



Announcement | Lisbon | 11 August 2016

OI DICLOSES THE SECOND QUARTER RESULTS

PHAROL, SGPS S.A. (PHAROL) hereby informs on the press release disclosed by Oi, S.A. on the 2016 second quarter results, according to the company's document attached hereto.

PHAROL, SGPS S.A.

Public company
Share capital Euro26,895,375
Registered in the Commercial
Registry Office of Lisbon
and Corporation no. 503 215058

PHAROL is listed on the
Euronext (PHR). Information
may be accessed on Bloomberg
under the symbol PHRPL.

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2Q16 RESULTS



Rio de Janeiro,
August 11, 2016



IMPORTANT NOTICE



This presentation contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and the applicable Brazilian regulations. Statements that are not historical facts, including statements regarding the beliefs and expectations of Oi S.A. – Under Judicial Reorganization [the “Company” or “Oi”], business strategies, future synergies, cost savings, future costs and future liquidity are forward-looking statements.

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

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



QUARTER HIGHLIGHTS: OPERATIONAL IMPROVEMENTS AND FOCUS ON PROFITABILITY

- **Improving RGUs trends in all services**, especially TV, broadband, and postpaid
- **Residential**
 - **Residential ARPU grew 4,5% y.o.y.**, reaching **R\$ 82.1**
 - **Annual growth of ARPU for all services**: +2.5% in wireline, +6.2% in broadband and +19.0 in pay TV
 - **Reversal of the downward revenues trend**, presenting a **sequential increase of +0,7%**
- **Personal Mobility**
 - **Data revenues grew by 20.3% y.o.y.**, fueled by the launch of new plans (*Oi Livre and Oi Mais*), the increase in **3G/4G handset penetration**, and investments in **upgrading and expanding the capacity of the network**
 - Service revenues presented the **second best performance among competitors**, confirming operational evolution in a difficult macro environment
- **B2B**
 - Corporate segment **improved the quality of its revenues**, by increasing the share of **non-voice services (data, IT and VAS)**, which already corresponds to **67% of total Corporate revenues**
 - Offer and app *Oi Mais Empresas* are well accepted by the market. App has **90% of customer satisfaction** and **65% of customers recommend the services**
- **Routine Opex** in the Brazilian operations **increased well below inflation** in the period, totaling R\$ 4,878 million in 2Q16, thanks to **cost control**
- **Capex** in Brazil totaled R\$ 1,215 million this quarter **+16.7% y.o.y.**, concentrated in the **modernization and capacity expansion of network and IT**, allowing a **consistent improvement in user quality and experience**



REVENUES STILL IMPACTED BY THE MACRO ENVIRONMENT. COST CONTROL PARTIALLY OFFSETS INFLATIONARY PRESSURE AND INCREASE IN COMMERCIAL ACTIVITY.

Financial highlights

R\$ million

	2Q16	2Q15	y.o.y.	1Q16	q.o.q.
Brazil					
Net Service Revenues¹	6,256	6,486	-3.5%	6,480	-3.5%
Residential	2,411	2,460	-2.0%	2,394	+0.7%
Personal Mobility	1,878	1,950	-3.7%	1,974	-4.9%
<i>Customer²</i>	<i>1,740</i>	<i>1,757</i>	<i>-1.0%</i>	<i>1,784</i>	<i>-2.5%</i>
Corporate/SMEs	1,908	2,001	-4.6%	2,065	-7.6%
Net Customer Revenues²	6,008	6,131	-2.0%	6,159	-2.4%
Routine OPEX	4,878	4,739	+2.9%	4,853	+0.5%
Routine EBITDA	1,444	1,816	-20.5%	1,686	-14.3%
Routine EBITDA margin	22.8%	27.7%	-4.9pp	25,8%	-2.9pp
CAPEX	1,215	1,041	+16.7%	1,204	+0.9%
Routine EBITDA – Capex	229	775	-70.4%	482	-52.5%
Consolidated					
Reported EBITDA	1,435	1,899	-24.4%	1,766	-18.7%

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

NET ADDS TREND IMPROVEMENT IN ALL SERVICES, SUPPORTED BY THE RESUMPTION OF OUR COMMERCIAL ACTIVITY ASSOCIATED WITH THE LAUNCH OF NEW OFFERS

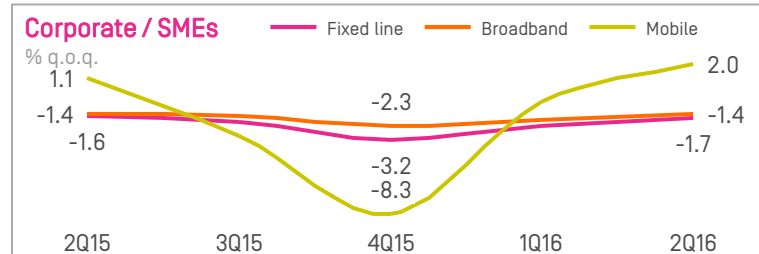
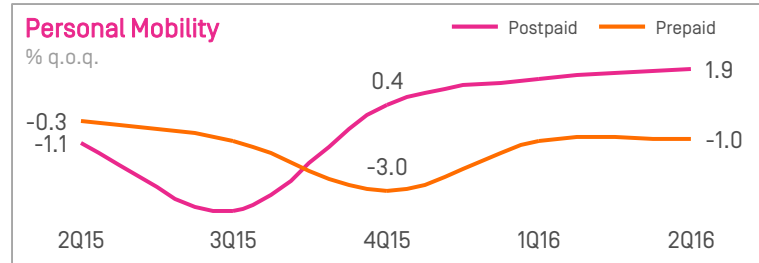
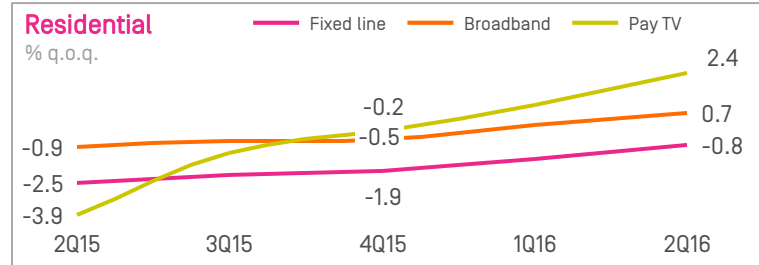


Operational highlights

Thousand RGUs

	2Q16	y.o.y.	q.o.q.
Total - Brazil	69,198	-5.2%	-0.4%
Residential	16,153	-3.8%	-0.1%
Fixed line	9,795	-6.2%	-0.8%
Broadband	5,149	-0.3%	+0.7%
Pay TV	1,209	+2.1%	+2.4%
Residential ARPU	82.1	+4.5%	+1.6%
Personal Mobility	45,319	-5.1%	-0.5%
Prepaid	38,299	-5.9%	-1.0%
Postpaid	7,020	-0.2%	+1.9%
Corporate/SMEs	7,078	-9.0%	-0.5%
Fixed lined	4,261	-8.9%	-1.7%
Broadband	561	-7.0%	-1.4%
Mobile	2,256	-9.7%	+2.0%
Public phones	648	-0.5%	-0.5%

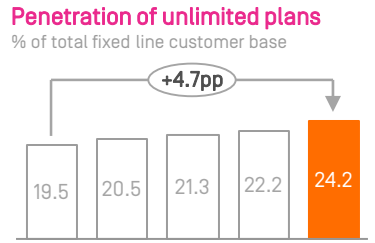
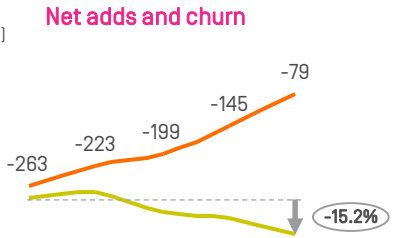
q.o.q. - Trends



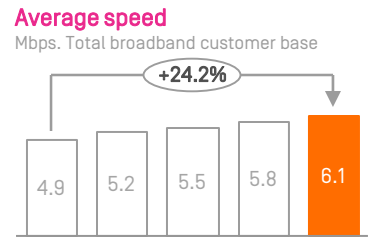
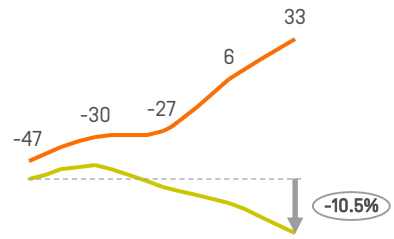


RESUME OF COMMERCIAL ACTIVITY WITH HIGH-END CONVERGENT OFFERS SUSTAIN CHURN REDUCTION, GAIN IN NET ADDS AND HIGHER ARPU

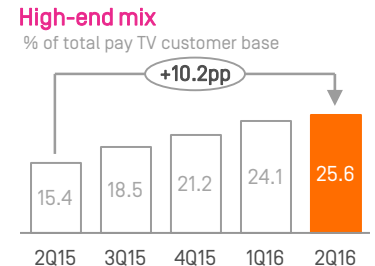
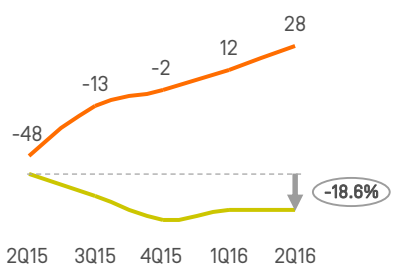
Fixed line



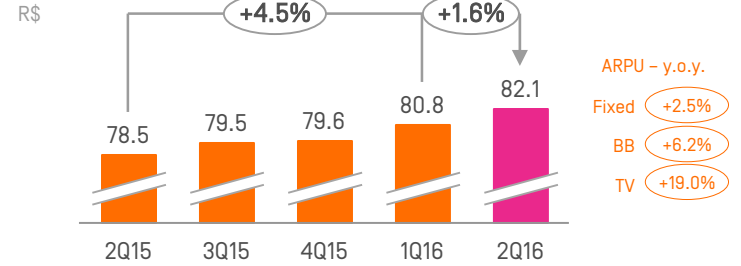
Broad band



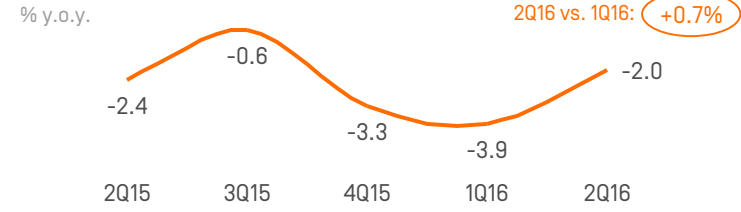
TV



Residential ARPU



Net service revenues



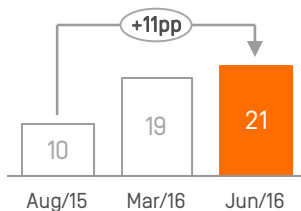
- Reversal of the downward revenues trend (+0.7% vs. 1Q16)
- Higher gross adds and better churn rates, supported by the new portfolio of offers, better quality sales and customer retention initiatives
- Sales were concentrated in *Oi Total* and high-end offerings, pushing up ARPU in all the products
- Broadband speed in continuous evolution (58% of gross adds have speeds equal to or greater than 10 Mbps)

OI TOTAL: THE MAIN CONVERGENT RESIDENTIAL OFFER ACCELERATES PENETRATION IN WIRELINE BASE AND CONTRIBUTES TO HIGHER ARPU AND LOWER CHURN



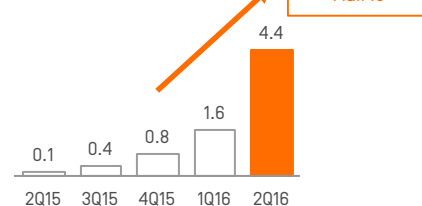
Oi Total Residencial sales for new customers

% of Oi Total gross adds



Penetration of Oi Total

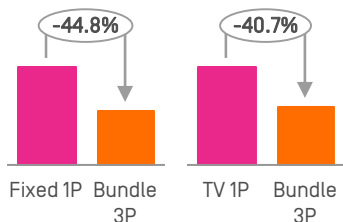
% of total wireline base



Oi Total

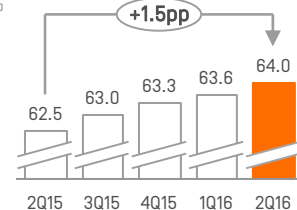
Churn

Indexed. 2Q16



Penetration of customers with more than one Oi product

%



Oi Total already offers 15 Mbps of standard broadband speed for all plans

OI TOTAL COM BANDA LARGA DE 15 MBPS E 1 PONTO ADICIONAL DE TV GRÁTIS.

COM ESSAS NOVIDADES, NOSSO PLANO CONVERGENTE FICOU AINDA MAIS COMPLETO.

O cliente e sua família podem ter o que mais precisam com muita economia. E tudo em uma única conta.

COMBOS A PARTIR DE:

R\$189,90 /MÊS

No Solução Completa e Residencial, a partir do plano Intermediário.

NOSSA OFERTA COMBINA COM ALGUÉM QUE VOCÊ CONHECE? USE O EU INDICO E TRAGA SEU AMIGO PARA A OI.

Ele vai adorar ter TV e internet a qualquer hora e em qualquer lugar.

SAIBA MAIS

#SOMOSTODOOI

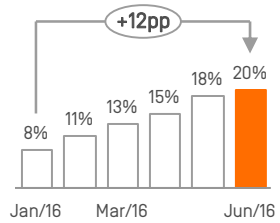


NEW OFFERS AND BETTER ACQUISITION MIX PROMOTE GROWTH OF POSTPAID AND DATA, SUPPORTING IMPROVEMENT IN REVENUES TREND. RECHARGER PREPAID BASE START TO PICK UP.

Evolution of Oi Mais

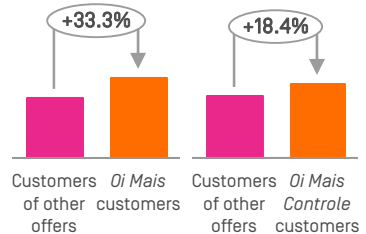
Oi Mais and Oi Mais Controle base

% of total postpaid and control base



ARPU Oi Mais vs. other plans

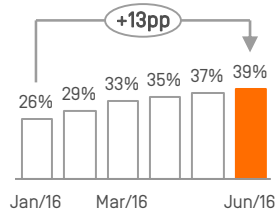
Indexed



Evolution of Oi Livre

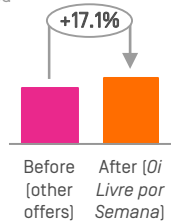
Oi Livre base

% of total prepaid base



Recharges of customers who migrated to Oi Livre por Semana

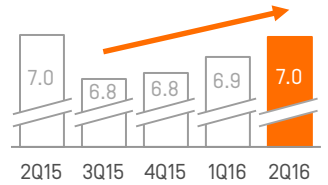
Indexed



- Sales of higher value offerings (bundles and high-end)
- 63% penetration of 3G/4G handsets in total base

Postpaid base

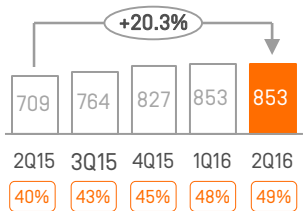
Million RGUs



Data revenues

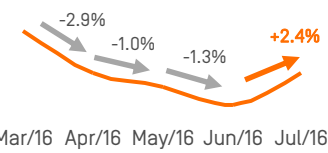
R\$ million

Data / Customer rev.



Recharger base [prepaid]

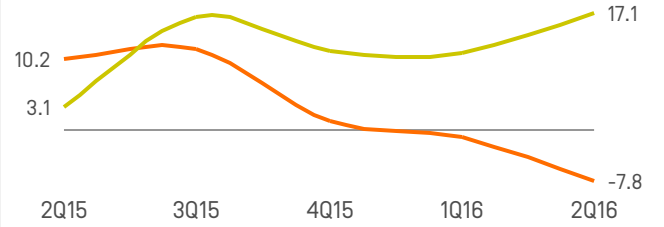
Indexed. Monthly variation.



Net customer revenues¹

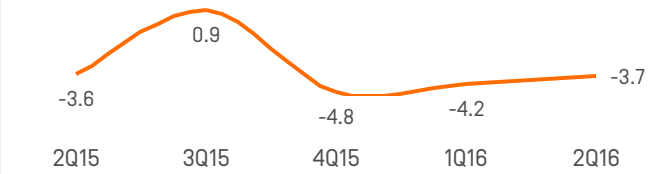
% y.o.y.

Postpaid+Control
Prepaid



Net service revenues

% y.o.y.



- Postpaid + Control revenues grew by 17% y.o.y.
- Consistent growth in data revenues [+20.3% y.o.y.]
- Continuous evolution of the postpaid base in recent quarters
- Prepaid recharges impacted by the macro environment, correlated with the increase in unemployment rate, but with trend of improvement in rechargers

1- It does not include long-distance revenues from customers of other operators.



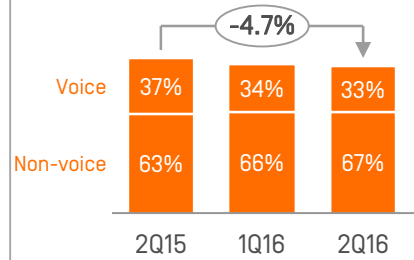
B2B FACES CHALLENGES IN THE MACRO ENVIRONMENT, BUT REVENUES QUALITY CONTINUES TO IMPROVE, FOCUSED ON DIGITALIZATION AND IT / DATA SERVICES

Corporate: growth of data, IT and VAS services has been minimizing the impacts of the decline in voice revenues

SMEs: offer and app *Oi Mais Empresas* are well accepted by the market and main KPIs show signs of improvement

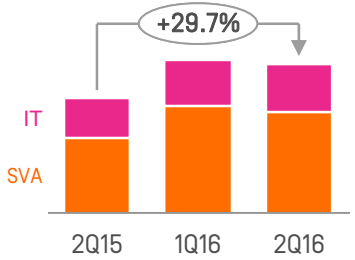
Corporate revenues

Indexed



Non-traditional services¹

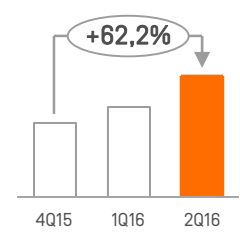
Indexed. Revenues



- Focus on profitability through data and IT/IS services (VPN network, Cloud, ICTs, security and management VAS, etc.)
- Growth of IT and other non-traditional services in order to reduce dependence on voice services
- Improvement in customer experience through the simplification and automation of the delivery chain and convergence of post-sales services (IT and telecom)
- Non-voice revenues already amount to 67% of total Corporate revenues, however voice revenues decrease is yet superior to non-voice growth

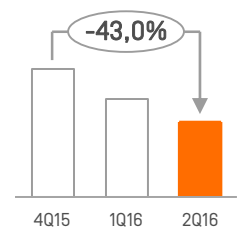
Gross adds²

RGUs ('000)



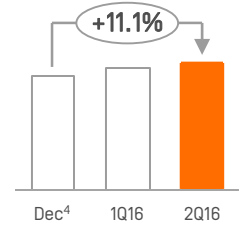
Billing complaints³

R\$



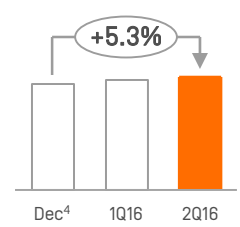
ARPU gross - Fixed

R\$



ARPU gross - Mobile

R\$



App *Oi Mais Empresas*



87% of requests are concluded on time

65% of customers would recommend to other customers

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

2 - Includes fixed, broadband and mobile.

3 - Includes fixed and mobile.

4 - Month of the launch of offer *Oi Mais Empresas*



OPEX GROWS BELOW INFLATION THANKS TO MAINTENANCE OF COST CONTROL

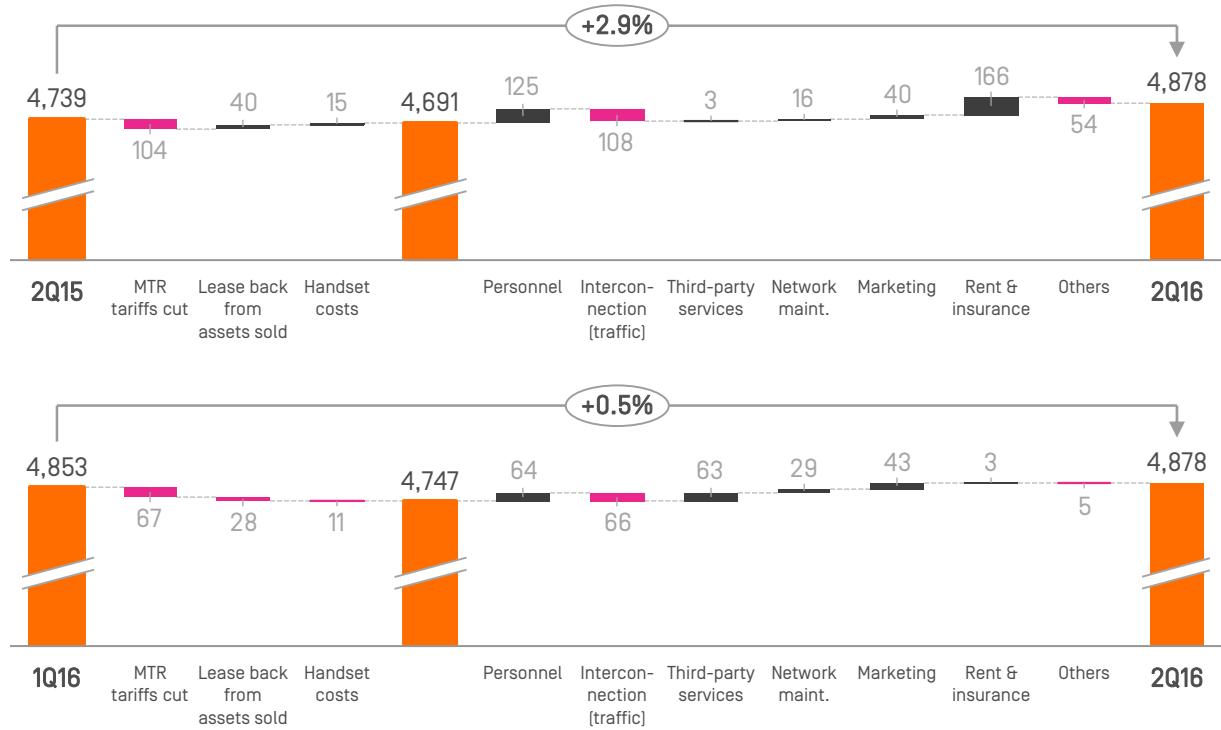
Routine operating costs and expenses

R\$ million – Brazilian operations

12-month inflation: +8.9%

+2.9%

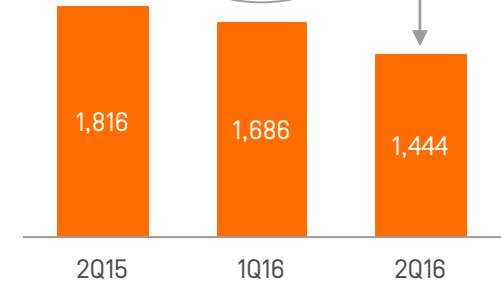
+0.5%



Routine EBITDA

R\$ million – Brazilian operations

-20.5%





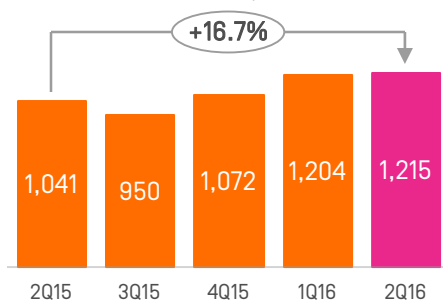
INVESTMENTS IN INFRASTRUCTURE ALLOW DELIVERY OF NEW OFFERS WITH CONSISTENT IMPROVEMENT IN USER QUALITY AND EXPERIENCE

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

- Expansion and modernization of transport network:
 - Optical backbone - OTN 100G
 - IP backbone
 - IP network - Single Edge
- Network sharing
- Migration of 2G customers to 3G and 4G
- Swap of fiber and capacity aiming to improve network resilience
- Consolidation of IT architecture

CAPEX

R\$ million - Brazilian operations



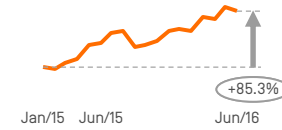
... allow the delivery of offers better suited to customers' current needs ...



... promoting more possibilities of use and consistent improvement in user quality and experience.

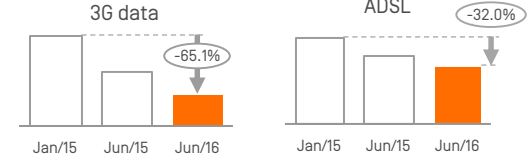
Data traffic

2G/3G/4G. TBytes



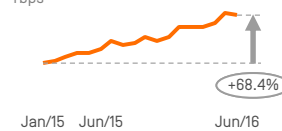
Network congestion

% congestion



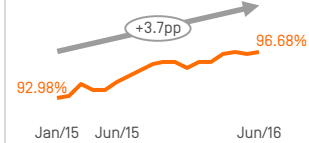
IP traffic - ADSL

Tbps



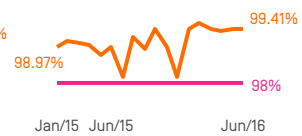
Data access

2G/3G/4G



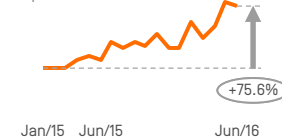
SMP8 - Data connection rate

2G/3G



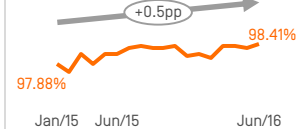
Average ADSL bandwidth

Mbps / user



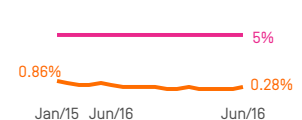
Voice access

2G/3G

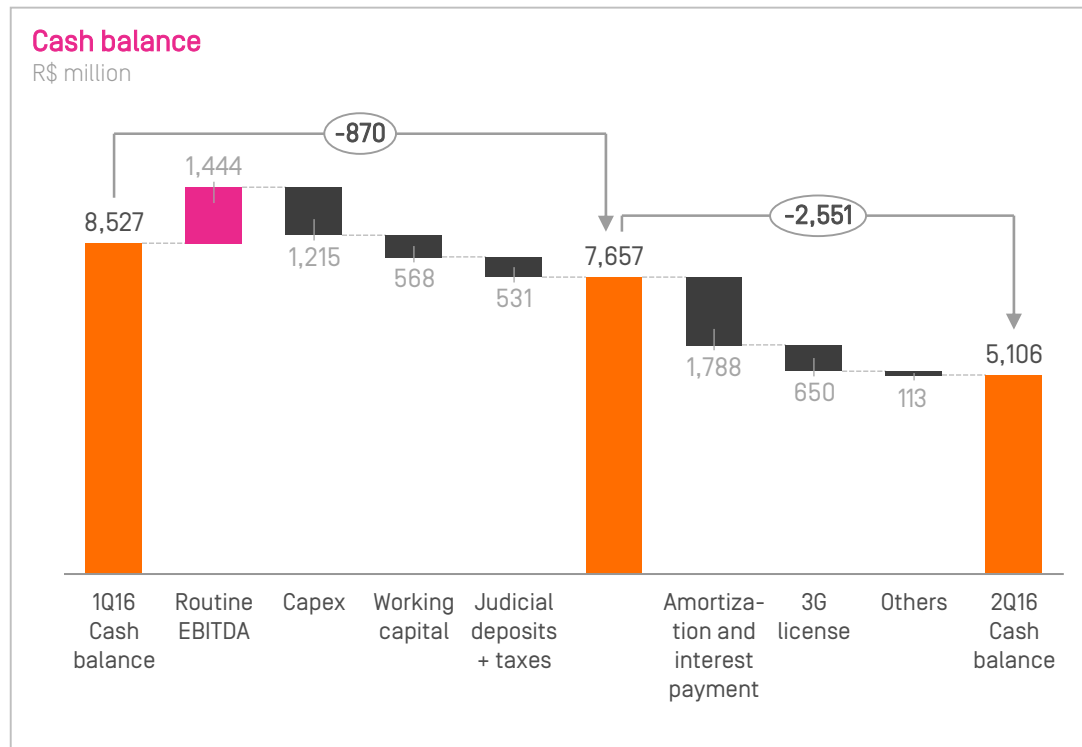
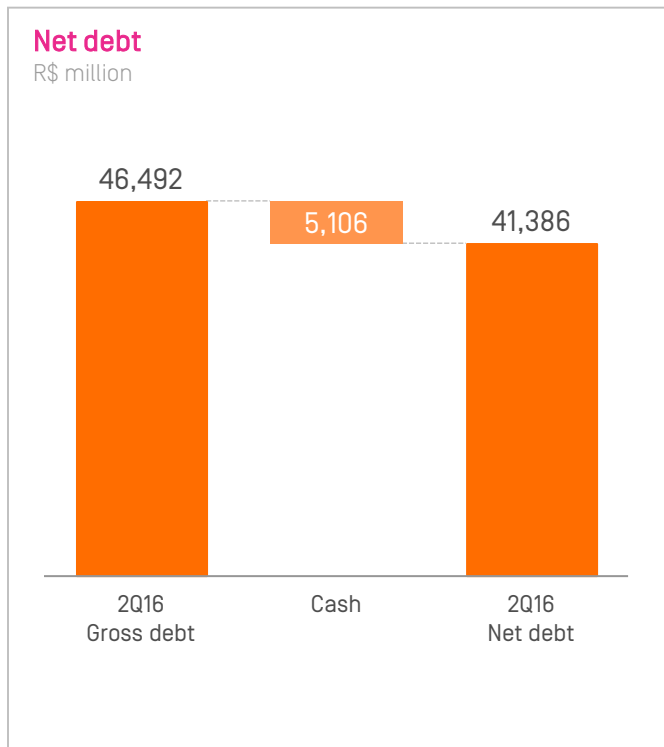


SMP9 - Data drop rate

2G/3G



NET DEBT AND CASH BALANCE REFLECTING MAINLY PAYMENT MOVEMENTS PRIOR TO PROTECTION FROM JUDICIAL REORGANIZATION



STATUS OF THE JUDICIAL REORGANIZATION

