PREVIC is the official agency that approves and oversees said plans.

The sponsored defined benefit plans are closed to new entrants because they are close-end pension funds. Participants' and the sponsors' contributions are defined in the funding plan.

Actuarial liabilities are recognized for the sponsored defined benefit plans that report an actuarial deficit. For the plans that report an actuarial surplus, assets are recorded when there is an express authorization for offsetting them against future employer contributions.

Provisions for pension plans

Refer to the recognition of the actuarial deficit of the defined benefit plans, as shown below:

	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Actuarial liabilities				
Financial obligations - BrTPREV plan (i)	626,748	574,725	626,748	574,725
PAMEC Plan	6,264	4,397	6,264	4,397
Total	**633,012**	**579,122**	**633,012**	**579,122**
Non-current	633,012	579,122	633,012	579,122

(i) The Company had a financial obligations agreement entered into with Fundação Atlântico intended for the payment of the mathematical provision without coverage by the plan's assets. With the approval and ratification of the JRP, the related claim of Fundação Atlântico against Oi is subject to the new terms and conditions of the JRP.

(In thousands of Brazilian reais - R$, unless otherwise stated)

Assets recognized to be offset against future employer contributions

The Company recognized TCSPREV Plan assets related to: (i) sponsor contributions which participants that left the Plan are not entitled to redeem; and (ii) part of the Plan's surplus attributed to the sponsor.

The assets recognized are used to offset future employer contributions. These assets are broken down as follows:

	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Actuarial assets				
TCSPREV Plan	55,854	68,619	56,559	68,934
CELPREV Plan			222	199
PBS-TNC Plan			3,264	
Total	**55,854**	**68,619**	**60,045**	**69,133**
Current	5,174	4,366	5,430	4,880
Non-current	50,680	64,253	54,615	64,253

Characteristics of the sponsored pension plans

1) FATL

FATL, close-end, multiple sponsor, multiple plan pension fund, is a nonprofit, private pension-related entity, with financial and administrative independence, headquartered in Rio de Janeiro, State of Rio de Janeiro, engaged in the management and administration of pension benefit plans for the employees of its sponsors.

Plans

(i) PBS-Telemar

Defined contribution pension Benefit Plan, closed to new entrants, enrolled with the CNPB under No. 2000.0015-56.

The contributions from Active Participants of the PBS-Telemar Benefit Plan correspond to the sum of: (i) 0.5% to 1.5% of the Contribution Salary (according to the participant's age on enrollment date); (ii) 1% of Contribution Salary that exceeds half of one Standard Unit; and (iii) 11% of the Contribution Salary that exceeds one Standard Unit. The Sponsors' contributions are equivalent to 8% of the payroll of active participants of the plan. The plan is funded under the capital formation approach.

(ii) TelemarPrev

Variable contribution pension Benefit Plan, enrolled with the CNPB under No. 2000.0065-74.

A participant's regular contribution is comprised of two portions: (i) basic - equivalent to 2% of the contribution salary; and (ii) standard - equivalent to 3% of the positive difference between the total contribution salary and the social security contribution. The additional extraordinary contributions from participants are optional and can be made in multiples of 0.5% of the Contribution Salary, for a period of not less than six (6) months. Nonrecurring extraordinary contributions from a participant are also optional and cannot be lower than 5% of the Contribution Salary ceiling.

The Plan's Charter requires the parity between participants' and sponsors' contributions, up to the limit of 8% of the Contribution Salary, even though a sponsor is not required to match Extraordinary Contributions made by participants. The plan is funded under the capital formation approach.

(iii) TCSPREV

Variable contribution pension Benefit Plan, closed to new entrants, enrolled with the CNPB under No. 2000.0028-38.

On November 30, 2018, date of the actual merger, TCSPREV Benefits Plan merged the BrTPREV Benefits Plan (CNPB No. 2002.0017-74) to become the full successor of this Plan's rights and obligations, assuming all its assets and liabilities. This merger was approved by PREVIC Administrative Rule 995, of October 24, 2018, published on Federal Official Gazette No. 208 of October 29, 2018.

With the recognition and registration of the merger, the Participants and Beneficiaries linked to BrTPREV automatically became Participants and Beneficiaries TCSPREV, in accordance with the categories of Beneficiaries existing on the day prior to the merger date.

The monthly, mandatory Basic Contribution of the Active Participants of the TCSPREV and BrTPREV corresponds to the outcome obtained by applying a percentage that may range from 3% to 8% on the Contribution Salary, pursuant to the age and option of each Participant. The Plan's Charter provides for contribution parity by the Participants and the Sponsors.

The monthly Contribution of the Fundador/Alternativo Plan Participants, previously merged with and into BrTPREV, corresponds to the sum of: (i) 3% charged on the Contribution Salary; (ii) 2% charged on the Contribution Salary that exceeds half of the highest Official Pension Scheme Contribution Salary, and (iii) 6.3% charged on the Contribution Salary that that exceeds the highest Official Pension Scheme Contribution Salary. The Plan's Charter provides for contribution parity by the Participants and the Sponsors.

In accordance with regulatory criteria, the Sponsors' contributions, related to TCSPREV and BrTPREV Participants are automatically cancelled on the month subsequent to the month when the same Participant reaches the age of 60 years old, 10 years of Credited Services, and 10 years of Plan membership.

For participants who migrated from the PBS-TCS Plan to the TCSPREV Plan, the Sponsors' contributions are cancelled on the month subsequent to the month when a Participant reaches the age of 57 years old, 10 years of uninterrupted membership of PBS-TCS and the TCSPREV Plan, 10 years of Credited Services at the Sponsor, and 35 years of registration with the official Social Security scheme.

The TCSPREV and BrTPREV Participant's Voluntary Contribution corresponds to the product obtained, in whole numbers, by applying a percentage of up 22%, elected by the Participant, to the Participation Salary.

The Sporadic Contribution is optional and both its amount and frequency are freely chosen by the Participant, as defined by the TCSPREV or BrTPREV Plan, provided it is not lower than one (1) UPTCS (TCSPREV Pension Unit) or one (1) UPBrT (BrT's Pension Unit), respectively. The Sponsor does not make any counterpart contribution to the Participant's Voluntary or Sporadic contribution.

The plan is funded under the capital formation approach.

(iv) PBS-TNC

Defined contribution pension Benefit Plan, closed to new entrants, enrolled with the CNPB under No. 2000.0013-19.

The contributions from Active Participants of the PBS-TNC Benefit Plan correspond to the sum of: (i) 0.28% to 0.85% of the Contribution Salary (according to the participant’s age on enrollment date); (ii) 0.57% of Contribution Salary that exceeds half of one Standard Unit; and (iii) 6.25% of the Contribution Salary that exceeds one Standard Unit. The Sponsors’ contributions are equivalent to a percentage of the payroll of the employees who are Active Plan Participants, as set on an annual basis in the Costing Plan.

The contribution of the Current Beneficiaries (only those who receive a retirement allowance) is equivalent to a percentage to be set on an annual basis in the Costing Plan, applied on the overall benefit, limited to the amount of the allowance.

The plan is funded under the capital formation approach.

(v) CELPREV

Defined Contribution Pension Benefit Plan, enrolled with the CNPB under No. 2004.0009-29.

On January 12, 2018, pursuant to Administrative Rule 22, published on the Federal Official Gazette of January 16, 2018, PREVIC approved the new text of the Plan’s Charter, which closes the number of CELPREV participants and prevents new entrants.

The Participant’s Basic Regular Contribution corresponds to the product obtained by applying a percentage, 0%, 0.5%, 1%, 1.5% or 2%, depending on each participant’s option, to his or her Contribution Salary (SP). The Sponsors contribute with an amount equivalent to such contribution, less the monthly, mandatory contribution of each Sponsor required to fund risk costs (Sick Pay Benefit).

The Additional Regular Contribution corresponds The Participant’s Basic Regular Contribution corresponds to the product obtained by applying a percentage ranging from 0% to 6%, in multiples of 0.5%, as elected by each participant, on the Contribution Salary exceeding 10 Plan Benchmark Units (URPs). The Sponsors contribute with an equivalent amount.

The Participant’s Voluntary Contribution corresponds to a whole number percentage, freely elected by each participant, applied on the Contribution Salary. The Sponsor does not make any counterpart contribution to this contribution.

The Sponsor’s Nonrecurring Contribution is voluntarily and corresponds to applying a percentage ranging from 50% to 150% of the aggregate Basic Regular and Additional Regular Contributions of the Sponsor, pursuant to consistent, non-discriminatory criteria, made with the frequency set by the Sponsor.

The Sponsor’s Special Contribution is specific for new Plan members who have joined the plan within 90 days starting March 18, 2004.

The Sponsor's monthly, mandatory Risk Contribution, required to fund the Sick Pay Benefit, corresponds to percentage of Non-migrating Participants' Contribution Salary payroll.

The plan is funded under the capital formation approach.

2) SISTEL

SISTEL is a nonprofit, private welfare and pension entity, established in November 1977, which is engaged in creating and operating private plans to grant benefits in the form of lump sums or annuities, supplementary or similar to the government retirement pensions, to the employees and their families who are linked to SISTEL's sponsors.

Plans

(i) PBS-A

Defined benefit plan jointly sponsored with other sponsors associated to the provision of telecommunications services and offered to participants who held the status of beneficiaries on January 1, 2000.

Contributions to the PBS-A are contingent on the determination of an accumulated deficit. As at December 31, 2019, date of the last actuarial valuation, the plan presented a surplus.

In December 2019, the National Pension Plan Authority (PREVIC) approved the allocation of a special reserve of the PBS-A Benefit Plan, with the reversal of amounts to sponsors and improvement of benefits, in the form of temporary income, to the beneficiaries. The total amount of the Company's share of the PBS-A's surplus corresponds to R$669,054 (R$140,274 in the Company), to be received in 36 monthly installments, adjusted by the Plan's profitability, the accounting recognition of which as the installments are received, with an impact on other comprehensive income, as required by IAS 19/CPC 33.

(ii) PAMA

PAMA is a healthcare plan for retired employees aimed at providing medical care coverage to beneficiaries, with copayments by and contributions from the latter, provided that linked to the Defined Benefit pension plans managed by SISTEL.

Up to 2014, the Company did not consider the assets and liabilities of the PAMA plan because it is multi-sponsored and similar to defined contribution plans (benefits paid are limited to the amount of the contributions received by the plan), and there are no other obligations in addition to the existing balances.

However, as from the issue of National Supplementary Healthcare Agency's position that SISTEL is a sponsor of the healthcare plan as defined by Law 9656/1998 and as a result does not qualify as a Healthcare plan operator, SISTEL is liable for some plan obligations, even though it is not make entitled to revenue from the corresponding contributions. Thus, it is no longer possible to qualify this plan as a defined contribution plan.

(In thousands of Brazilian reais - R$, unless otherwise stated)

In October 2015, in compliance with a court order, SISTEL transferred the surpluses of the PBS-A benefits plan, amounting to R$3,042 million, to ensure the solvency of the plan PAMA. Of the total amount transferred, R$2,127 million is related to the plans sponsored by the Company, prorated to the portions of the defined benefit obligations. The amount was established based on actuarial studies prepared by an outside consulting firm using assumptions consistent with the population of PAMA users and the projection of medical expenses increase inherent to this population. Beginning on the issue of said court order, the Company started to calculate and disclose information on the PAMA actuarial obligations, pursuant to CPC 33 (CVM 695) criteria.

3) PAMEC-BrT - Assistance plan managed by the Company

Healthcare plan intended to provide medical care to the retirees and survivor pensioners linked to the TCSPREV Benefit Plan. Benefit Plan managed by FATL.

The contributions for PAMEC-BrT were fully paid in July 1998, through a single appropriation. However, as this plan is now administrated by the Company, after the transfer of management by Fundação 14 in November 2007, there are no assets recognized to cover current expenses, and the actuarial obligation is fully recognized in the Company's liabilities.

Statuses of the sponsored plans, revalued at the end of the reporting period

<u>Changes in the actuarial obligations, fair value of assets and amounts recognized in the balance sheet</u>

	COMPANY					
	2019					
	PENSION PLANS				**MEDICAL CARE PLANS**	
	TCSPREV	**PBS-Telemar**	**TelemarPrev**	**PBS-A**	**PAMEC**	**PAMA**
Present value of actuarial obligation at beginning of year	**3,251,918**	**8,415**	**176,941**	**1,013,364**	**4,397**	**610,928**
Interest on actuarial liabilities	283,139	713	15,797	87,684	414	55,290
Current service cost	206		103			206
Participant contributions made in the year	15					
Benefits paid, net	(262,147)	(719)	(11,274)	(90,943)	(484)	(41,162)
Increase/(decrease) of assets due to changes in the Plan				38,839		
Benefit obligation result allocated to other comprehensive income	500,001	282	39,181	144,674	1,937	123,890
Asset increase/(decrease) as a result of the Plan's merger						
Present value of actuarial obligation at the end of the year	**3,773,132**	**8,691**	**220,748**	**1,193,618**	**6,264**	**749,152**
Fair value of assets at the beginning of the year	**3,615,956**	**9,719**	**191,524**	**1,540,980**		**610,469**
Return on plan assets	312,912	833	16,957	137,116		55,543
Amortizing contributions received from sponsor	28				484	
Benefits payment	(262,146)	(719)	(11,274)	(90,943)	(484)	(41,162)
Benefit obligation result allocated to other comprehensive income	342,180	469	37,281	162,093		168,980
Asset increase/(decrease) as a result of the Plan's merger						
Fair value of plan assets at the end of the year	**4,008,930**	**10,302**	**234,488**	**1,749,246**		**793,830**
(=) Net actuarial liability/(asset) amount	**(235,798)**	**(1,611)**	**(13,740)**	**(555,628)**	**6,264**	**(44,678)**
Effect of the asset/onerous liability recognition ceiling	179,944	1,611	13,740	555,628		44.678
(=) Recognized net actuarial liability/(asset)	**(55,854)**				**6,264**	

Appendix – Statement of Value Added
For the Years Ended December 31, 2019 and 2018
(In thousands of Brazilian reais - R$, unless otherwise stated)

	COMPANY						
	2018						
	PENSION PLANS					MEDICAL CARE PLANS	
	BrTPREV (*)	TCSPREV	PBS-Telemar	TelemarPrev	PBS-A	PAMEC	PAMA
Present value of actuarial obligation at beginning of year	**2,523,181**	**622,688**	**7,450**	**159,771**	**985,337**	**3,300**	**557,799**
Interest on actuarial liabilities	217,971	77,967	700	15,179	92,665	317	53,759
Current service cost	58	166		118			170
Participant contributions made in the year	12	2					
Benefits paid, net	(177,138)	(61,505)	(690)	(10,758)	(88,947)	(688)	(42,143)
Benefit obligation result allocated to other comprehensive income	60,969	(12,453)	955	12,631	24,309	1,468	41,343
Asset increase/(decrease) as a result of the Plan's merger	(2,625,053)	2,625,053					
Present value of actuarial obligation at the end of the year		**3,251,918**	**8,415**	**176,941**	**1,013,364**	**4,397**	**610,928**
Fair value of assets at the beginning of the year	**1,894,446**	**1,945,911**	**8,735**	**173,034**	**1,572,791**		**577,278**
Return on plan assets	161,317	199,717	826	16,483	150,411		55,673
Amortizing contributions received from sponsor	22	4				688	
Benefits payment	(177,138)	(61,505)	(690)	(10,758)	(88,947)	(688)	(42,143)
Benefit obligation result allocated to other comprehensive income	36,601	(383,419)	848	12,765	(93,275)		19,661
Asset increase/(decrease) as a result of the Plan's merger	(1,915,248)	1,915,248					
Fair value of plan assets at the end of the year		**3,615,956**	**9,719**	**191,524**	**1,540,980**		**610,469**
(=) Net actuarial liability/(asset) amount		**(364,038)**	**(1,304)**	**(14,583)**	**(527,616)**	**4,397**	**459**
Effect of the asset/onerous liability recognition ceiling		295,419	1,304	14,583	527,616		(459)
(=) Recognized net actuarial liability/(asset)		**(68,619)**				**4,397**	

(*) Plan merged with into TCSPREV on November 30, 2018.

(In thousands of Brazilian reais - R$, unless otherwise stated)

	CONSOLIDATED							
	2019							
	PENSION PLANS						MEDICAL CARE PLANS	
	TCSPREV	PBS-Telemar	TelemarPrev	PBS-A	PBS-TNC	CELPREV	PAMEC	PAMA
Present value of actuarial obligation at beginning of year	**3,256,516**	**328,130**	**4,165,284**	**4,811,332**	**35,043**	**26**	**4,397**	**3,422,402**
Interest on actuarial liabilities	283,542	28,419	367,633	415,476	3,066	2	414	308,512
Current service cost	250	34	1,613		82	2		322
Participant contributions made in the year	15	28						
Benefits paid, net	(262,369)	(23,683)	(285,160)	(429,813)	(2,460)		(484)	(229,329)
Increase/(decrease) of assets due to changes in the Plan				183,195				
Benefit obligation result allocated to other comprehensive income	500,731	32,358	729,147	660,695	4,984	1	1,937	641,713
Asset increase/(decrease) as a result of the Plan's merger								
Present value of actuarial obligation at the end of the year	**3,778,685**	**365,286**	**4,978,517**	**5,640,885**	**40,715**	**31**	**6,264**	**4,143,620**
Fair value of assets at the beginning of the year	**3,621,068**	**379,000**	**4,508,570**	**7,316,395**	**60,062**	**3,340**		**3,443,944**
Return on plan assets	313,409	33,149	394,800	649,891	5,255	293		312,145
Amortizing contributions received from sponsor							484	
Sponsor	13	65						
Participants	15	28						
Benefits payment	(262,369)	(23,683)	(285,160)	(429,813)	(2,460)		(484)	(229,329)
Benefit obligation result allocated to other comprehensive income	345,124	42,087	680,478	730,389	1,980	558		895,983
Asset increase/(decrease) as a result of the Plan's merger								
Fair value of plan assets at the end of the year	**4,017,260**	**430,646**	**5,298,688**	**8,266,862**	**64,837**	**4,191**		**4,422,743**
(=) Net actuarial liability/(asset) amount	**(238,575)**	**(65,360)**	**(320,171)**	**(2,625,977)**	**(24,122)**	**(4,160)**	**6,264**	**(279,123)**
Effect of the asset/onerous liability recognition ceiling	182,016	65,360	320,171	2,625,977	20,858	3,938		279,123
(=) Recognized net actuarial liability/(asset)	**(56,559)**				**(3,264)**	**(222)**	**6,264**	

(In thousands of Brazilian reais - R$, unless otherwise stated)

	CONSOLIDATED								
	2018								
	PENSION PLANS							MEDICAL CARE PLANS	
	BrTPREV (*)	TCSPREV	PBS-Telemar	TelemarPrev	PBS-A	PBS-TNC	CELPREV	PAMEC	PAMA
Present value of actuarial obligation at beginning of year	**2,524,728**	**625,266**	**307,658**	**3,825,053**	**4,675,447**	**31,938**	**41**	**3,300**	**3,113,772**
Interest on actuarial liabilities	218,105	78,223	29,113	362,886	439,285	3,027	4	317	299,881
Current service cost	74	196	41	1,870		55	3		273
Participant contributions made in the year	12	2	34			1			
Benefits paid, net	(177,215)	(61,605)	(23,441)	(272,271)	(422,312)	2,527		(688)	(237,744)
Benefit obligation result allocated to other comprehensive income	60,942	(12,212)	14,725	247,746	118,912	(2,505)	(22)	1,468	246,220
Asset increase/(decrease) as a result of the Plan's merger	(2,626,646)	2,626,646							
Present value of actuarial obligation at the end of the year		**3,256,516**	**328,130**	**4,165,284**	**4,811,332**	**35,043**	**26**	**4,397**	**3,422,402**
Fair value of assets at the beginning of the year	**1,895,608**	**1,953,967**	**360,700**	**4,142,553**	**7,462,931**	**59,723**	**3,030**		**3,243,093**
Return on plan assets	161,415	200,469	34,332	394,097	713,294	5,759	298		312,593
Amortizing contributions received from sponsor	11								
Regular contributions received by plan	12	4	100			3	1	688	
Sponsor		2	66			2			
Participants	12	2	34			1			
Benefits payment	(177,215)	(61,605)	(23,441)	(272,271)	(422,312)	(2,505)		(688)	(237,744)
Benefit obligation result allocated to other comprehensive income	36,579	(388,177)	7,309	244,191	(437,518)	(2,918)	11		126,002
Asset increase/(decrease) as a result of the Plan's merger	(1,916,410)	1,916,410							
Fair value of plan assets at the end of the year		**3,621,068**	**379,000**	**4,508,570**	**7,316,395**	**60,062**	**3,340**		**3,443,944**
(=) Net actuarial liability/(asset) amount		**(364,552)**	**(50,870)**	**(343,286)**	**(2,505,063)**	**(25,019)**	**(3,314)**	**4,397**	**(21,542)**
Effect of the asset/onerous liability recognition ceiling		295,618	50,870	343,286	2,505,063	25,019	3,115		21,542
(=) Recognized net actuarial liability/(asset)		**(68,934)**					**(199)**	**4,397**	

(*) Plan merged with into TCSPREV on November 30, 2018.

The Company determines the amount available to deduct from future contributions according to the applicable legal provisions and the benefit plan charter. The amount of the asset linked to the TCSPREV, PBS-TNC and CELPREV Plans recognized in the Company's financial statements does not exceed the present value of future contributions.

(In thousands of Brazilian reais - R$, unless otherwise stated)

Expenses (revenue) components of the benefits

.	COMPANY					
	2019					
	PENSION PLANS				MEDICAL CARE PLANS	
	TCSPREV	PBS-Telemar	TelemarPrev	PBS-A	PAMEC	PAMA
Current service cost	206		103			206
Interest on actuarial liabilities	283,139	713	15,797	87,684	414	55,290
Return on plan assets	(312,912)	(832)	(16,957)	(137,115)		(55,543)
Interest on onerous liability	23,941	119	1,160	49,431		285
Effect of the unrecognized net actuarial asset						(238)
Expenses (income) recognized in statement of profit or loss	**(5,626)**		**103**		**414**	
Expenses (income) recognized in other comprehensive income	18,404		(103)		1,937	
Total expense (income) recognized	**12,778**				**2,351**	

.	COMPANY						
	2018						
	PENSION PLANS					MEDICAL CARE PLANS	
	BrTPREV	TCSPREV	PBS-Telemar	TelemarPrev	PBS-A	PAMEC	PAMA
Current service cost	58	166		118			170
Interest on actuarial liabilities	217,971	77,967	700	15,179	92,664	317	53,759
Return on plan assets	(161,317)	(199,717)	(826)	(16,483)	(150,411)		(55,674)
Interest on onerous liability		112,417	126	1,304	57,747		1,915
Effect of the unrecognized net actuarial asset							(170)
Expenses (income) recognized in statement of profit or loss	**56,712**	**(9,167)**		**118**		**317**	
Expenses (income) recognized in other comprehensive income	24,369	38.364		(118)		1.469	
Total expense (income) recognized	**81,081**	**29.197**				**1.786**	

	CONSOLIDATED							
	2019							
	PENSION PLANS						MEDICAL CARE PLANS	
	TCSPREV	PBS-Telemar	TelemarPrev	PBS-A	PBS-TNC	CELPREV	PAMEC	PAMA
Current service cost	250	34	1,613		82	2		322
Interest on actuarial liabilities	283,541	28,419	367,633	415,476	3,066	2	414	308,512
Return on plan assets	(313,409)	(33,149)	(394,800)	(649,891)	(5,255)	(293)		(312,146)
Interest on onerous liability	24,000	4,725	27,167	234,415	2,065	273		3,634
Effect of the unrecognized net actuarial asset								
Expenses (income) recognized in statement of profit or loss	**(5,618)**	**29**	**1,613**		**(42)**	**(16)**	**414**	**322**
Expenses (income) recognized in other comprehensive income	18,005	36	(1,613)		(2,382)	(7)	1,937	(322)
Total expense (income) recognized	**12,387**	**65**			**(2,424)**	**(23)**	**2,351**	

(In thousands of Brazilian reais - R$, unless otherwise stated)

	CONSOLIDATED								
	2018								
	PENSION PLANS							MEDICAL CARE PLANS	
	BrTPREV	**TCSPREV**	**PBS-Telemar**	**TelemarPrev**	**PBS-A**	**PBS-TNC**	**CELPREV**	**PAMEC**	**PAMA**
Current service cost	74	196	41	1,870		55	3		274
Interest on actuarial liabilities	218,103	78,222	29,114	362,887	439,285	3,027	4	317	299,881
Return on plan assets	(161,415)	(200,469)	(34,332)	(394,097)	(713,295)	(5,759)	(298)		(312,593)
Interest on onerous liability		112,564	5,214	31,210	274,010	2,731	294		12,712
Effect of the unrecognized net actuarial asset									(274)
Expenses (income) recognized in statement of profit or loss	**56,762**	**(9,487)**	**37**	**1,870**		**54**	**3**	**317**	
Expenses (income) recognized in other comprehensive income	24,364	42,233	30	(1,870)		(891)	(201)	1,469	
Total expense (income) recognized	**81,126**	**32,746**	**67**			**(837)**	**(198)**	**1,786**	

<u>Main actuarial assumptions adopted</u>

	CONSOLIDATED							
	PENSION PLANS						MEDICAL CARE PLANS	
	TCSPREV	**PBS-Telemar**	**TelemarPrev**	**PBS-A**	**PBS-TNC**	**CELPREV**	**PAMEC**	**PAMA**
Nominal discount rate of actuarial liability	7.43%	7.43%	7.43%	7.43%	7.43%	7.43%	7.64%	7.64%
Estimated inflation rate	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%
Estimated nominal salary increase index	4.00%	4.00%	Per sponsor	N.A.	8.82%	7.53%	N.A.	N.A.
Estimated nominal benefit growth rate	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	N.A.	N.A.
Total expected rate of return on plan assets	7.43%	7.43%	7.43%	7.43%	7.43%	7.43%	7.64%	7.64%
General mortality biometric table	AT-2000 Basic eased by 15%, segregated by gender	AT-2000 Basic eased by 20%, segregated by gender	AT-2000 Basic eased by 20%, segregated by gender	AT-2000 Basic eased by 15%, segregated by gender	AT-2000 Basic eased by 15%, segregated by gender	N.A.	AT-2000 Basic eased by 15%, segregated by gender	AT-2000 Basic eased by 15%, segregated by gender
Biometric disability table	Álvaro Vindas, increased by100%	Álvaro Vindas, increased by100%	Álvaro Vindas, increased by100%	Álvaro Vindas, increased by100%	Álvaro Vindas, increased by100%	N.A.	Álvaro Vindas, increased by100%	Álvaro Vindas, increased by100%
Biometric disabled mortality table	AT-49, segregated by gender	AT-49, segregated by gender	AT-49, segregated by gender	AT-49, segregated by gender	AT-49, segregated by gender	N.A.	AT-49, segregated by gender	AT-49, segregated by gender
Turnover rate	4.80%	Nil	Per sponsor, null starting at 50 years old and null for Settled Benefit	Nil	Nil	2%	Nil	Nil
Starting age of the benefits	57 years old	57 years old	55 years old	N.A.	57 years old	55 years old	N.A.	N.A.
Nominal medical costs growth rate	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	6.91%	6.91%

N.A. = Not applicable.

ADDITIONAL DISCLOSURES - 2019
(a) Plans' assets and liabilities correspond to the amounts as at December 31, 2019.
(b) Master file data used for the plans managed by FATL and for the PAMEC plan are as at July 31, 2019, and for SISTEL are as at June 30, 2019, both projected for December 31, 2019.

(In thousands of Brazilian reais - R$, unless otherwise stated)

Investment policy of the plans

The investment strategy of the Benefits Plans is described in their investment policy, which is annually approved by the governing board of the sponsored funds. This policy establishes that investment decision-making must take into consideration: (i) the preservation of capital; (ii) the diversification of investments; (iii) the risk appetite according to conservative assumptions; (iv) the expected return rate based on actuarial requirements; (v) the compatibility of investment liquidity with the plans' cash flows, and (vi) reasonable management costs. The policy also defines the volume interval for different types of investment allowed for the pension funds, as follows: fixed income, variable income, structured investments, investments abroad, loans to participants, and real estate investments.

The average ceilings set for the different types of investment permitted for pension funds are as follows:

ASSET SEGMENT	TCSPREV	PBS-Telemar	TelemarPrev	PBS-A	PBS-TNC	CELPREV	PAMA
Fixed income	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Variable income	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	0.00%
Structured investments	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	0.00%
Investments abroad	10.00%	10.00%	10.00%	0.00%	10.00%	10.00%	0.00%
Real estate	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	0.00%
Loans to participants	15.00%	15.00%	15.00%	3.00%	15.00%	15.00%	0.00%

The allocation of plan assets as at December 31, 2019 is as follows:

ASSET SEGMENT	TCSPREV	PBS-Telemar	TelemarPrev	PBS-A	PBS-TNC	CELPREV	PAMA
Fixed income	86.06%	90.57%	92.46%	95.10%	85.61%	88.20%	100.00%
Variable income	1.63%	0.34%	0.96%	0.00%	0.48%	3.17%	0.00%
Structured investments	10.85%	7.84%	5.04%	0.00%	13.71%	7.25%	0.00%
Investments abroad	0.21%	0.00%	0.11%	0.00%	0.00%	0.50%	0.00%
Real estate	0.83%	0.90%	0.76%	4.10%	0.00%	0.00%	0.00%
Loans to participants	0.42%	0.35%	0.67%	0.80%	0.20%	0.88%	0.00%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

(b) Employee profit sharing

In the year ended December 31, 2019, the Company and its subsidiaries recognized provisions for employee profit sharing based on individual and corporate goal attainment estimates totaling R$59,989 (R$64,021 in 2018) in the Company and R$247,178 (R$265,753 in 2018) on a consolidated basis.

(c) Share-based compensation

A long-term incentives plan based on shares granted the Executives and the Board of Directors (Executive Committee's Stock Option Plan and the Board of Directors' Stock Option Plan) was submitted to and approved at the Extraordinary Shareholders' Meeting held on April 26, 2019.

(In thousands of Brazilian reais - R$, unless otherwise stated)

However, in light of the opinion issued by the Federal Public Prosecution Office and the decision issued by the Judicial Reorganization Court on April 24, 2019 on the new long-term incentives plans, the Oi's Board of Directors decided and communicated to the Extraordinary Shareholders' Meeting that such plans would only be implemented after a new decision of said Court, authorizing its implementation, is issued.

Beginning December 17, 2019, with the Ruling awarded by the 8th Civil Chamber of the Rio de Janeiro State Court on Bill of Review No. 0035453-90.2019.8.19.0000, filed by the Public Prosecution Office, the decision that the Stock Option Plan for the members of the Board of Directors should not be implemented until the end of the judicial reorganization was maintained and the implementation of Stock Action Plan for said Company Executives was authorized.

In compliance with the decision referred to above, in December 2019 the Company implemented the New Stock Option Plan for the Executive Committee, according to all the rules and conditions approved at the Extraordinary Shareholders' Meeting held on April 26, 2019.

Executives' Stock Action Plan

The purpose of this plan is to allow granting shares to Company Executives, aiming at promoting their high engagement and commitment to ensure the achievement of the strategic goals consistently with the Company's and its shareholders' medium- and long-term interests.

The plan provides for granting annual shares over a three-year period that shall not exceed 1.5% of the Company's share capital.

The number of shares per grant is calculated individually for the purpose of maintaining the competitiveness of the executives with regard to the performance of their duties and shall be delivered to them provided that the plan's performance condition is met.

The information used in the executives' stock option plan's assessment is as follows:

Grant date	Stock dilution percentage	Number of shares granted	Vesting portions	Vesting dates	Average share value at the grant date	Estimated fair value at the vesting date
12/30/2019	0.57%	33,704,937	1/3	12/30/2020	0.95	34,406
			1/3	12/30/2021		
			1/3	12/30/2022		

The fair value of the granted stock options will be determined based on the vesting period and recognized as the services are provided. The estimated fair value at the acquisition date was measured taking into account the price of the shares granted on December 30, 2019, adjusted by the weighted average cost of capital of 10.98%, estimated for the three-year period of the program, brought to present value at the period's opportunity cost of 14.67%, which corresponds to the fair value of the share.

28. SEGMENT REPORTING

The Company's management uses operating segment information for decision-making. The Company identified only one operating segment that corresponds to the telecommunications business in Brazil.

(In thousands of Brazilian reais - R$, unless otherwise stated)

In addition to the telecommunications business in Brazil, the Company conducts other businesses that individually or in aggregate do not meet any of the quantitative indicators that would require their disclosure as reportable business segments. These businesses refer basically to the following companies: Companhia Santomense de Telecomunicações, Listas Telefónicas de Moçambique, ELTA – Empresa de Listas Telefónicas de Angola, and Timor Telecom, which provide fixed and mobile telecommunications services and publish telephone directories, and which have been consolidated since May 2014.

The revenue generation is assessed by Management based on a view segmented by customer, 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 subscription and prepaid customers, and mobile broadband customers; and
- SMEs/Corporate, which includes corporate solutions offered to our small, medium-sized, and large corporate customers.

Telecommunications in Brazil

In preparing the financial information for this reportable segment, the transactions between the companies included in the segment have been eliminated. The financial information of this reportable segment for the periods ended December 31, 2019 and 2018 is as follows:

	2019	**2018**
Residential	7,264,262	8,401,599
Personal mobility	7,017,311	7,250,462
SMEs/Corporate	5,527,817	5,980,807
Other services and businesses	140,004	226,985
Net operating revenue	**19,949,394**	**21,859,853**
Operating expenses		
Depreciation and amortization	(6,804,870)	(5,740,079)
Interconnection	(484,061)	(653,867)
Personnel	(2,487,632)	(2,554,375)
Third-party services	(5,957,763)	(5,833,570)
Grid maintenance services	(1,012,857)	(1,102,809)
Handset and other costs	(159,442)	(185,436)
Advertising and publicity	(494,348)	(379,676)
Rentals and insurance	(2,571,245)	(4,194,135)
Provisions/reversals	(216,438)	(202,122)
Expected losses on trade receivables	(488,269)	(689,735)
Impairment losses	(2,111,022)	(291,758)
Taxes and other expenses	(18,396)	(201,296)
Other operating income (expenses), net	(6,974)	(5,016,358)
OPERATING INCOME BEFORE FINANCIAL INCOME (EXPENSES) AND TAXES	**(2,863,923)**	**(5,185,363)**
FINANCIAL INCOME (EXPENSES)		
Financial income	2,659,074	30,850,746
Financial expenses	(8,452,638)	(4,339,053)
PRE-TAX PROFIT (LOSS)	**(8,657,487)**	**21,326,330**
Income tax and social contribution	57,174	3,270,890
PROFIT (LOSS) FOR THE YEAR	**(8,600,313)**	**24,597,220**

(In thousands of Brazilian reais - R$, unless otherwise stated)

Reconciliation of revenue and profit (loss) for the quarter and information per geographic market

In the years ended December 31, 2019 and 2018, the reconciliation of the revenue from the segment telecommunications in Brazil and total consolidated revenue is as follows:

	2019	2018
Net operating revenue		
Revenue related to the reportable segment	19,949,394	21,859,853
Revenue related to other businesses	186,789	200,161
Consolidated net operating revenue (Note 5)	**20,136,183**	**22,060,014**

In the years ended December 31, 2019 and 2018, the reconciliation between the profit or loss before financial income (expenses) and taxes of the segment Telecommunications in Brazil and the consolidated profit (loss) before financial income (expenses) and taxes is as follows:

	2019	2018
Profit (loss) before financial income (expenses) and taxes		
Telecommunications in Brazil	(2,863,923)	(5,185,363)
Other businesses	(113,447)	(82,895)
Consolidated income before financial income (expenses) and taxes (Note 5)	**(2,977,370)**	**(5,268,258)**

Total assets, liabilities and tangible and intangible assets per geographic market as at December 31, 2019 are as follows:

	2019				
	Total assets	Total liabilities	Tangible assets	Intangible assets	Investment in tangible and intangible assets
Brazil	67,294,245	53,525,978	38,910,834	3,997,865	7,396,983
Other, primarily Africa	4,597,577	569,338	84,122	21,327	28,530

(In thousands of Brazilian reais - R$, unless otherwise stated)

29. RELATED-PARTY TRANSACTIONS

Transactions with consolidated related parties

	COMPANY	
	2019	**2018**
Assets		
Accounts receivable	**726,812**	**342,103**
BrT Call Center	45,870	38,610
BrT Multimídia	18,036	46,447
Oi Móvel	499,755	180,531
Telemar	163,151	75,924
Serede		591
Receivables from related parties (current and non-current)	**5,583,816**	**11,960,680**
PTIF (i)	3,461,853	7,555,189
Oi Holanda (i)	1,764,575	4,066,221
PT Participações	357,388	339,270
Dividends and interest on capital receivable	**3,499**	
Oi Serviços Financeiros	2,147	
Rio Alto	1,352	
Other	**164,220**	**524,928**
Telemar	56,697	110,593
Oi Móvel	24,889	148,058
Oi Holanda	15,144	47,602
PTIF	420	209,184
CVTEL	112	
Serede	66,632	9,442
Dommo		49
Paggo Administradora	326	

(i) See information in Note 15 – item (ii).

	COMPANY	
	2019	**2018**
Revenue		
Liabilities		
Trade payables	**324,066**	**386,350**
BrT Call Center	48,889	43,723
BrT Multimídia	58,410	136,963
Oi Móvel	137,150	111,745
Telemar	57,733	12,879
Paggo Administradora	21,811	25,370
Serede	73	55,670
Borrowings and financing, and debentures (ii)	**783,404**	**377,184**
Telemar	39,525	19,161
Oi Holanda	743,879	358,023
Other payables	**64,656**	**112,834**
BrT Call Center	193	396
BrT Multimídia		13,539
Oi Móvel	1,442	31,095
Telemar	43,940	58,844
Dommo		7
Rio Alto	975	975
Oi Investimentos	9,592	7,978
PT Participações	8,514	

(ii) The Company conducted loans with and acquires debentures from its subsidiaries under market terms and conditions to finance its operations or repay its debt.

Appendix – Statement of Value Added
For the Years Ended December 31, 2019 and 2018
(In thousands of Brazilian reais - R$, unless otherwise stated)

	COMPANY	
	2019	**2018**
Revenue		
Revenue from services rendered	**47,300**	**69,881**
Oi Internet		133
BrT Multimídia	555	552
Oi Móvel	34,361	40,254
Telemar	11,740	28,392
Serede	644	544
Rede Conecta		6
Other operating income	**41,921**	**61,588**
BrT Multimídia	3,958	13,778
Oi Móvel	37,956	38,716
Brt Call Center		2,621
Serede	7	6,473
Financial income	**1,338,509**	**20,026,653**
Oi Móvel	9,020	2,449
Telemar	3,285	1,033,569
Serede		10,821
Rede Conecta		4,914
BrT Multimídia		25,549
Brt Call Center		6,339
Oi Holanda	758,200	18,029,792
PTIF	549,886	842,586
PT Participações	18,118	70,634

	COMPANY	
	2019	**2018**
Operating costs and expenses	**(923,885)**	**(922,295)**
BrT Multimídia	(4,006)	(4,890)
Oi Móvel	(39,666)	(68,192)
Telemar	(12,760)	(26,327)
Paggo Administradora	(3,018)	(4,192)
BrT Call Center	(505,333)	(450,349)
Serede	(359,102)	(368,345)
Financial expenses	**(946,339)**	**(1,857,517)**
Oi Móvel		751,262
Telemar	(34,521)	(335,727)
Serede	(4,260)	(3,594)
BrT Call Center	(1,801)	(1,448)
BrT Multimídia	(7,241)	(5,323)
Oi Holanda	(875,706)	(1,707,395)
PTIF	(22,602)	(557,120)
Oi Internet		20
PT Participações	(208)	1,808

Credit facilities

The Company may grant credit facilities to its subsidiaries for the purpose of providing working capital for their operating activities. In these cases, maturities can be rescheduled based on these companies' projected cash flows and these facilities bear interest equivalent to 115% of CDI (115% of CDI in 2018). In the year ended December 31, 2019 there are no outstanding balances between group companies for this purpose since, as approved in the JRP, real-denominated intercompany claims for working capital purposes were extinguished by netting payables and receivables between the Brazilian RJ Debtors.

(In thousands of Brazilian reais - R$, unless otherwise stated)

The intercompany credit facilities effective at December 31, 2019 are linked to the terms approved in the JRP. The intercompany claims not covered by said netting as provided for in the JRP were restructured and will be paid 20 years after the end of the settlement of all the claims paid under the terms and conditions of the Default Payment Method, adjusted using the TR for real-denominated credit facilities and changes in foreign exchange rates for international credit facilities. Additionally, credit facilities between the Company, a PTIF, and Oi Holanda were created since that in the context of the implementation of the JRP, the financial debt of the RJ Debtors were substantially consolidated in the Company, which issued financial and equity instruments to settle these debts originally recognized by said subsidiaries.

Guarantees

The Company and the other RJ Debtors are jointly and severally liable for the compliance of all obligations set forth by the JRP, as provided therefor.

Transactions with jointly controlled entities, associates, and unconsolidated entities

	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Accounts receivable and other assets			**7,216**	**6,359**
Hispamar			426	
Other entities			6,790	6,359

	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Accounts payable and other liabilities	**706**	**915**	**74,254**	**74,210**
Hispamar	706	915	71,841	66,704
Other entities			2,413	7,506

	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Revenue				
Revenue from services rendered			**380**	**347**
Other entities			380	347
Other income			**502**	
Hispamar			502	
Financial income			**430**	**430**
Other entities			430	430
	COMPANY		**CONSOLIDATED**	
	2019	**2018**	**2019**	**2018**
Costs/expenses				
Operating costs and expenses	**(4,441)**	**(4,041)**	**(226,031)**	**(236,087)**
Hispamar	(4,441)	(4,041)	(203,426)	(207,271)
Other entities			(22,605)	(28,816)
Financial expenses	**(3)**	**(3)**	**(257)**	**(167)**
Hispamar	(3)	(3)	(245)	(158)
Other entities			(12)	(9)

The balances and transactions with jointly controlled entities, associates, and unconsolidated entities result from business transactions carried out in the normal course of operations, namely the provision of telecommunications services by the Company to these entities and the acquisition of these entities’ contents and the lease of their infrastructure.

(In thousands of Brazilian reais - R$, unless otherwise stated)

Compensation of key management personnel

As at December 31, 2019, the compensation of the officers responsible for the planning, management and control of the Company's activities, including the compensation of the directors and executive officers, totaled R$63,405 (R$72,955 in 2018) in the Company and R$63,405 (R$81,244 in 2018) on a consolidated basis.

30. INSURANCE

During the concession period, the concessionary has the obligation of maintaining the following insurance coverage, over the prescribed terms: “all risks” policy that covers property damages for all insurable assets belonging to the concession, insurance and against economic losses to insure the continuity of services. All material and/or high-risk assets and liabilities in are insured. The Company and its subsidiaries maintain insurance coverage against property damages, loss of revenue arising from such damages, etc. Management understands that the amount insured is sufficient to assure the integrity of assets and the continuity of operations, and the compliance with the rules set out in the Concession Agreements.

The insurance policies provide the following coverage, per risk and type of asset:

	CONSOLIDATED	
	2019	2018
Insurance line		
Operational risks and loss of profits	800,000	700,000
Civil liability - third parties (*)	322,408	309,984
Fire - inventories	170,000	150,000
Theft - inventories	20,000	20,000
Civil liability - general	30,000	20,000
Civil liability - vehicles	2,000	2,000

(*) Based on the foreign exchange rate prevailing at December 31, 2019 (ptax): R$4.0301 = US$1.00

31. HELD-FOR-SALE ASSETS

	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Assets				
Operations in Africa (a)	3,421,062	3,721,549	4,271,348	4,923,187
Nonstrategic assets (b)	43,416		119,742	
Total	**3,464,478**	**3,721,549**	**4,391,090**	**4,923,187**

	COMPANY		CONSOLIDATED	
	2019	2018	2019	2018
Liabilities				
Operations in Africa (a)			491,225	526,870
Nonstrategic liabilities (b)			3,070	
Total			**494,295**	**526,870**

(a) Operations in Africa - Approval of preparatory actions for the sale of Africatel

At the Board of Directors’ meeting held on September 16, 2014, Oi’s management was authorized to take all the necessary actions to divest Oi’s stake in Africatel, representing at the time 75% of Africatel’s share capital, and/or dispose of its assets.

With regard specifically to the indirect interest held by Africatel in Company, on February 27, 2019 the Company was notified of the final decision issued by the Arbitration Court under the arbitration proceeding filed by PT Ventures, an Africatel subsidiary, against the other Unitel's shareholders. The Arbitration Court judged that the other Unitel shareholders had violated several provisions of Unitel's Shareholders' Agreement, which resulted in a significant decrease of PT Ventures' stake in Unitel. The Court also judged that the other Unitel shareholders failed to ensure, after November 2012, that PT Ventures received the same amount of foreign currency-denominated dividends as the other foreign Unitel shareholder.

As a result, the Court ordered the other shareholders to pay PT Ventures, jointly and severally, (i) US$339.4 million plus interest (accrued as from February 20, 2019, using the 12-month US dollar LIBOR plus two percentage points, with annual compounding), corresponding to the loss of value of PT Ventures' stake, in addition to (ii) US$307 million plus interest (simple interest of 7% accrued as from different dates when the dividends not received should have been paid to PT Ventures), in damages resulting from the fact that the other Unitel shareholders failed to ensure, after November 2012, that PT Ventures received the same amount of dividends, in foreign currency, as the other foreign Unitel shareholder, plus (iii) the reimbursement of a significant portions of the fees, court costs, and administrative and arbiters fees and expenses, incurred by PT Ventures on the arbitral proceeding, in a net amount in excess of US$13 million. The Court dismissed all the retrial petitions filed by the other Unitel shareholders ("2019 Arbitration Award").

The Arbitration Award results in a reaffirmation of PT Ventures' rights as shareholder of 25% Unitel's capital, as prescribed by the Shareholders' Agreement. PT Ventures retains all its rights provided for in the Shareholders' Agreement, including the right to appoint the majority of Unitel's Board of Directors' members and the right to receive Unitel's past and future dividends.

Subsequently, at the General Shareholders' Meeting of Unitel held on March 19, 2019 a new Board of Directors was elected consisting of five members, including two appointed by PT Ventures, one of whom will hold the position of Unitel's General Director.

On August 12, 2019, PT Ventures was notified on the arbitration petition filed with the International Chamber of Commerce ("ICC") by Vidatel Ltd. ("Vidatel"), on of Unitel's shareholders against PT Ventures. In its petition, Vidatel seeks to challenge the 2019 Arbitration Award by submitting arguments relating to the recognition, effectiveness, and feasibility of said award and arguing that the Arbitration Award would have the effect of leading to the unjust enrichment of PT Ventures.

The Company believes that the arbitration proceeding initiated by Vidatel has a delaying tactic with the single goal of disrupting the enforcement of the 2019 Arbitration Award by reopening the discussion of matters that have already been discussed in the arbitration proceeding filed by PT Ventures against the other Unitel shareholders and terminated in February 2019.

Additionally, the Company believes that the ICC is not the appropriate forum to file an arbitration proceeding and analyze the problems alleged by Vidatel, not only because national courts have exclusive jurisdiction on these matters and also because these matters are not within the scope of the arbitration clause greed by Unitel's shareholders, which prescribes that arbitration shall be used to settle disputes relating only to Unitel's shareholders' agreement and violations of Unitel's shareholders' agreement.

PT Ventures filed its response to the arbitration petition on September 11, 2019.

(In thousands of Brazilian reais - R$, unless otherwise stated)

As disclosed to the market in a Material Fact Notice on January 24, 2020, on that date Africatel sold and transferred all PT Ventures shares to the Angolan company Sociedade Nacional de Combustíveis de Angola, Empresa Pública - Sonangol E.P. (Note 33). As a result of this operation, the Company is no longer bound by the ongoing litigation involving PT Ventures, Unitel, and Unitel's other shareholders.

With regard to the indirect stake held by Africatel in Cabo Verde Telecom, S.A. ("CVT"), on May 21, 2019, PT Ventures sold, after the compliance with the conditions precedent, and transferred all the shares it held in CVT, representing 40% of CVT's share capital, to the National Social Security Institute and state-owned company ASA – Empresa Nacional de Aeroportos e Segurança Aérea, S.A., both in Cabo Verde, for the total amount of US$26.3 million, as provided for in Clauses 3.1.3 and 5.1 of the JRP. This sale generated a net gain of R$67 million, recognized in profit or loss.

As a result of said share sale, PT Ventures entered into with the State of Cabo Verde, on the same date, an agreement for the definite termination of the arbitration proceedings filed by PT Ventures against the latter in March 2015, with the International Centre fore for Settlement of Investment Disputes ("ICSID") and the International Chamber of Commerce ("ICC").

The group of assets and liabilities of the African operations are stated at the lower of their carrying amounts and their fair values less costs to sell, and are consolidated in the Company's statement of profit or loss since May 5, 2014.

The main components of the assets held sale and liabilities associated to assets held for sale of the African operations are as follows:

	Operations in Africa	
	2019[1]	**2018**
Held-for-sale assets	**4,271,348**	**4,923,187**
Cash, cash equivalents and cash investments	63,993	82,639
Accounts receivable	113,699	108,343
Dividends receivable (i)	2,435,014	2,566,935
Held-for-sale asset (i)	1,474,699	1,843,778
Other assets	74,300	145,709
Investments	4,916	19,414
Property, plant and equipment	83,400	108,768
Intangible assets	21,327	47,601
Liabilities directly associated to assets held for sale	**491,225**	**526,870**
Borrowings and financing	11,589	188
Trade payables	37,119	52,064
Other liabilities	442,517	474,618
Non-controlling interests (ii)	**146,180**	**243,491**
Total held-for-sale assets, net of the corresponding liabilities – consolidated	**3,633,943**	**4,152,826**
Intragroup eliminations	(212,881)	(431,277)
Total assets held for sale – parent company	**3,421,062**	**3,721,549**
Investments in Africa	3,421,062	3,721,549

[1] The non-operating companies started to consolidated in the balance sheet beginning December 31, 2019, whose assets and liabilities total R$326,229 and R$78,113, respectively (see Note 1 – Company subsidiaries).

(i) Represents the indirect interest held by PT Ventures in the dividends receivable and the fair value of the financial investment in Unitel, both classified as held for sale. The assets from the investment held in PT Ventures are measure substantially at the fair value of the investment for sale, which occurred on January 23, 2020, as referred to above, in Note 33;

(ii) Represented mainly by the Samba Luxco's 14% stake in Africatel and, consequently, in its net assets.

(b) Nonstrategic assets

The Company disclosed to the general market, through a material fact notice, its Strategic Plan, approved by the Board of Directors, focusing on the improvement of the operating and financial performance, using a sustainable business model, for the purpose of maximizing the Company's value, in the context of the judicial reorganization proceeding. The plan prescribes that part of the financing of the investment strategy will be ensured by selling of the Company's nonstrategic assets. These assets consist basically of: (i) Investment in Unitel, (ii) Towers; (iii) Datacenter; (iv) Properties; and (v) other nonstrategic assets. The Company is engaged in and focused on promoting the sale of said assets and will take all the necessary actions to implement said Plan in the coming periods.

In December 2019, the assets and liabilities associated with Real Estate and mobile Towers were stated in held-for-sale assets, in line with the Company's strategic plan and intention. Management assessed and determined that the other nonstrategic assets do not substantially meet the presentation and measurement requirements set forth by CPC 31, Held-for-Sale Noncurrent Assets and Discontinued Operations, and therefore continue to be stated in the group 'Property, Plant and Equipment' (Note 16).

32. OTHER INFORMATION

(a) Agreements entered into by the Company, TmarPart, and Pharol related to the cash investments made in Rio Forte commercial papers

On June 30, 2014, the Company was informed, through a market notice disclosed by Pharol, of the investment made by PTIF and PT Portugal (both, collectively, "Oi Subsidiaries"), companies contributed by Pharol to Oi in the Company's capital increase in May 2014, in a commercial paper of Rio Forte Investments S.A. ("Securities" and "Rio Forte", respectively), a company part of the Portuguese group Espírito Santo ("GES"), when both PTIF and PT Portugal were Pharol subsidiaries.

In light of the default of the securities by Rio Forte, on September 8, 2014, after obtaining the proper corporate approvals, the Company, the Oi Subsidiaries, TmarPart, and Pharol entered into definitive agreements related to the investments made in the Securities. The agreements provided for (i) an exchange (the "Exchange") through which Oi Subsidiaries transferred the Securities to Pharol in exchange for preferred and common shares of the Company held by Pharol, as well as (ii) the assignment by Oi Subsidiaries of a call option on the Company shares to the benefit of PT ("Call Option").

On March 31, 2015, the Company published a Material Fact Notice on the completion of the Exchange.

The Option became vested with the completion of the Exchange, beginning March 31, 2015, exercisable at any time, over a six-year period, and the number of shares covered by the Option will be decreased at each March 31st.

Up to December 31, 2019, Pharol had not exercised the Option, in whole or in part, on the Shares Subject to the Option. Accordingly, the following are no longer subject to the Option: (i) beginning March 31, 2016, 4,743,487 common shares and 9,486,974 preferred shares issued by the Company, equivalent to 10% of the Shares Subject to the Option; (ii) beginning March 31, 2017, another 8,538,277 common shares and 17,076,554, equivalent to 18% of the Shares Subject to the Option; and (iii) beginning March 31, 2018, another 8,538,277 common shares and 17,076,554 preferred shares equivalent to 18% of the Shares Subject to the Option; and (iv) beginning March 31, 2019, another 8,538,277 common shares and 17,076,554 preferred shares equivalent to 18% of the Shares Subject to the Option. There are also 17,076,554 common shares and 34,153,108 preferred shares subject to the Option and Pharol will no longer be entitled to exercise the Option on 8,538,277 common shares and 17,076,554 preferred shares on March 31, 2020 and on an equal number of shares on March 31, 2021.

As at December 31, 2019, the fair value of the Call Option is estimated at R$117 million calculated by the Company using the Black-Scholes model and theoretical share volatility assumptions, using the Revenue Approach valuation technique laid down by paragraphs B10 and B11 of CPC 46/IFRS 13 Fair Value Measurement.

(b) Punitive Administrative Proceedings at the CVM

In December 2018, we became aware that the CVM, in the exercise of its duties, initiated two punitive administrative proceedings for acts conducted in connections with the corporate restructuring announced in October 2013 involving Oi and Pharol (former Portugal Telecom), and the capital increase through the public offer of Oi shares concluded in May 2014, for an alleged breach of the Corporate Law, to hold liable certain executives, officers and controlling shareholders at the time of the events.

The Company is not a party to these proceedings. With regard to the indicted executives, if they are held liable in these Punitive Administrative Proceedings, they are subject to a penalty, which range from a warning to a temporary disqualification, during up to 20 years, to hold a director or member of the supervisory board position of a publicly-held company, entity of the securities distribution system, or other entities that depend of CVM authorization or registration.

(c) Operation: *Mapa da Mina*

On December 10, 2019, the Brazilian Federal Police launched the 69th phase Operation: *Lava Jato* (Car Wash), named "Operation: *Mapa da Mina*" (Mine Plan) (Criminal Search and Seizure Order No. 5024872-64,2018.4.04.7000/PR - 13th Federal Criminal Court of Curitiba), one of the main targets of which was Fábio da Silva, son of former president Luiz Inácio Lula da Silva. The investigation, which has neither the Company nor any of its current officers as defendants, is based on a suspected transfer of several companies to Gamecorp and Grupo Gol, in exchange for alleged benefits from the Federal Government. As a result of such investigation, Company buildings in the States of São Paulo and Rio de Janeiro, and in Brasília were searched and documented were seized. Since then, the Company has cooperated with the investigations by making all the clarifications and delivering all the documents requested. On March 12, 2020, the 4th Region Federal Court granted an habeas corpus (Habeas Corpus No. 5052647-8.2019.4.04.000/PR) was granted, requiring that the records of said Operation be sent to the São Paulo Judiciary Section, after concluding that there was no connection between the facts reported in the investigation and those verified in Operation: "Lava Jato". Internally, the Company informs that since 2015 it has retained the law firm Tozzini Freire Advogados as external independent auditor to conduct a forensic investigation addressing all the allegations in the case file, which has updated these analyses due in light to the new facts pointed out in Operation: "Mapa da Mina". Such investigations were completed without evidence of illegal actions committed by Company representatives.

Among the initiatives undertaken, the Company has created a Multidisciplinary Committee consisting of members from different departments, such as the legal, compliance, internal audit and accounting department, to determine the main procedures to be performed, and set a schedule of relevant activities in response to the allegations of said investigation involving the Company and its subsidiaries. In this regard, the Multidisciplinary Committee determined the following procedures: (i) retain a renowned, specialized law firm, independent from the Company and its subsidiaries, to conduct an internal investigation on the allegations made in the Federal Public Prosecution Office (MPF) and the Brazilian Federal Police (PF) investigations; (ii) request an assessment by the outside legal counsel of the results of said internal investigation to be conducted by the specialized law firm, if applicable; (iii) request an assessment by the outside legal counsel of possible legal and regulatory impacts in Brazil and in the United States, regarding all allegations made in the investigation, considering the applicable anticorruption legislation and/or illegal activities; (iv) request an assessment by the compliance department to determine whether any material weaknesses in the internal control environment existing at the time covered by the investigations still persist in the current Company governance and internal control scenario; (v) conduct periodic meetings to follow up on the status of the assessments to be carried out; and (vi) submit of the results of all assessments to be carried out to the members of the Audit, Risk and Controls Committee ("CARC"), which reports to the Company's Board of Directors. In this context, the specialized law firm concluded its internal independent investigation in February 2020. Based on interviews, information and documentation submitted by the Company’s management, and due to the constraints imposed by the time period covered by said investigation (2003-2019), no indications of illegalities committed by the Company were identified linked to the allegations made by the MPF and the PF in Operation: “Mapa da Mina” investigation. This internal use report was extensively discussed and presented to the members of the Multidisciplinary Committee, as well as to the members of the CARC.

(d) Merger of Copart 5 with and into the Company

In March 2019, Copart 5 was merged with and into the Company. The merger had no accounting impacts, since the assets and liabilities of Copart 5 were already presented in the balances of the Company since the main risks and rewards of this transaction remain in the parent company. This merger is one of the stages of the corporate and asset restructuring process of the Oi Group described in the JRP and its purpose is to optimize these companies’ operations.

33. EVENTS AFTER THE REPORTING PERIOD

(a) Sale of investment in PT Ventures

After obtaining the proper approvals by the Company’s Board of Directors, the competent corporate bodies of Africatel and the Judicial Reorganization Court, on January 24, 2020, Africatel sold and transferred all shares issued by PT Ventures to the Angolan company Sociedade Nacional de Combustíveis de Angola, Empresa Pública - Sonangol E.P., as provided for in the Company's Judicial Reorganization Plan and Strategic Plan (Note 31 (b)).

On the transaction date, PT Ventures held stakes in the Angolan companies Unitel (25%) and Multitel - Serviços de Telecomunicações Lda. (40%), as well as credit rights of dividends declared by Unitel and already past due and a set of rights resulting from the final decision rendered by the Arbitration Court installed under the Arbitration Rules of the International Chamber of Commerce ("ICC"), within the scope of the arbitration initiated by PT Ventures at the ICC against the other Unitel shareholders, as disclosed by the Company in a Material Fact Notice on February 28, 2019.

The Company reiterates that the contractually assured flow was duly met in February and March 2020 by Sonangol.

The total amount of the transaction was US$1 billion, of which (i) US$699.1 million was paid to Africatel by Sonangol on January 24, 2020; (ii) Africatel was paid US$60.9 million prior to the transfer of PT Ventures' shares; and (iii) US$240 million, fully guaranteed by a guarantee letter issued by a prime bank, will be paid unconditionally by Sonangol to Africatel until July 31, 2020, with a minimum monthly flow of US$40 million assured to Africatel as from February 2020.

The assets from the investment held in PT Ventures are measure substantially at the fair value of the investment for sale.

(b) Commitment to sell a property

As disclosed to the market on January 30, 2020, the Company sold a property it owned, located at Rua General Polidoro nº 99, Botafogo, in the city of Rio de Janeiro, to Alianza Gestão de Recursos Ltda., for the amount of R$120.5 million, on February 21, 2020, as part of its project to sell noncore assets, as set forth by the Company's Judicial Reorganization Plan and Strategic Plan (Note 31 (b)).

The operation was authorized by the Judicial Reorganization Court, after obtaining the favorable opinion of the Rio de Janeiro State Public Prosecution Office and the Trustee. Likewise, ANATEL confirmed the removal of the Property from the Company's List of Reversible Assets.

(c) Third-party expressions of interest on the Company's Mobile business

On March 10, 2020, the Company disclosed to the general market in a material fact notice, that its financial advisor, Bank of America Merrill Lynch ("BofA") received statements from third parties expressions of interest in the Company's mobile business. To date, however, there is no commitment from the Company or any of these third parties to proceed with such sale and no binding instrument has been entered into to this respect. Even though there may be future developments in the analysis for a potential formal negotiation process, the Company continues to analyze all the existing alternatives that may bring more efficiency to the implementation of its Strategic Plan.

(d) COVID-19

In light of its corporate responsibility, the Company has adopted a series of procedures aimed at improving the safety of all its employees and suppliers, and mitigating the impact of the spread of the virus on its activities. In-person meetings were drastically reduced and internal events were cancelled. Telework was highly stimulated, as well as audio and video interactions.

Additionally, the Company has been closely monitoring the impacts of the new Coronavirus (COVID-19) on the economy and capital markets worldwide, and especially on the Brazilian market. In addition to the basic humanitarian and health issues of the world's population, the spread of COVID-19 translates into a continuous increase in the risks of a global economic recession, which has led to a collapse of stock exchanges and other financial markets around the world. As a result, the Ibovespa fell by 37% in March (between March 2, 2020 and March 20, 2020). Following this systemic trend, in this same period, Oi shares depreciated 50%. Even though the short-term effects are already evident, it is not possible to specify the extent of the medium- and long-term impacts on the markets and on the global and Brazilian economic scenario.

(In thousands of Brazilian reais - R$, unless otherwise stated)

In this context, the Company has been contributing with governments in mitigating the risks of COVID-19 and the impact of its spread. Accordingly, Oi has taken actions at several levels to ensure the connectivity and quality of information and communication services offered to society. All the actions are being reassessed on a daily basis by a multidisciplinary monitoring committee of the Company, as well as aligned with the other industry companies and the industry regulatory agency, in a far-reaching integrated action

With regard to its operations, so far the Company has not identified material impacts from COVID-19. Oi continues to operate normally, with full the operation of its services, and implementing of its strategic plan, focused on fiber. To ensure its technical and operating priorities are met, Oi has strengthened its service implementation, repair and maintenance plans and is monitoring all the activities of its business and customer service and society demands in its operations center (CGR). The Company continues to work on Oi Fibra's broadband facilities, which at this time are much sought after and critical to facilitate communication. The Company is taking all the preventive measures to protect its technical teams and orienting the professionals regarding hygiene procedures, including in the activities carried when visiting customers, according to sanitary authorities' guidance. However, as it is not possible yet to predict the duration and effects of this crisis, there is a risk of material impacts on operations and sales, especially for the fiber, a product that has posted significant growth for the Company and which has it to recover market share in several markets.

It is worth noting that the recent foreign exchange volatility will not have a material effect on the Company's cash flows in the short term, since part of the financial resources resulting from the sale of Unitel are being kept abroad to serve as a natural hedge for the US dollar-denominated debt service and operating expenses for 2020. However, if the foreign exchange rate impact last a long time, it may affect the Company's investment capacity, and thus affect its long-term investment plan. In addition, if this stress period last too long, it may cause a shortage of funds provided by the financial market (banks and investors), with an impact on the Company's ability to fund its investment requirements.

The outbreak continues to spread, making it difficult to predict the extent of its effects on the global economy and, consequently, on the Company's business. Against this backdrop, Oi is continually evaluating the impacts on its operations and financial position and, above all, is ready to collaborate to mitigate the effects of this crisis, always focused on to the protection of its employees and the needs of its customers and society as a whole.

	Company		Consolidated	
	2019	2018	2019	2018

OI S.A. – under Judicial Reorganization and Subsidiaries

Appendix – Statement of Value Added
For the Years Ended December 31, 2019 and 2018
(In thousands of Brazilian reais - R$, unless otherwise stated)

Revenue				
Sales of goods and services	4,919,559	6,018,117	27,218,787	30,426,548
Voluntary discounts and returns	(4,732)	(7,245)	(1,440,728)	(1,641,178)
Expected losses on trade receivables	(116,676)	(99,622)	(489,396)	(697,324)
Other income	1,733,731	693,557	4,442,837	2,202,793
	6,531,882	6,604,807	29,731,500	30,290,839
Inputs purchased from third parties				
Interconnection costs	(93,123)	(155,689)	(487,413)	(658,068)
Supplies and power	(453,272)	(370,558)	(1,645,126)	(1,478,994)
Cost of sales			(194,159)	(223,122)
Third-party services	(1,714,298)	(1,884,733)	(7,314,678)	(7,344,404)
Other	(85,930)	(97,174)	(919,639)	(947,293)
	(2,346,623)	(2,508,154)	(10,561,015)	(10,651,881)
Gross value added	4,185,259	4,096,653	19,170,485	19,638,958
Retentions				
Depreciation and amortization	(1,736,318)	(1,707,298)	(6,873,945)	(5,811,123)
Provisions/reversals (including inflation adjustment)	(98,078)	(78,729)	(1,836,816)	(429,138)
Impairment losses	(2,111,022)	(291,758)	(2,111,022)	(291,758)
Other expenses	(249,793)	(1,269,975)	(2,457,565)	(5,393,395)
	(4,195,211)	(3,347,760)	(13,279,348)	(11,925,414)
Wealth created by the Company	(9,952)	748,893	5,891,137	7,713,544
Value added received as transfer				
Equity in investees	(6,169,801)	(3,034,064)	(5,174)	(13,492)
Financial income	2,653,026	30,118,209	2,662,463	30,950,461
	(3,516,775)	27,084,145	2,657,289	30,936,969
Wealth for distribution	(3,526,727)	27,833,038	8,548,426	38,650,513
Wealth distributed				
Personnel				
Salaries and wages	(282,871)	(282,908)	(1,630,772)	(1,687,416)
Benefits	(77,596)	(79,782)	(454,607)	(447,132)
Severance Pay Fund (FGTS)	(20,462)	(22,124)	(129,515)	(134,496)
Other	(6,347)	(6,811)	(56,688)	(45,600)
	(387,276)	(391,625)	(2,271,582)	(2,314,644)
Taxes and fees				
Federal	27,674	2,738,757	(589,926)	2,626,299
State	(968,552)	(1,245,297)	(4,542,096)	(5,371,123)
Municipal	(16,175)	(20,763)	(307,435)	(309,176)
	(957,053)	1,472,697	(5,439,457)	(3,054,000)

Appendix – Statement of Value Added
For the Years Ended December 31, 2019 and 2018
(In thousands of Brazilian reais - R$, unless otherwise stated)

(continued)

	Company		Consolidated	
	2019	**2018**	**2019**	**2018**
Lenders and lessors				
Interest and other financial charges	(3,689,019)	(3,766,470)	(7,356,632)	(4,466,102)
Rents, leases and insurance	(440,359)	(556,500)	(2,575,862)	(4,200,212)
	(4,129,378)	(4,322,970)	(9,932,494)	(8,666,314)
Shareholders				
Non-controlling interests			94,673	(24,415)
(Retained earnings) accumulated losses	9,000,434	(24,591,140)	9,000,434	(24,591,140)
	9,000,434	(24,591,140)	9,095,107	(24,615,555)
Wealth distributed	3,526,727	(27,833,038)	8,548,426	(38,650,513)