



**Announcement** | Lisbon | 8 June 2018

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## Notice to the Market disclosed by Oi

PHAROL, SGPS S.A. hereby informs on the Notice to the Market disclosed by Oi, S.A., according to the company's announcement attached hereto.

### **PHAROL, SGPS S.A.**

Public Company  
Share capital Euro 26,895,375  
Registered in the Commercial  
Registry Office of Lisbon and  
Corporation no. 503 215 058

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

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**pharol.pt**

# NON DEAL ROADSHOW

oi

JUNE 2018



# AGENDA



A – Oi's priorities 2017 and 2018

B – Renewed Capital Structure and Corporate Governance

C – Market Strategy

D – Cost Strategy: Operational Efficiency & Digital Transformation

E – Incremental Capex Allocation Strategy

F – Judicial Reorganization Plan Implementation Status



## IN 2017 THE MAIN MANAGEMENT PRIORITIES WERE: QUALITY IMPROVEMENT, DIGITAL TRANSFORMATION, COST CONTROL, CASH MANAGEMENT AND DEBT RESTRUCTURING

### A Quality Improvement

- Infrastructure update and network capacity expansion, preventive actions, customer care quality increase, and services and process digitalization generated synergies to the company.
- As a result, in 2017 Oi registered an improvement on customers satisfaction, reducing regulator complaints KPI [-23.0% versus 4Q16] and legal claims [-46.3% versus 4Q16].

### B Digital Transformation

- The digital transformation enabled efficiency gains and improvement on customer experience, with process automation and expansion of the customer care and sale digitalization (e-care, e-billing, and e-commerce).

### C Cost Control

- The Company reduced costs by R\$ 1.5 Billion in 2017: operational efficiency promotes sustainable cost reduction, supported by continuous improvement in quality indicators
- Routine Ebitda totaled R\$ 6.2Bn in 2017, or 2.3% above the Judicial Reorganization forecast.

### D Cash Management

- In 2017, Oi's operations have sustained R\$ 7.0 billion in cash, in line with the guidelines of the Judicial Reorganization Plan. In 2018, the plan forecast a cash balance of R\$ 6.188 billion.

### E Debt Restructuring

- JR Plan approval by the great majority of creditors will allow R\$ 36 billion debt reduction <sup>(1)</sup>, enabling the resumption of the investment cycle.

Notes: (1) The debt fair value is being updated according to the buckets' final option.



## IN 2018, OI IS PREPARING A NEW CYCLE OF INVESTMENT, KEEPING FOCUSED ON QUALITY IMPROVEMENT, DIGITAL TRANSFORMATION, COST CONTROL, CASH MANAGEMENT AND BUSINESS TURNAROUND

### A Quality Improvement

- Focus on the operation continues to increase efficiency and improve customer experience, resulting improvements in quality and operational indicators.
  - Initiatives such as infrastructure upgrade, network capacity expansion, preventive actions to increase productivity, improvement of quality, and digitalization of services and processes create synergies for Oi.
  - As a result, the Company continues to improve customer satisfaction, with consistent reductions in ANATEL [-24.1% YoY], Legal Claims [-23.4% vs YoY] and Consumer Complaints [-5.1% YoY].

### B Digital Transformation

- The Intensification of the digital program enabled efficiency gains and the improvement of customer experience, with the automation of processes (robotization and artificial intelligence) and increase of digitalization of sales and customer service (e-care, e-billing and e-commerce).

### C Cost Control

- Operational efficiency promotes sustainable cost reduction, reinforced by the continued evolution of quality indicators.
- Oi recorded EBITDA of R\$ 1,567 million in 1Q18, in line with Judicial Reorganization Plan.

### D Cash Management

- Oi closed March 2018 with a cash position of R\$ 6.2 billion, reflecting the payment of the anticipation of investments in 4Q17 and payment of Income Tax, in line with JR Plan.

### E Business Turnaround

- JR Plan Approval will lead to a debt reduction of over R\$ 36 billion, enabling the resumption of the investment .
- The Company is now in the preparation phase for a new cycle of growth that will occur with the acceleration of investments focused on access of both fixed and mobile network, financed by the capital increase.
  - The incremental CAPEX plan includes annual investments of R\$ 7 billion for the next years and strategies for the mobile and fixed line networks, supporting transformation, growth and business sustainability.

Notes: [1] The debt fair value is being updated according to the buckets' final option.

Source: Oi Investor Relations

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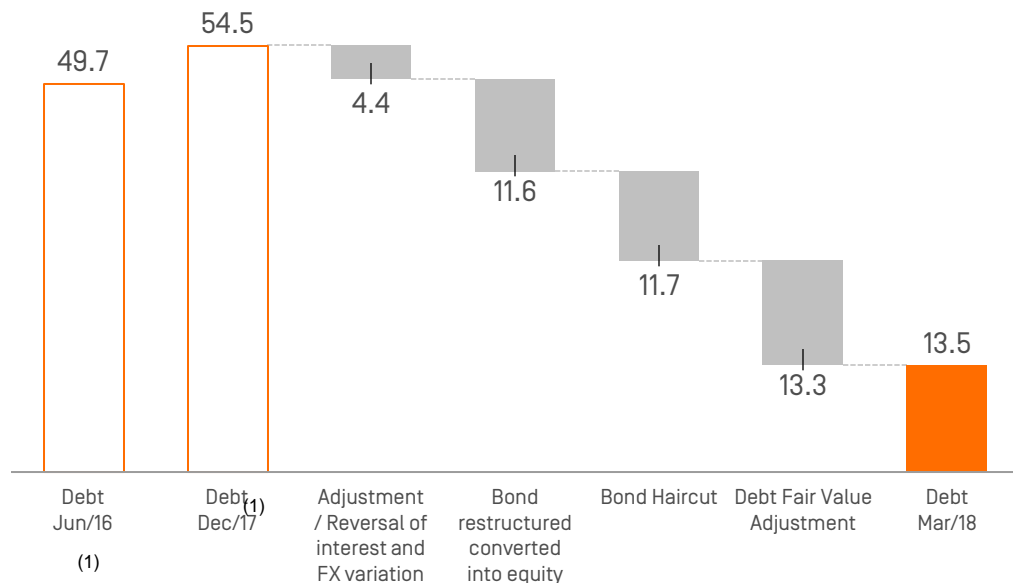
E – Incremental Capex Allocation Strategy

F – Judicial Reorganization Plan Implementation Status

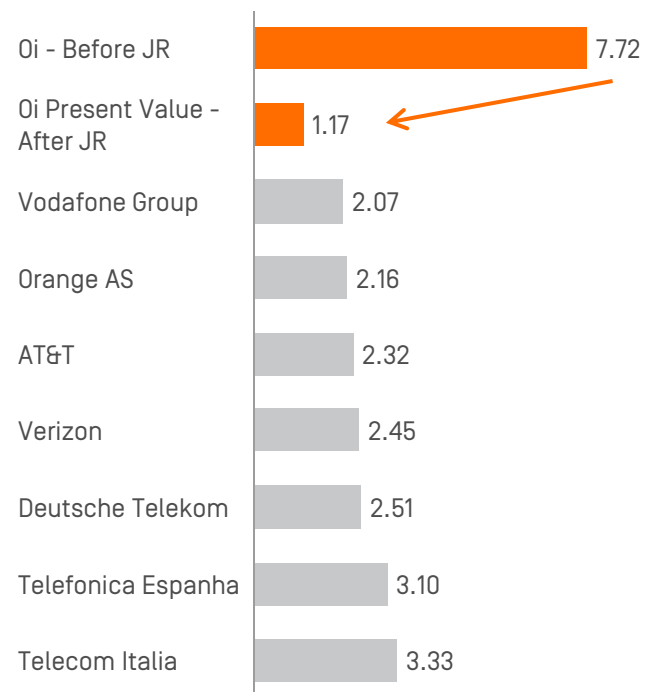
## JR PLAN APPROVAL ALLOWS R\$ 36 BILLION DEBT REDUCTION, ENABLING THE RESUMPTION OF THE INVESTMENT CYCLE

### Total Financial Debt

R\$ Billion



### Net Debt/Ebitda

Benchmark<sup>[2]</sup>

Notes: [1] It doesn't consider Labor and Non Financial Unsecured Creditors; [2] In Financials 2016, Oi 2027.

Source: Oi Controller Department / Oi Strategy



## APPROVAL OF THE JUDICIAL REORGANIZATION PLAN: SUSTAINABLE BASES FOR LEVERAGING BUSINESS GROWTH AND PROFITABILITY

### Capital Structure

- JRP results in a significant reduction of financial debt through the conversion into capital (from R\$ 49.7 billion to R\$ 13.8 billion).
- Stretching of repayment flows of liabilities (average life of 10.2 years).
- 1Q18 Net financial debt booked at R\$ 7.3 billion at fair value (Net Debt / EBITDA 2017 = 1.17x).

### Corporate Governance

- JRP results in a pulverized shareholding base and strong, transparent and professional corporate governance.
- Transition Council composed of 9 members (6 independent).
- Stabilization of the Board during the transition period ensures the commitment to implement the JRP.
- After the transition period, a new Board of Directors with 11 members (100% independent) will be selected with HR consulting support.

### Financial Sustainability and Market Repositioning

- Levers for the Company's new investment cycle:
  - ✓ Capital increase with a firm guarantee of R\$ 4.0 billion
  - ✓ Additional funding of R\$ 4.5 billion in the next years, of which R\$ 2.0 billion of CAPEX financing + R\$ 2.5 billion via asset sales or capital markets.
- New investment cycle: regaining competitiveness and growth with emphasis on quality and better experience for users, leveraging its main differentiation: Robust infrastructure with Huge capillarity



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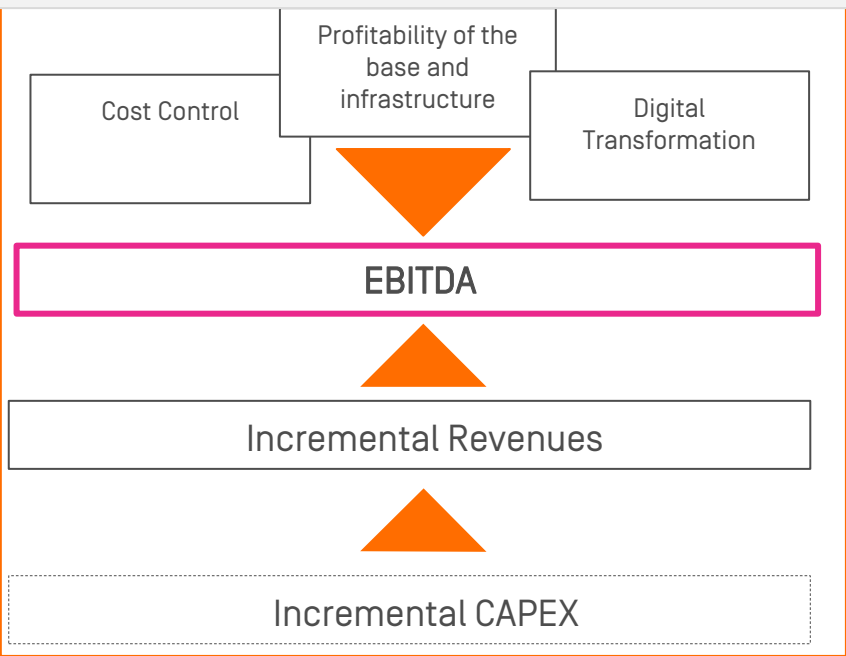
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## BRAZILIAN MARKET IS INCREASINGLY COMPETITIVE WITH MAJOR PLAYERS SEEKING CONVERGENT PORTFOLIOS AND INCREASED BANDWIDTH AND QUALITY FOR MOBILE AND FIXED BROADBAND

### Competitive Environment



#### VIVO

- Residential incumbent in São Paulo and absolute nation-wide leader in mobility
- Recent acquisition of GVT, which was the reference in broadband quality
- Acceleration of the FTTH expansion, focusing on high-value and converging clients

#### TIM

- Predominantly mobile player, with incipient residential operations
- #2 in mobile, with recent largest investment in 4G, seeking to stand out due to data quality, aiming at the post-paid segment

#### NET / CLARO

- Reference in TV and residential bundles, has recently expanded their portfolio to include mobile in their combos – Combo Multi (2011)
- In mobile, it ranks third, approaching TIM

#### SKY

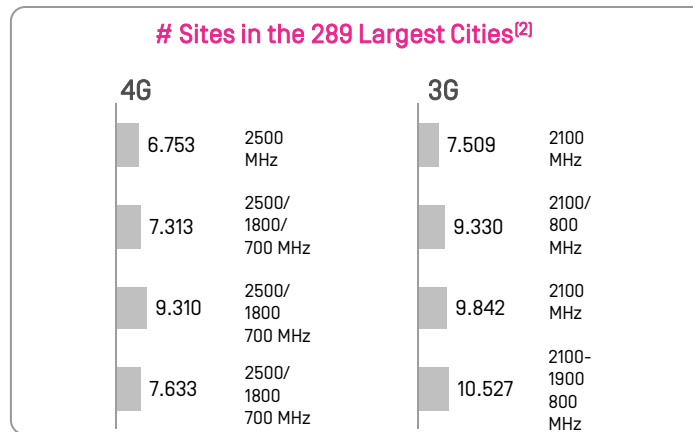
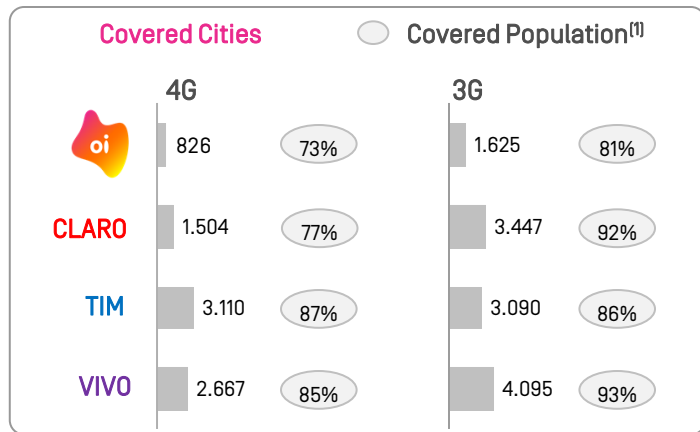
- Predominantly TV player, being a pioneer in DTH
- Massification by means of expansion of the prepaid and portfolio



- Value for Money positioning, offering greater benefits for the same amount
- Upsell to existing clients focusing on convergence and content variety
- Does not offer residential portfolio in São Paulo



## OI'S 4G/3G COVERAGE GAP DUE TO CAPEX RESTRICTIONS IN THE LAST YEARS IS REFLECTED IN THE CONTINUOUS MARKET SHARE REDUCTION



RGU Million	Pre Paid			Post Paid – Ex M2M			Total – Ex M2M		
	EOP 2013	Net Adds 60M	EOP 2017	EOP 2013	Net Adds 60M	EOP 2017	EOP 2013	Net Adds 60M	EOP 2017
<b>oi</b>	41.8 (19.7)	-11.9	29.8 (20.1)	7.5 (14.6)	0.1	7.6 (10.5)	49.3 (18.7)	-11.8	37.5 (16.9)
<b>TIM</b>	61.1 (28.9)	-20.3	40.8 (27.5)	11.1 (21.7)	5.0	16.1 (22.1)	72.3 (27.5)	-15.3	56.9 (25.7)
<b>VIVO</b>	53.6 (25.3)	-15.4	38.2 (25.7)	21.3 (41.6)	9.1	30.5 (41.9)	74.9 (28.5)	-6.3	68.6 (31.0)
<b>CLARO</b>	54.4 (25.7)	-15.7	38.7 (26.0)	10.7 (20.8)	4.6	15.3 (21.0)	65.1 (24.8)	-11.1	53.9 (24.4)

Notes: [1] % population in the covered cities; [2] 3G/4G Sites for 289 cities with population >100k . 63% of total urban population; [3] MS considers small companies: Nextel, CTBC, Porto Seguro, Sercomtel, Datora and Terapar. | Source: Anatel, Teleco, Tableau Oi – Updated in May/18

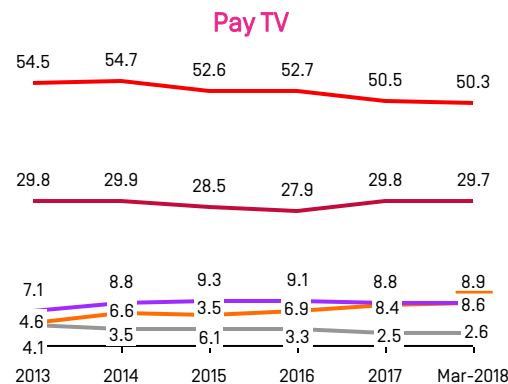
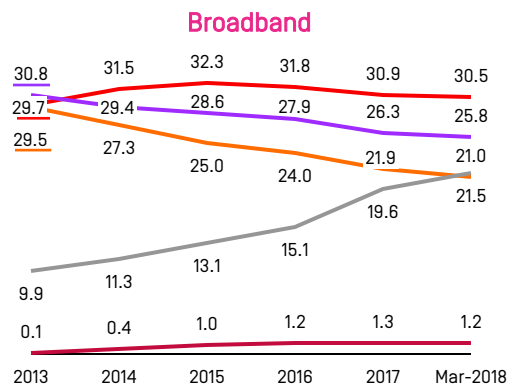
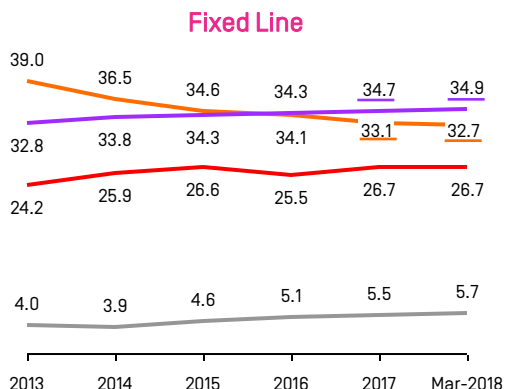


# DUE TO CAPEX RESTRICTONS, IN THE LAST YEARS OI HAS BEEN LOSING MARKET SHARE OF BROADBAND, KEEPING ITS CUSTOMER BASE STABLE IN A GROWING MARKET. TV HAS BEEN GROWING

## Market Share

%

- OI
- CLARO
- VIVO
- SKY
- OUTRAS<sup>[2]</sup>

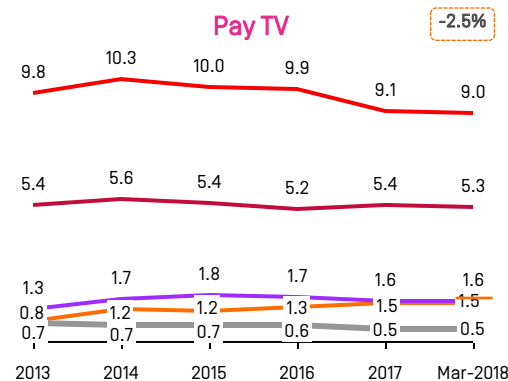
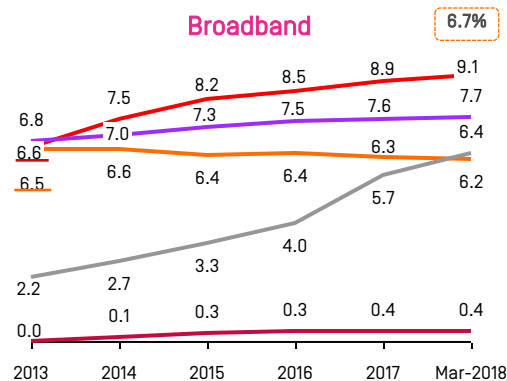
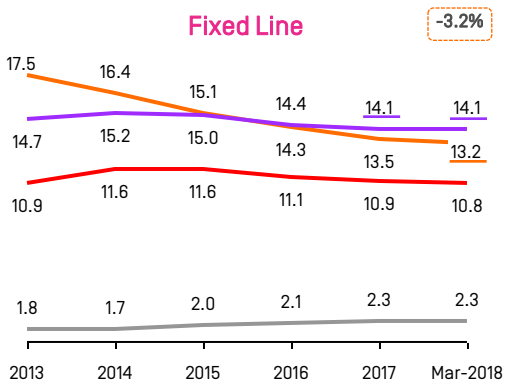


## Base

Million

CAGR<sup>[3]</sup>

- OI
- CLARO
- VIVO
- SKY
- OUTRAS<sup>[2]</sup>



Notes: [1] Brazil = R1 + R2 + R3; R1 = North / Northeast / Southeast; R2 = Center West / South; R3 = São Paulo; [2] Others include Algar, Sercontel, Tim and local providers. [3] CAGR for fixed line and Pay TV is calculated from 2014 onwards, given the downward trend since then. | Source: Anatel.

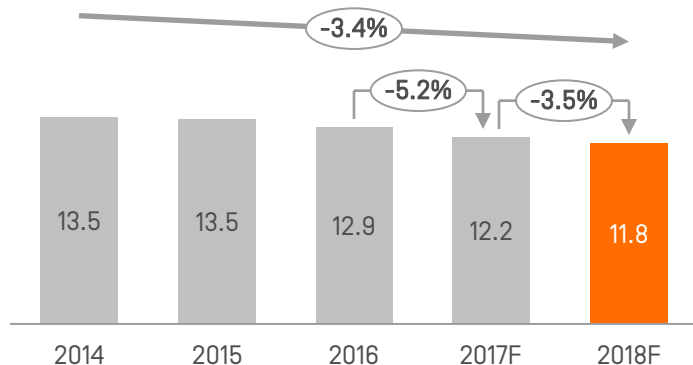


**IN 2018, BRAZILIAN B2B MARKET WILL DECLINE, DESPITE THE IT MARKET ACCELERATED GROWTH. FOR OI, BETTER ENVIRONMENT WITH THE APPROVAL OF JR PLAN**

**Telecom and IT Market**

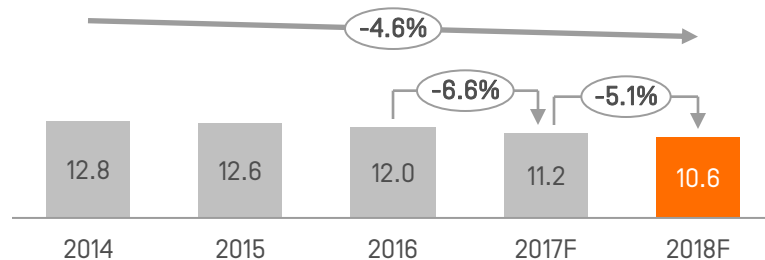
**B2B**

Net Revenues (R\$ Bn)

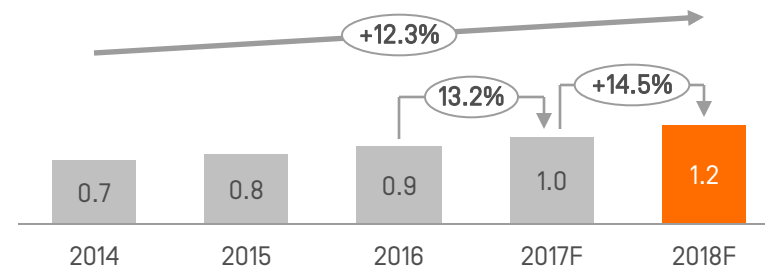


The IT Market growth (+ 14.5%, y.o.y) is not sufficient to compensate the Telecom Market retraction [-5.1% y.o.y]

**Telecom**



**IT**



## STRATEGY IN LINE WITH GLOBAL AND BRAZILIAN TRENDS

## B2C &amp; B2B

- Leverage convergence in positioning, offers, and channel strategy
- Accelerate the migration of voice revenues to data and services
- Promote customer centric positioning, through simplicity and clarity of communication
- Digital Transformation

CONVERGENCE 

- Defend client base and **increase value with convergent value proposition.**
- **Increase ARPU and customer life-time value** by applying micro-marketing practices based on big data
- **Bundling** voice, data and services

DATA & SERVICES 

- **Differentiate traditional telecom value propositions** thru content and services
  - B2C: video & apps
  - B2B: IT Services & Big data
- **Improve data experience** across all segments
- **Accelerate data and services penetration** within customer base

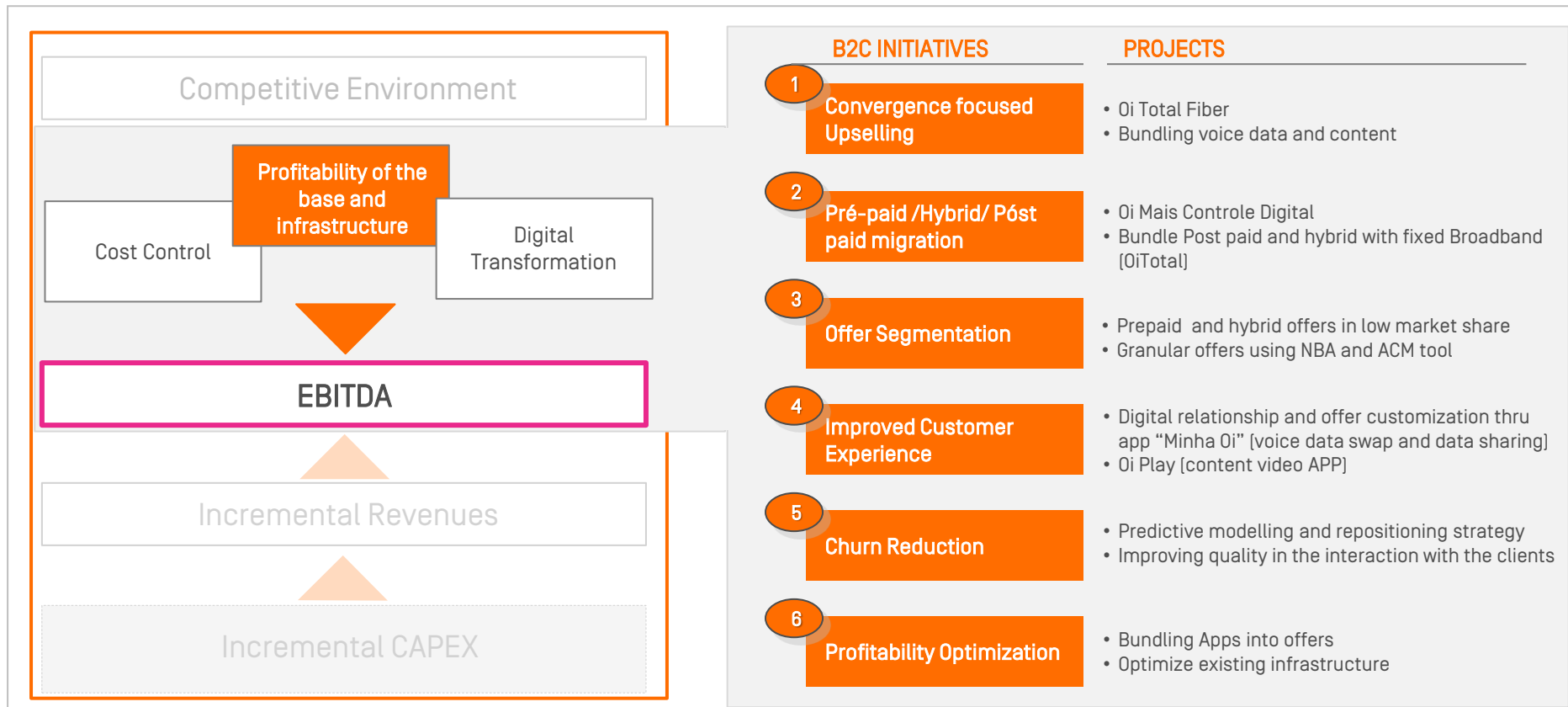
OPERATIONAL EFFICIENCY 

- **Aggressive ramp-up of the web channel and e-billing**
- Enhance performance of acquisition, upsell and retention operations through **more granular approach and intelligence (NBA)**
- **Refine Go-To-Market policy**, increasing regional granularity and synchronizing with infrastructure and operations

## CUSTOMER CENTRIC

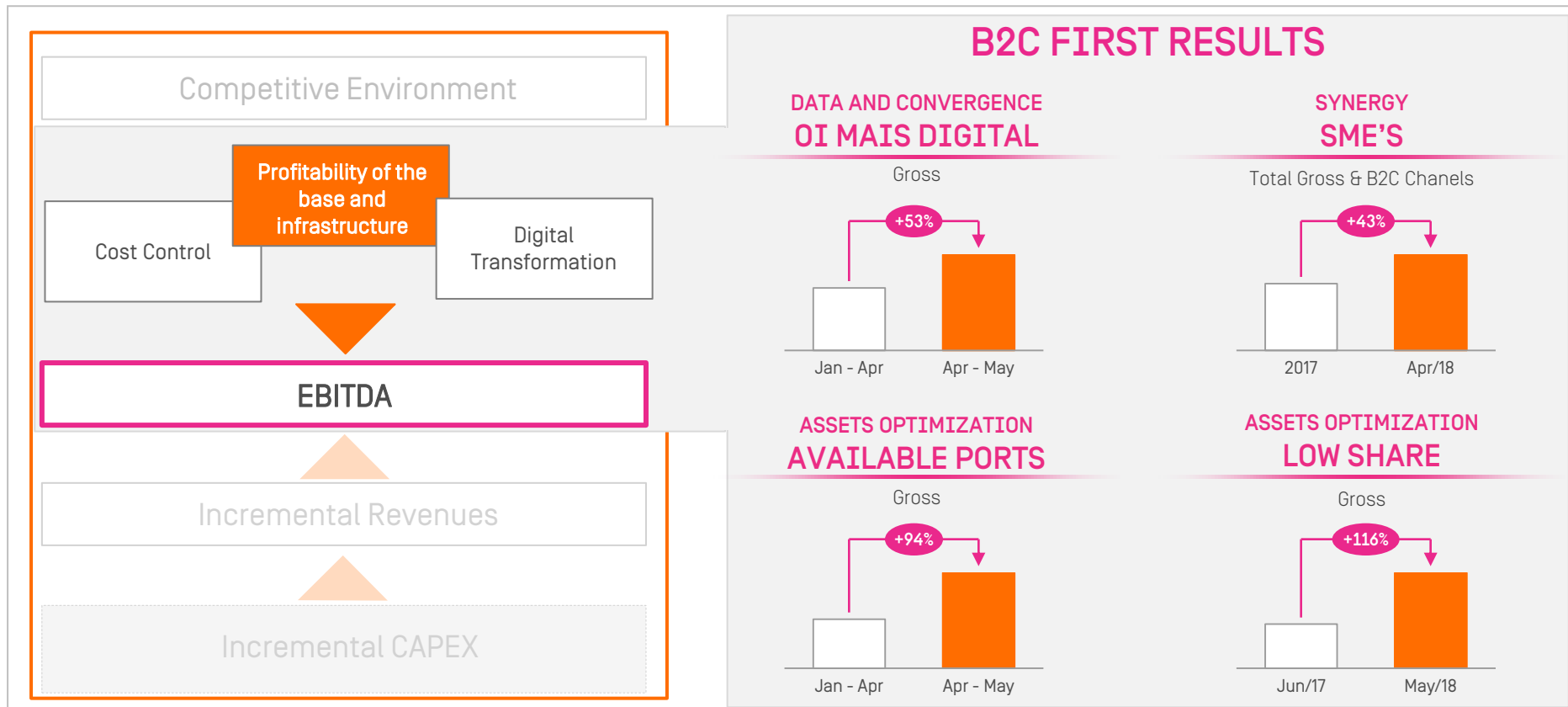


## OI'S B2C STRATEGY FOCUSES ON 6 MAJOR LEVERS TO DRIVE REVENUE INCREASE





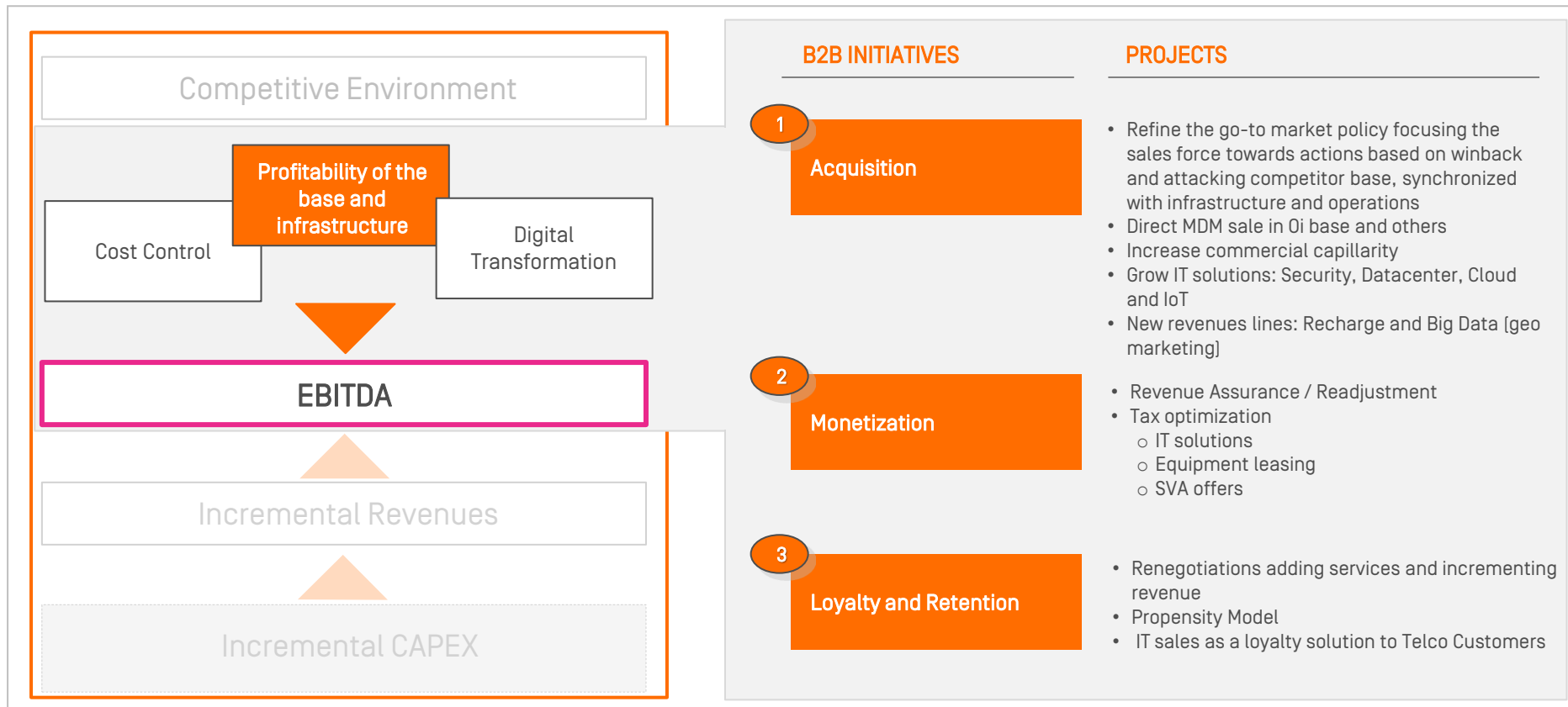
# OI'S B2C STRATEGY FOCUSES ON 6 MAJOR LEVERS TO DRIVE REVENUE INCREASE





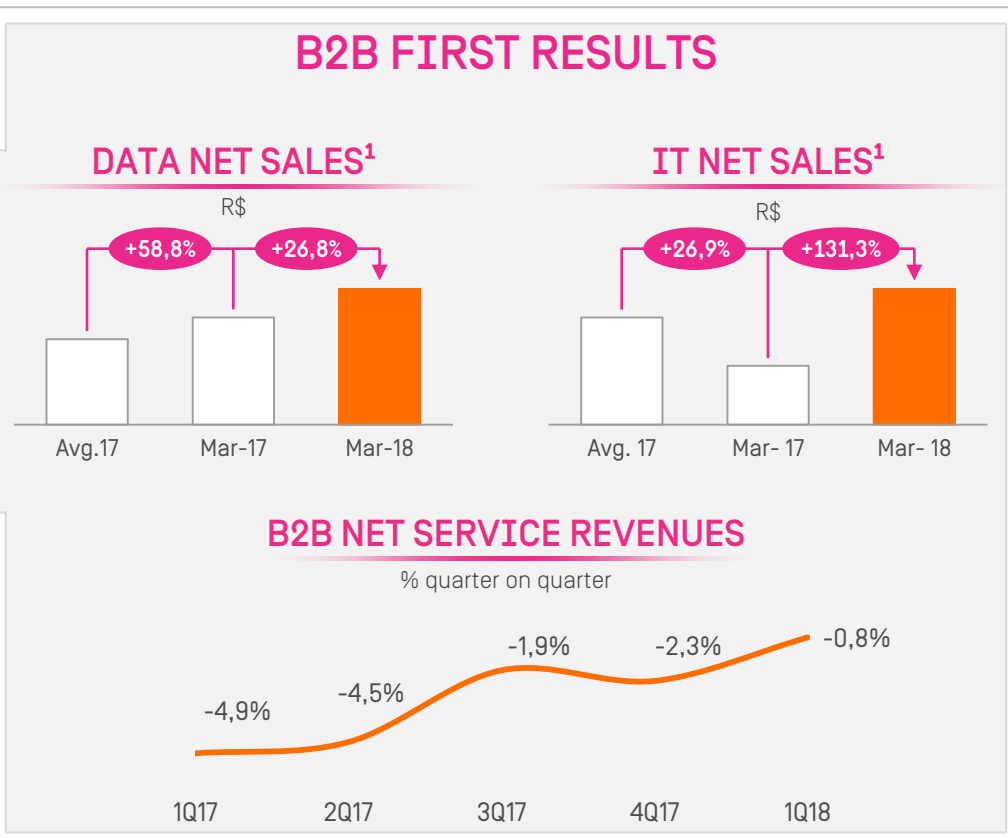
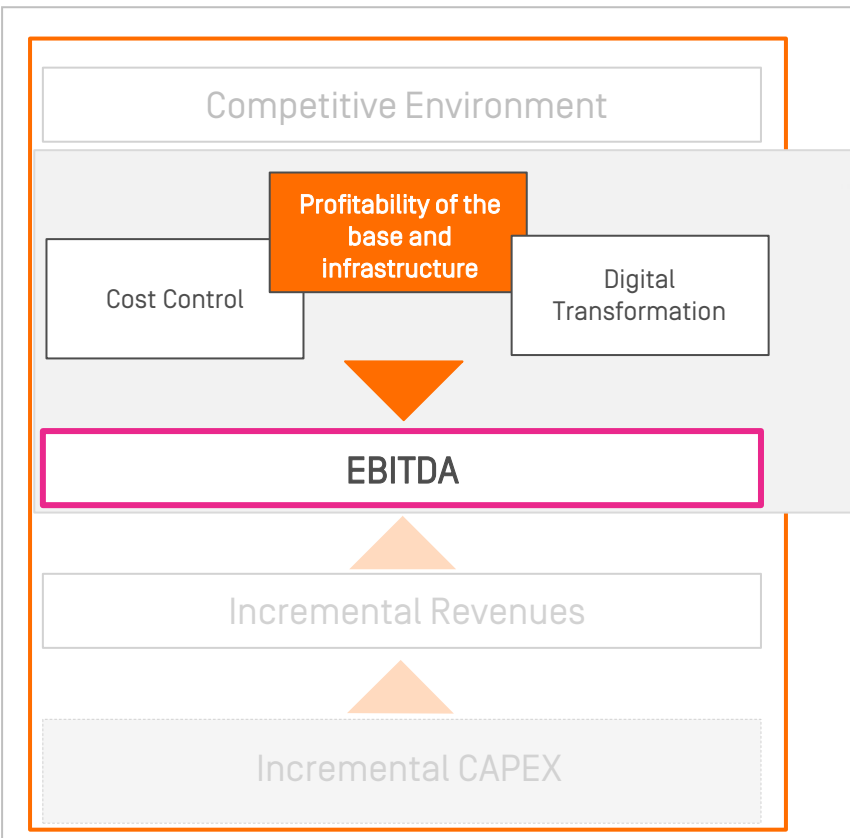


# B2B TURNAROUND STRATEGY IS BASED ON 3 PILLARS TO LEVERAGE COMMERCIAL ACTIVITY AND INCREASE REVENUE





# B2B TURNAROUND STRATEGY IS BASED ON 3 PILLARS TO LEVERAGE COMMERCIAL ACTIVITY AND INCREASE REVENUE



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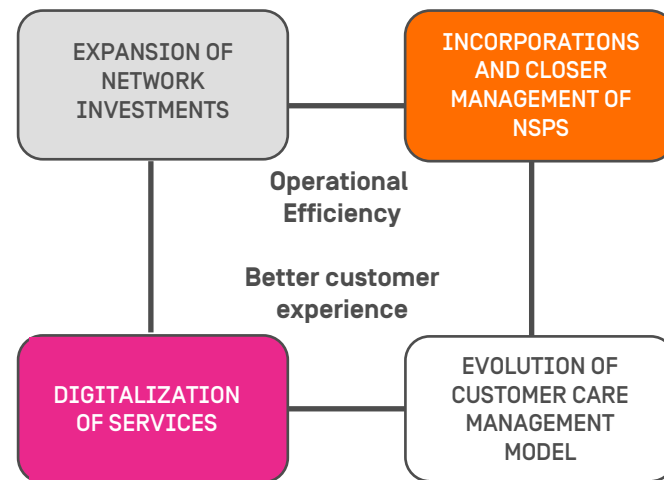
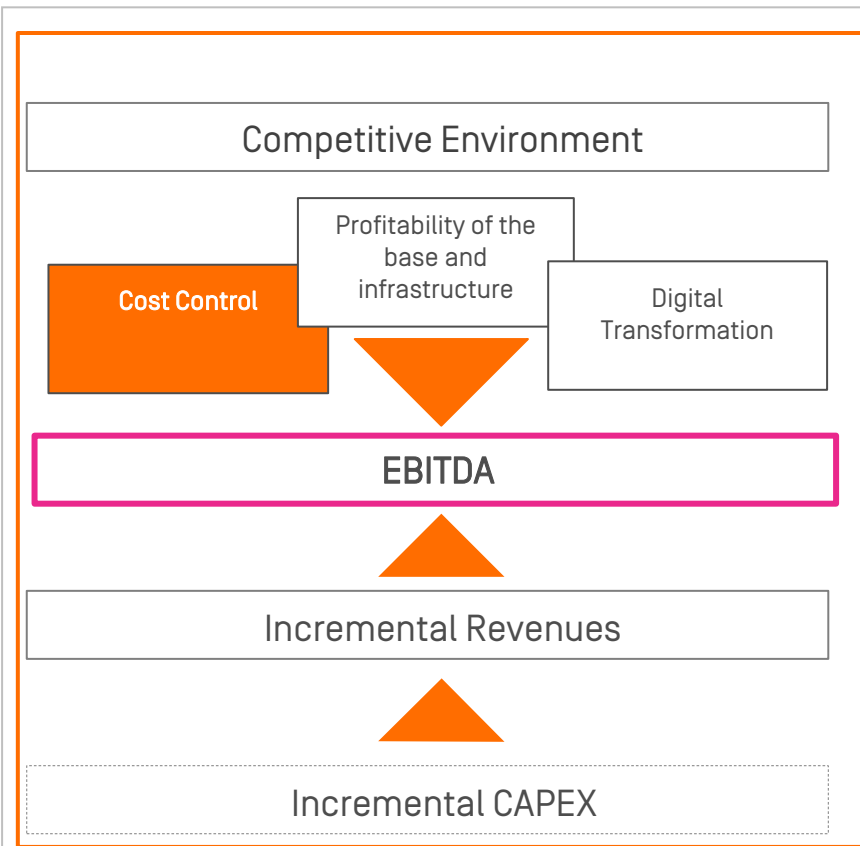
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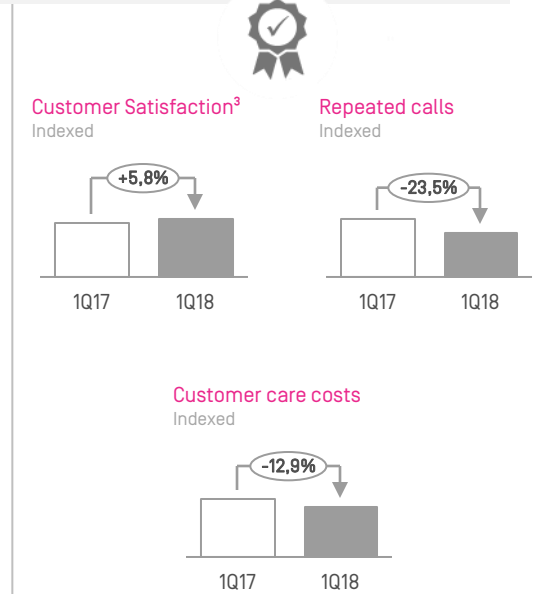
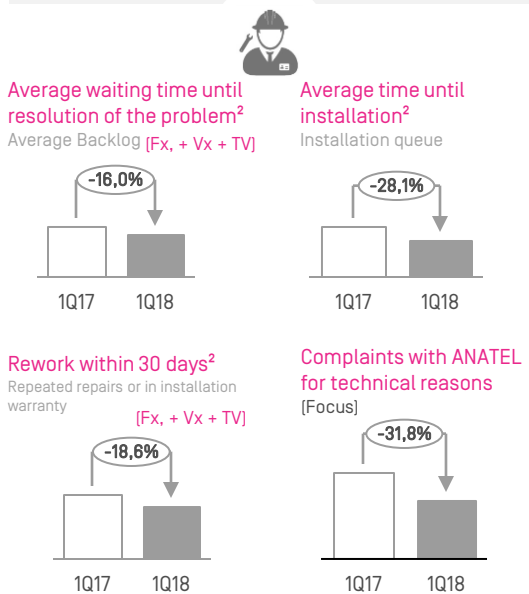
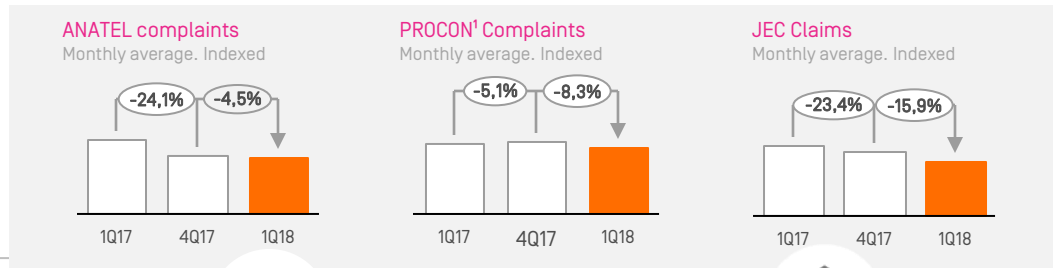
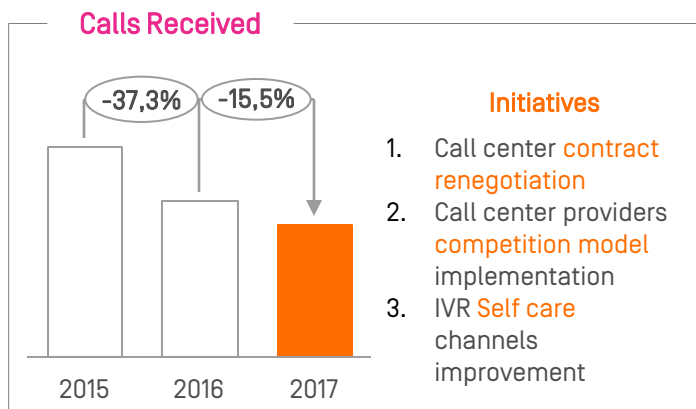
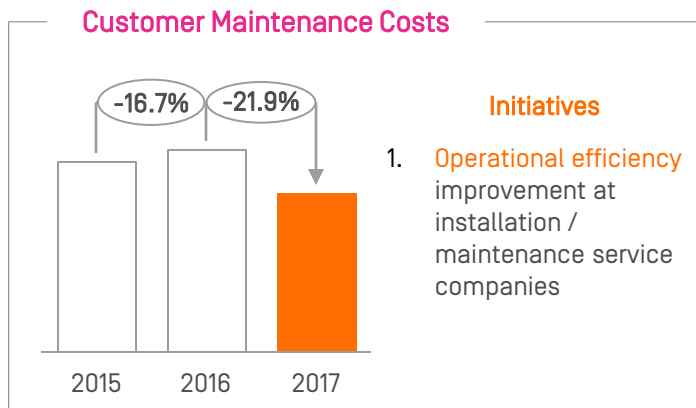
## COST CONTROL ON THE BACK OF OPERATIONAL EFFICIENCY AND IMPROVING QUALITY



Active management on the operational efficiency and digitalization fronts in conjunction with the evolution of service and NSRs management model resulted in **increased productivity and improved customer care quality**, generating **operational efficiency gains and improving the customer experience**, resulting in cost reduction with quality growth.



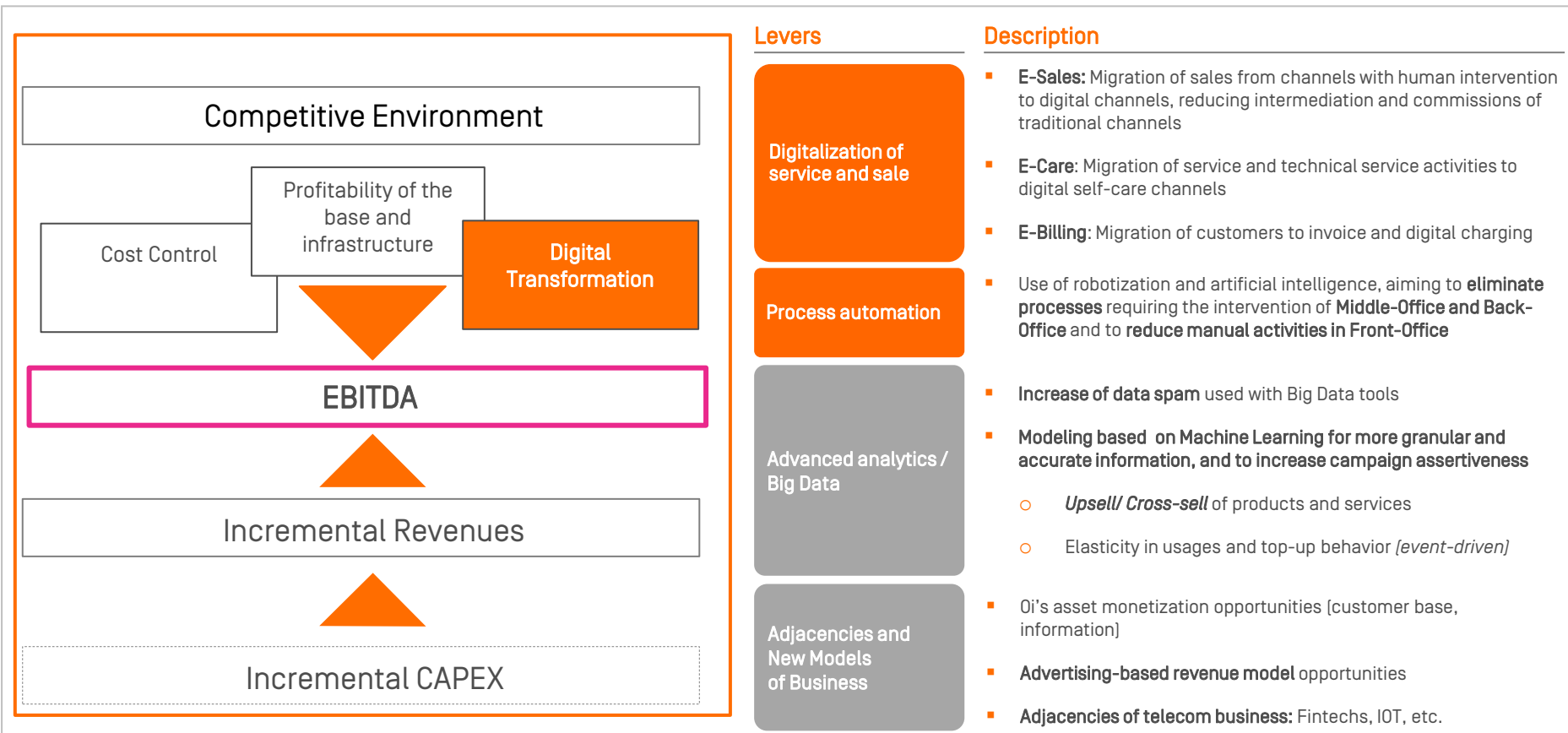
# STRUCTURAL ACTIONS FOCUSED ON IMPROVING CUSTOMER EXPERIENCE, EFFICIENCY IN FIELD OPERATIONS AND PREVENTIVE ACTION SUPPORT ADVANCES IN QUALITY INDICATORS



1 - Source: SINDE/DPDC | 2 - Results of the operations of the absorbed network services providers (NSRs) | 3- Customers who called Customer Care are contacted within 24 hours after the call and are questioned as to satisfaction regarding the service provided by the operator. This result is used for the attendant remuneration and the supplier's bonus.



# DIGITAL TRANSFORMATION AS A KEY TOOL TO IMPROVE BOTH COST EFFICIENCY AND CLIENT EXPERIENCE

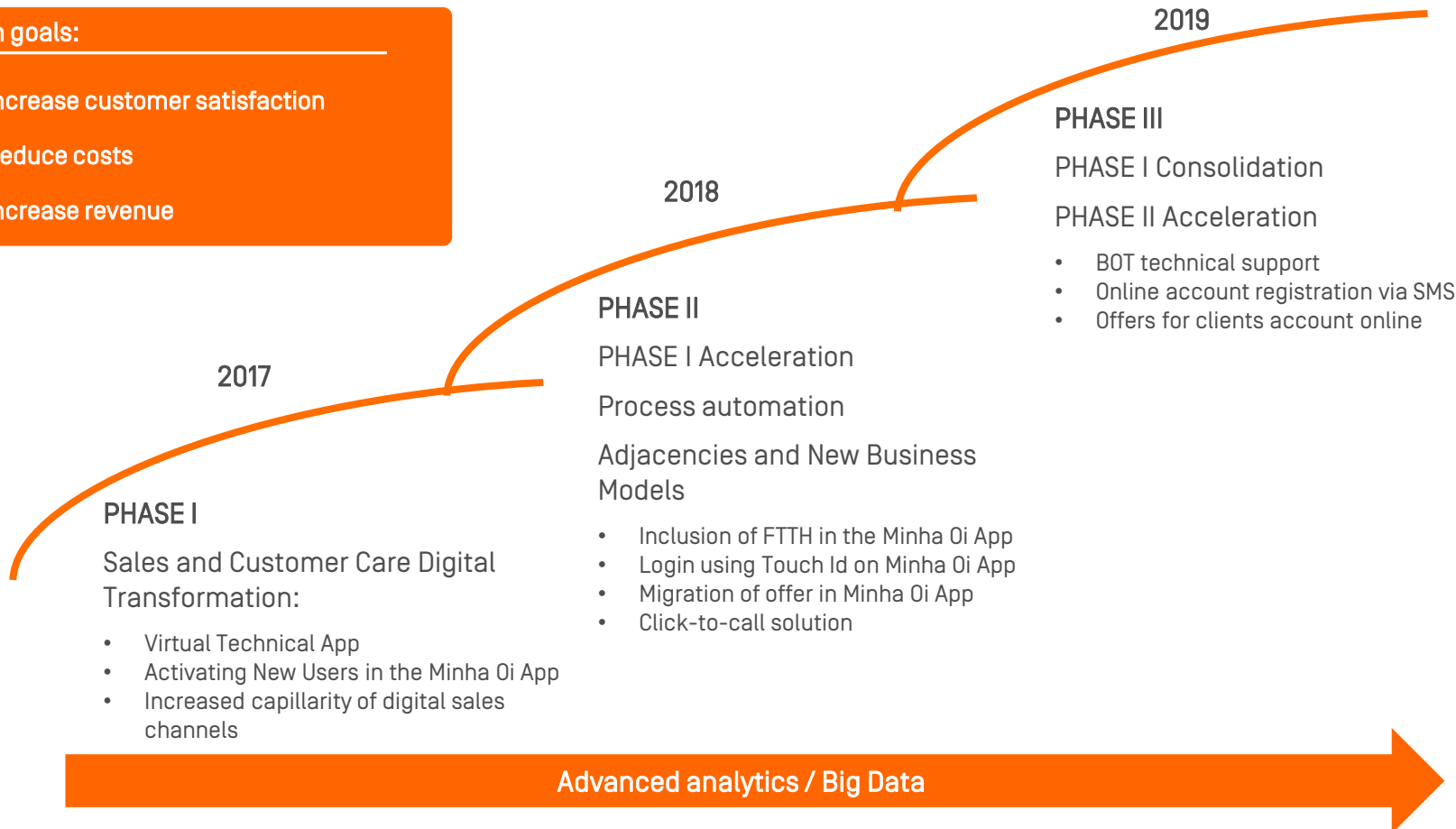




## DIGITAL TRANSFORMATION PLAN TIMELINE

**Main goals:**

- ✓ Increase customer satisfaction
- ✓ Reduce costs
- ✓ Increase revenue



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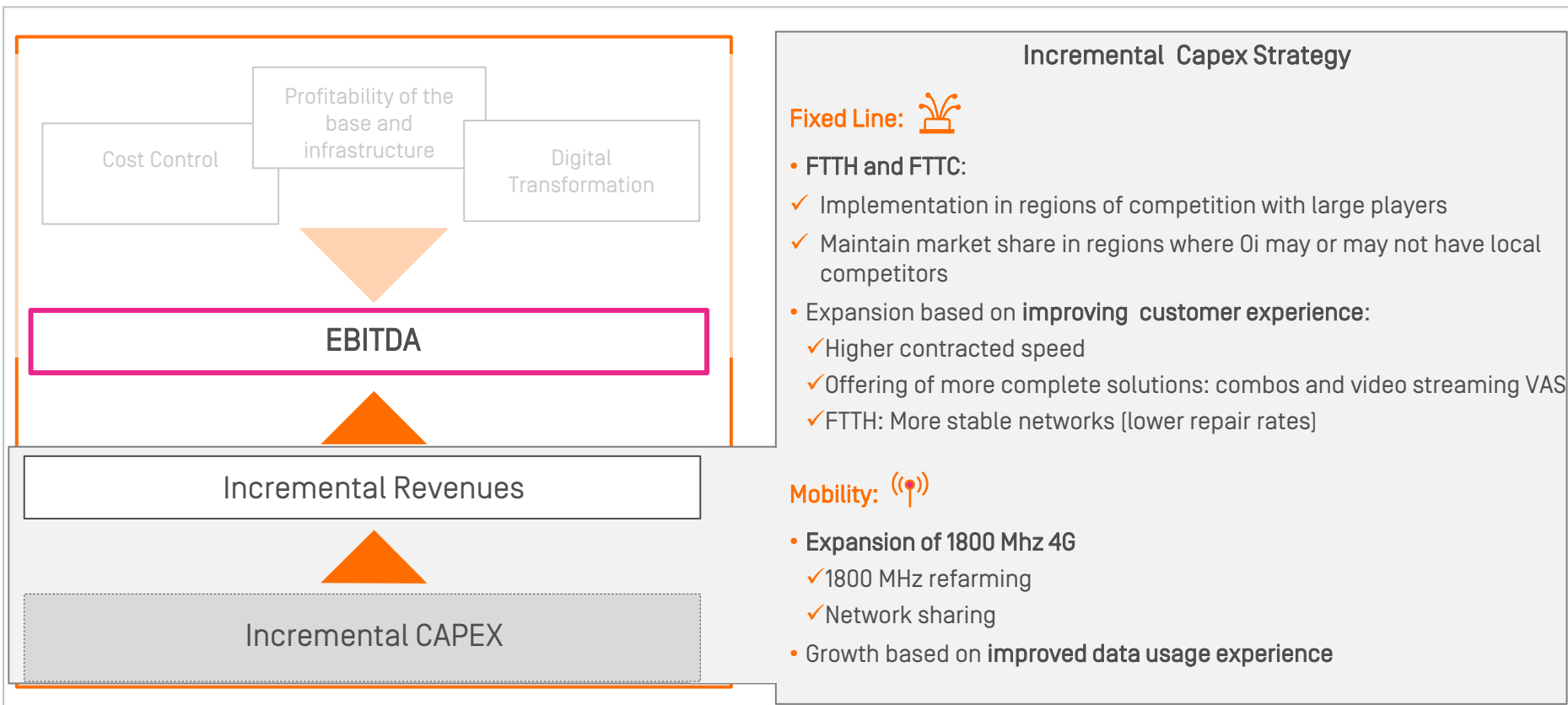
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## JR PLAN FORESEES ADDITIONAL REVENUE GROWTH BASED ON INCREMENTAL CAPEX FINANCED BY CAPITAL INCREASE, IN CONJUNCTION WITH RECURRING MARGIN GAIN ACTIONS












## OI'S NATIONWIDE COVERAGE, WITH HIGH LEVEL OF CAPILLARITY (PRESENCE IN OVER 5,500 MUNICIPALITIES) AND HIGH AVAILABILITY BACKBONES, OFFERS HUGE OPPORTUNITIES



- High capacity **Backbone**
- ~ **350,000 km** of Fiber Optics
- **Nationwide Coverage with International** connection points (MIA and NYC);
- **IP Core** with capacity enough to **carry over 5.5 Tbps**;
- **Content Cache** structures including the main content providers: Facebook, Google, Netflix, Akamai.
- **Robust Transport Network Core:** SDH, DXC, PTN e OTN (100Gbps) in **ring or mesh** with at least **3 different paths** in **23 States and most important cities**;
- **Multiplatform Head End** supporting the DTH, IPTV and OTT services;
- ~ **45 million homes** passed with copper network

### ~244,000 Equipamentos de Rede

	<b>Transport/Satellite</b>	~ 116,700 Equipment
	<b>Data Network</b>	~ 21,100 Equipment
	<b>Landline</b>	~ 37,500 Equipment
	<b>Broadband</b>	~ 33,300 Equipment
	<b>Mobile Network (2G/3G/4G)</b>	~ 28,400 Equipment
	<b>(4G RAN Sharing)</b>	~ 4,300 Equipment
	<b>Platforms/OSS</b>	~ 150 Platforms/OSS
	<b>Oi TV</b>	~ 3,000 Equipment

### ~60 MM Unidade Geradora de Receita

<b>Landline</b>	: B2C: ~ 9,23 MM   B2B: ~ 3,64 MM
<b>Broadband</b>	: B2C ~ 5,16 MM   B2B: ~ 0,54 MM
<b>Mobile</b>	: B2C: ~ 36,6 MM   B2B: ~ 2,3MM
<b>TV</b>	~ 1,5 MM
<b>Public Telephone</b>	~ 640 K

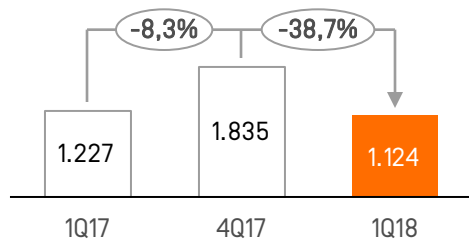


# INVESTMENTS IN NETWORK CORE AND TRANSPORT PREPARE THE COMPANY TO EXECUTE WITH AGILITY AND EFFICIENCY THE INCREMENTAL CAPEX PLAN FINANCED BY THE CAPITAL INCREASE

Part of the investment planned for 1Q18 was anticipated to 4Q17, prioritizing the expansion of Capex in infrastructure and network core

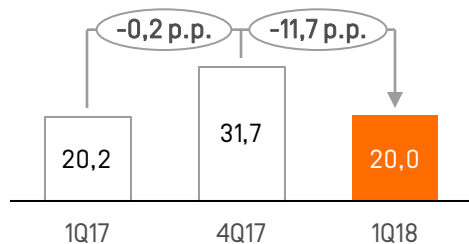
## Capex

R\$ million - Brazilian operations



## Capex / Net Revenue

%



In 2018, Oi prepares to start the new investment cycle after the capital injection provided for in the JP Plan



PREPARATION


ACCELERATION

- |                                     |  |                          |  |
|-------------------------------------|--|--------------------------|--|
| <input checked="" type="checkbox"/> | Readjustment of the Organizational Structure   | <input type="checkbox"/> | Capital Increase   |
| <input checked="" type="checkbox"/> | Elaboration of the Incremental CAPEX Plan  | <input type="checkbox"/> | Beginning of the execution of the incremental CAPEX plan |
| <input checked="" type="checkbox"/> | Structuring of areas, processes and infrastructure to execute the Incremental CAPEX plan |                          |  |
| <input checked="" type="checkbox"/> | Evolution of Digital Transformation, Efficiency and Quality                              |                          |  |

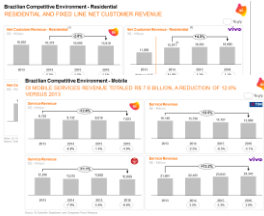


# CAPITAL INCREASE WILL REDUCE COMPETITIVE, FINANCIAL AND QUALITY GAPS, ALLOWING OI TO LEVERAGE ITS UNIQUE INFRASTRUCTURE TO CAPTURE MARKET OPPORTUNITIES

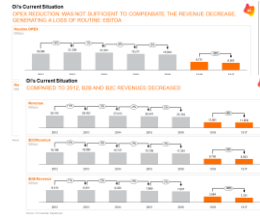
## Industry Gaps



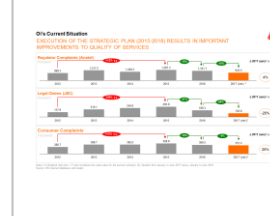
### Competitive Gaps



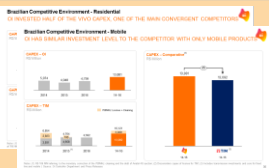
### Financial Gaps



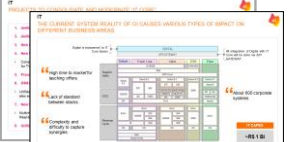
### Quality of Service Gaps



## Investment Gaps



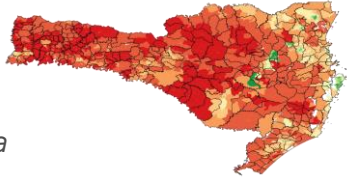
## Relevant capital allocation areas

Network Investments	IT/Operations/CPEs <sup>1</sup>	
Fixed Broadband	Mobile	New IT architecture
<ul style="list-style-type: none"> <li>• Investments allocated by market demand:                             <ul style="list-style-type: none"> <li>○ Shortening Local Loops</li> <li>○ Optical Fiber</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• 4G Network Expansion: Refarming (1800 MHz) and Carrier Aggregation</li> <li>• Increase of 4G Coverage Area</li> </ul>	 <ul style="list-style-type: none"> <li>• Consolidation and optimization of OI's systems</li> </ul>

New investment plan

### Data fine tuning and granular prioritization

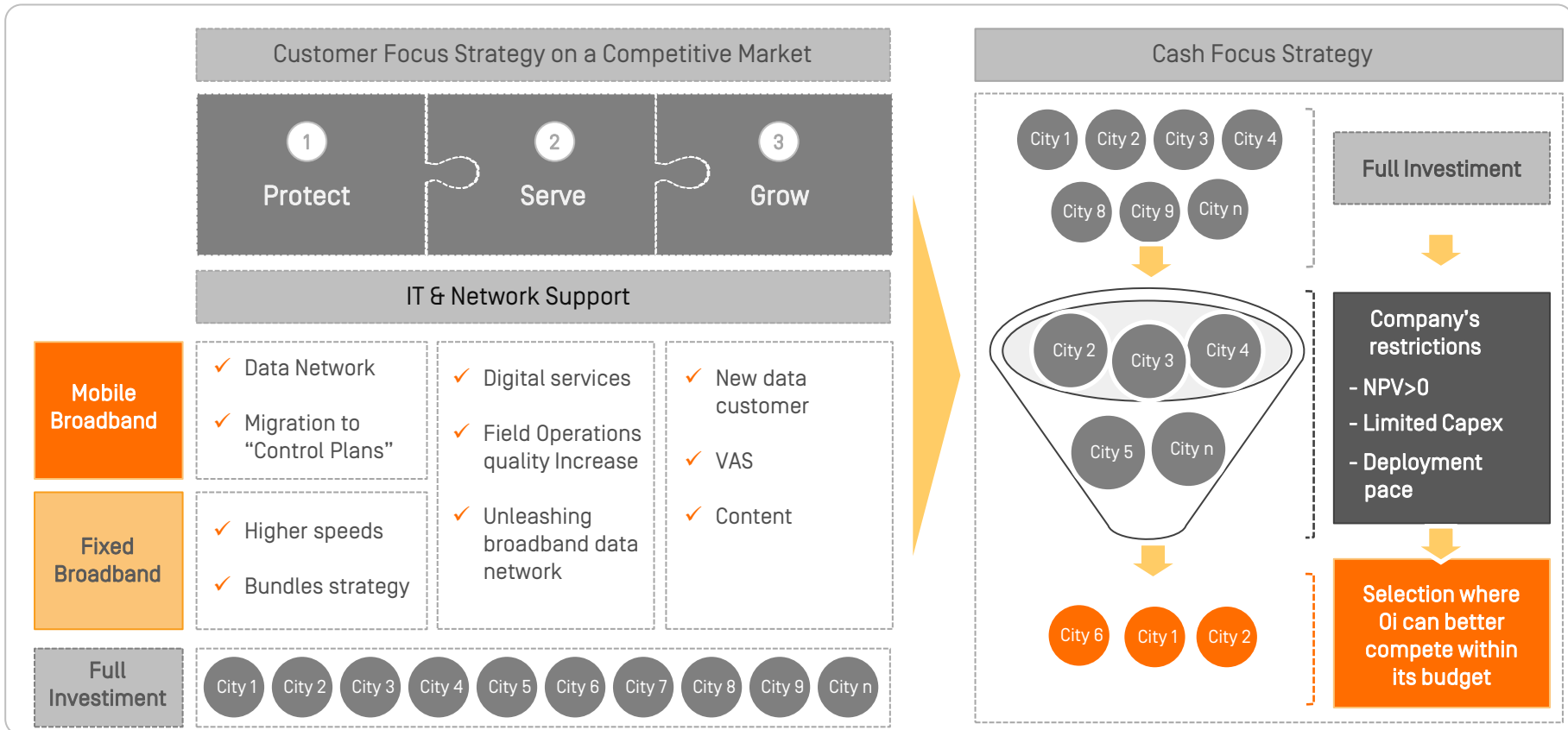
Example: *State of Santa Catarina*



Note: [1] Customer Premises Equipments;  
Source: Oi Strategy

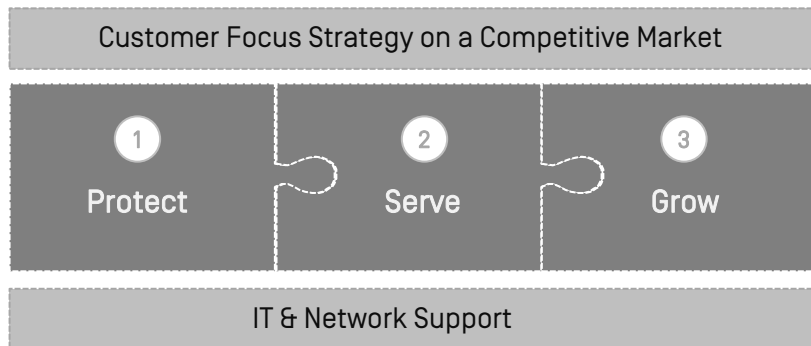


# OI'S STRATEGY IS TO FACE COMPETITION BY FOCUSING ON CUSTOMER SERVICE, ADDING VALUE TO THE COMPANY, LIMITED ONLY BY INVESTMENT RESTRICTIONS...





# ... LED TO A CUSTOMER FOCUS STRATEGY IMPLEMENTATION BASED ON MOBILE 4G COVERAGE AND FIXED FTTX



<b>Mobile Broadband</b>	<ul style="list-style-type: none"> <li>✓ Data Network</li> <li>✓ Migration to "Control Plans"</li> </ul>	<ul style="list-style-type: none"> <li>✓ Digital services</li> <li>✓ Field Operations quality Increase</li> </ul>	<ul style="list-style-type: none"> <li>✓ New data customer</li> <li>✓ VAS</li> </ul>
<b>Fixed Broadband</b>	<ul style="list-style-type: none"> <li>✓ Higher speeds</li> <li>✓ Bundles strategy</li> </ul>	<ul style="list-style-type: none"> <li>✓ Unleashing broadband data network</li> </ul>	<ul style="list-style-type: none"> <li>✓ Content</li> </ul>



## Mobile Broadband Remedy: 4G 1800 MHz

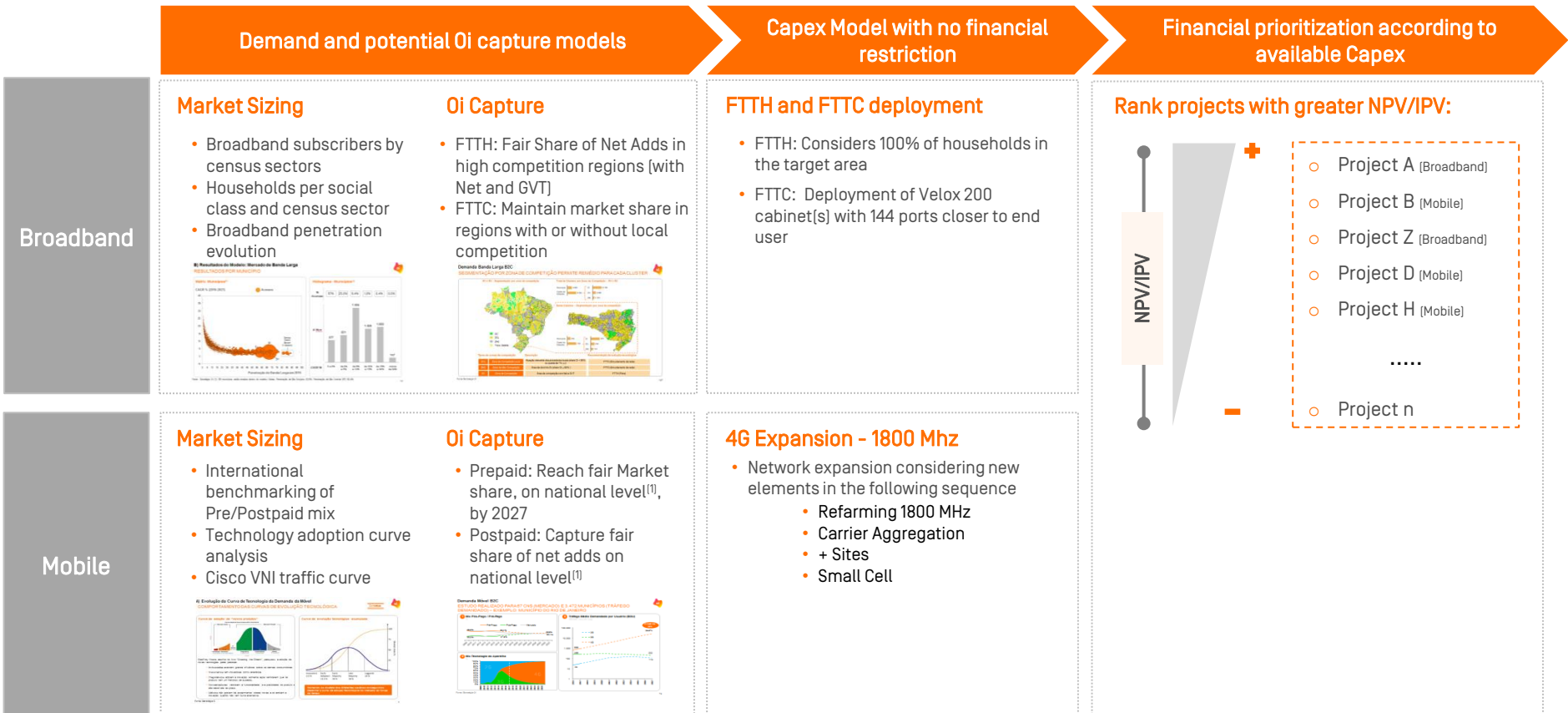
- ✓ Upgrade to 4G 1800 MHz via Refarming
  - Provide better experience to the end user
  - Match state-of-the-art competition
  - Improve mix evolution: from prepaid to control plans and from control plans to postpaid
  - Oi Market capture opportunities:
    - Fair share of net adds in postpaid
    - Fair market share in prepaid

## Fixed Broadband Remedy: Fiber

- ✓ FTTH to compete with big Players
- ✓ FTTC to upgrade broadband speed, effectively compete with local competitors and protect our customer base against future attacks
- ✓ FTTH to improve maintainance cost efficiency



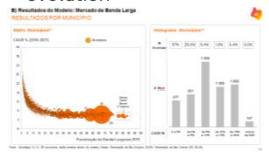
# THE MOST ATTRACTIVE REGIONS FOR FTTH AND 4G DEPLOYMENT ARE DETERMINED BY A PROFITABILITY ANALYSIS, PROJECT BY PROJECT, SUBJECT TO CAPEX AVAILABILITY



Broadband

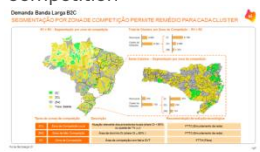
### Market Sizing

- Broadband subscribers by census sectors
- Households per social class and census sector
- Broadband penetration evolution



### Oi Capture

- FTTH: Fair Share of Net Adds in high competition regions (with Net and GVT)
- FTTC: Maintain market share in regions with or without local competition



### FTTH and FTTC deployment

- FTTH: Considers 100% of households in the target area
- FTTC: Deployment of Velox 200 cabinet(s) with 144 ports closer to end user

Mobile

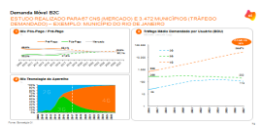
### Market Sizing

- International benchmarking of Pre/Postpaid mix
- Technology adoption curve analysis
- Cisco VNI traffic curve



### Oi Capture

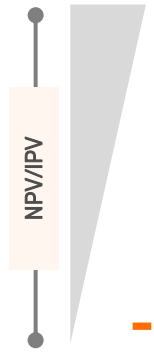
- Prepaid: Reach fair Market share, on national level<sup>[1]</sup>, by 2027
- Postpaid: Capture fair share of net adds on national level<sup>[1]</sup>



### 4G Expansion - 1800 Mhz

- Network expansion considering new elements in the following sequence
  - Refarming 1800 MHz
  - Carrier Aggregation
  - + Sites
  - Small Cell

### Rank projects with greater NPV/IPV:



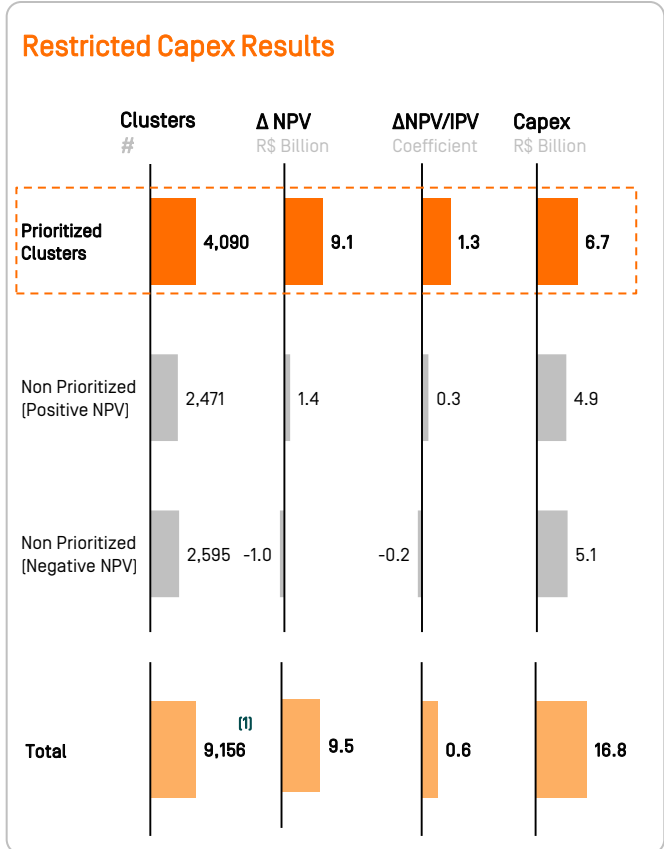
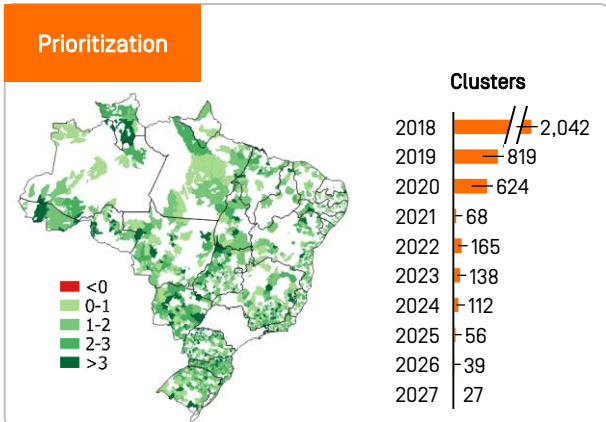
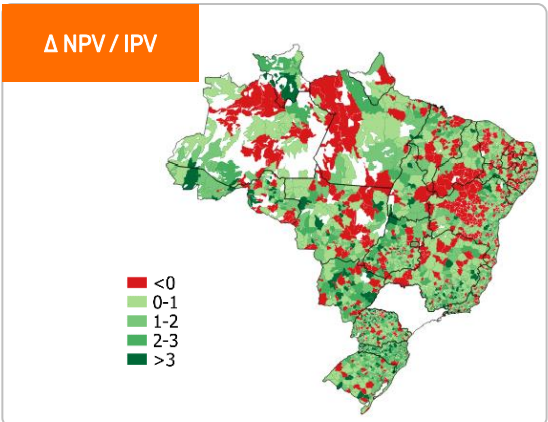
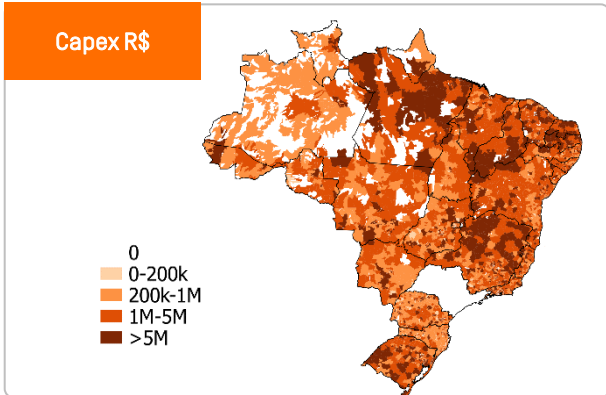
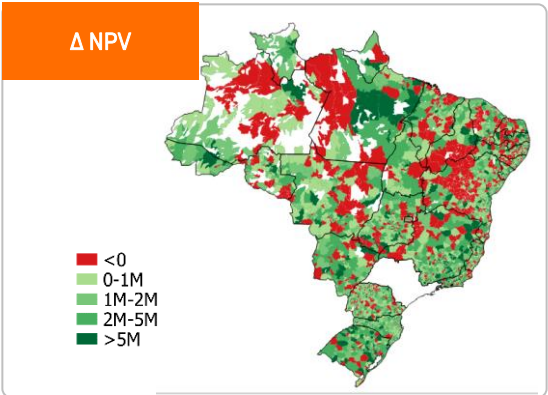
- Project A (Broadband)
- Project B (Mobile)
- Project Z (Broadband)
- Project D (Mobile)
- Project H (Mobile)
- .....
- Project n

Notes: [1] Considering local differences according to 2014-2016 evolution.

Source: Oi Strategy



# RESTRICTED CAPEX PRIORITIZATION (B2B + B2C)



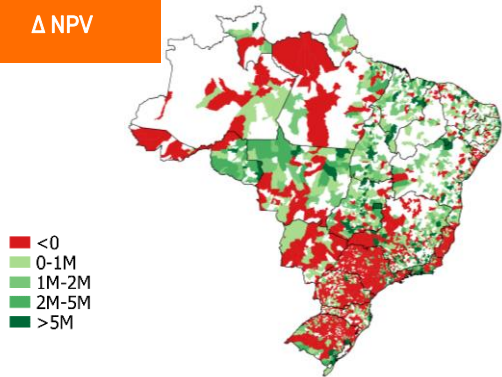
Notes: (1) Cluster Consolidated View  
Source: Oi Controller Department



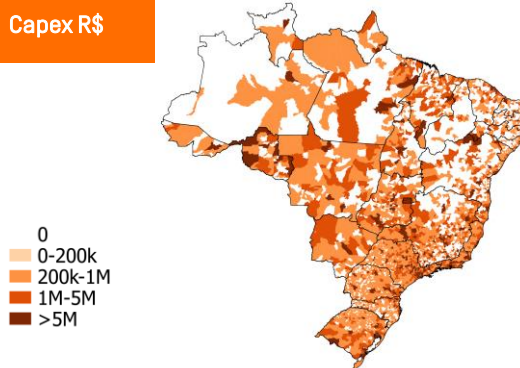


# PRIORITIZATION OF THE RESTRICTED CAPEX SCENARIO

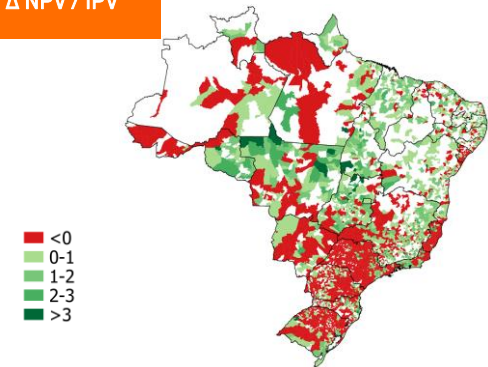
Δ NPV



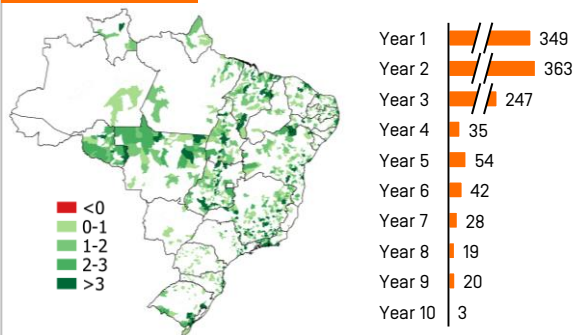
Capex R\$



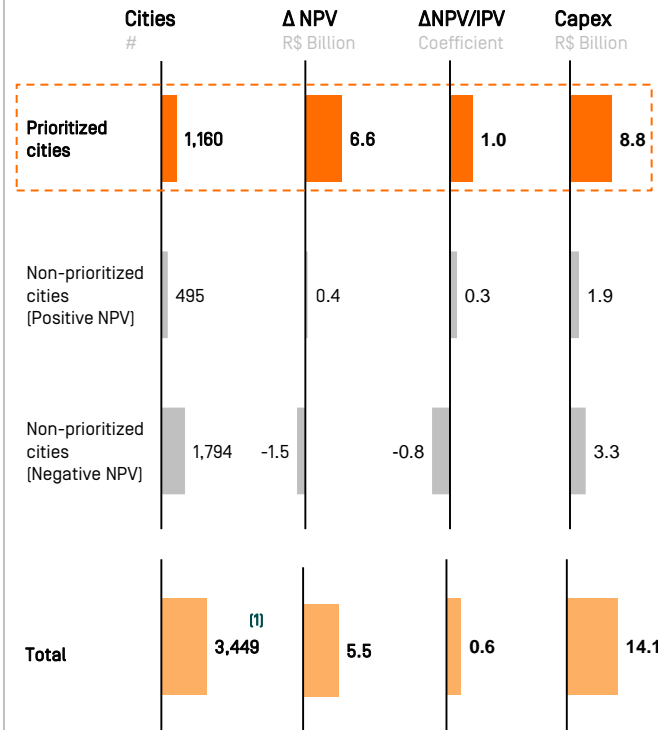
Δ NPV / IPV



Prioritization



## Restricted Capex Scenario Results



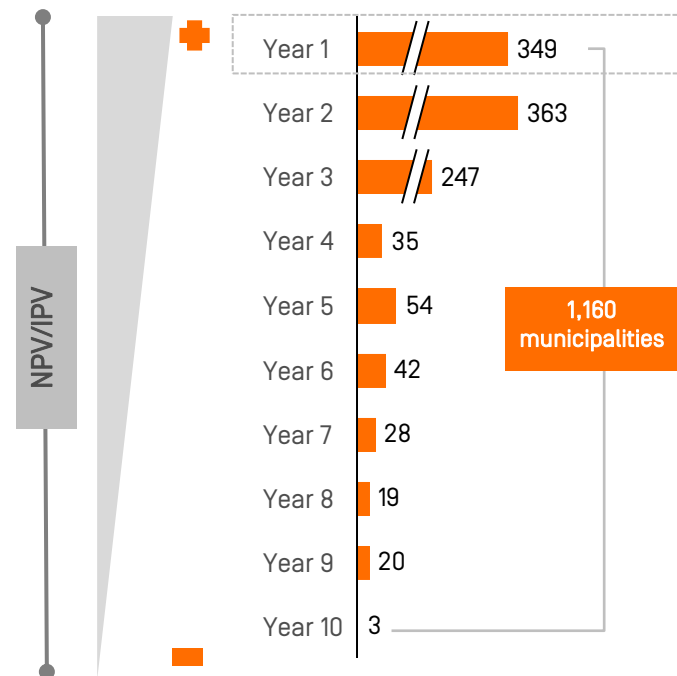
Notes: [1]: Consolidated cities view  
Source: Oi Controller Department



# MOBILE PRIORITIZATION ANALYSIS: CAPEX PLAN TO OPTIMIZE CAPITAL ALLOCATION CONSIDERING GEOGRAPHIC DISPERSION, NETWORK QUALITY AND POTENTIAL SINERGIES

## Mobile Prioritization – RJ Plan

# municipalities



## Year 1 Prioritization



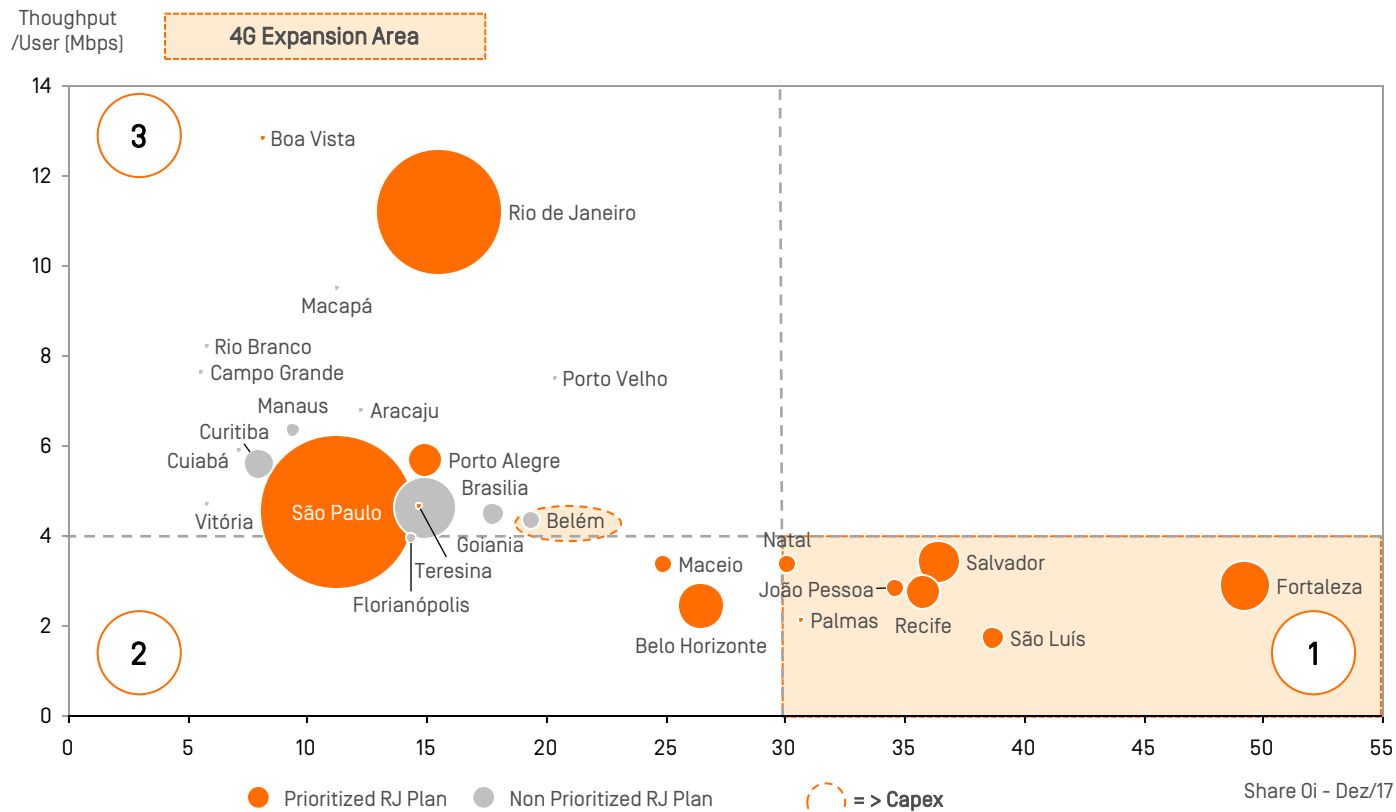
- ✓ High geographic dispersion
- ✓ R\$ 498 million Capex

## Budget 2018

- ✗ Without capital raise
- ✗ Operational issues
- Operational Capacity: # Sites
- Lower Geographic Dispersion
- Acting in conurbated areas
- Capex level project: Network Synergies
- Degradation of Throughput 4G



## 7 CAPITALS WITH HIGH MARKET SHARE ALREADY PRESENT LOW THROUGHPUT BY USER, SHOWING DETERIORATION IN THE 4G CLIENT EXPERIENCE...



### General Comments

- In 7 capital cities with at least 30% Market Share, a degradation of the network is already noticeable, with all cities with Throughput / User below 4 Mbps.
- All high share Capitals were prioritized in the RJ Plan
- In addition to group 1, Belém was also chosen for investment as a request from our Commercial team<sup>(1)</sup>.

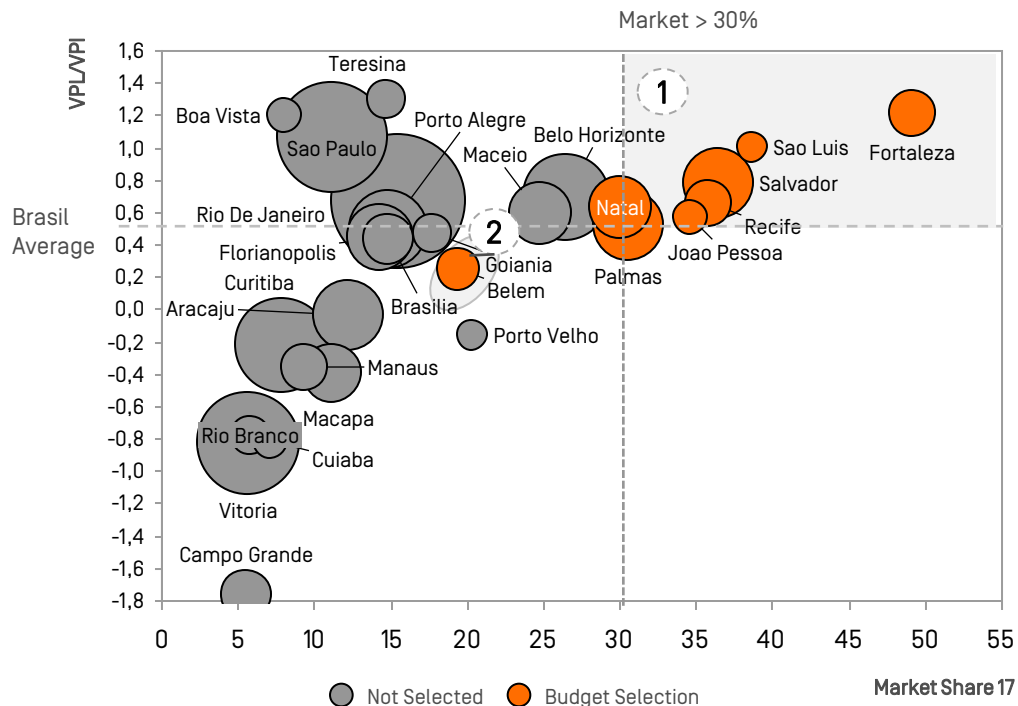
Note: (1):for being a relevant capital with high growth of recharge and number of inserters

Fonte: Oi Engineering and Strategy



## ... AND PRESENT BETTER NPV / IPV RETURN AMONG ALL BRAZILIAN CAPITALS

### Market Share vs $\Delta$ NPV/IPV – Capitals



**1** Capitals selected [7] show the best NPV / IPV ratio, according to the financial analysis carried out for the construction of the RJ Plan.

NPV / IPV

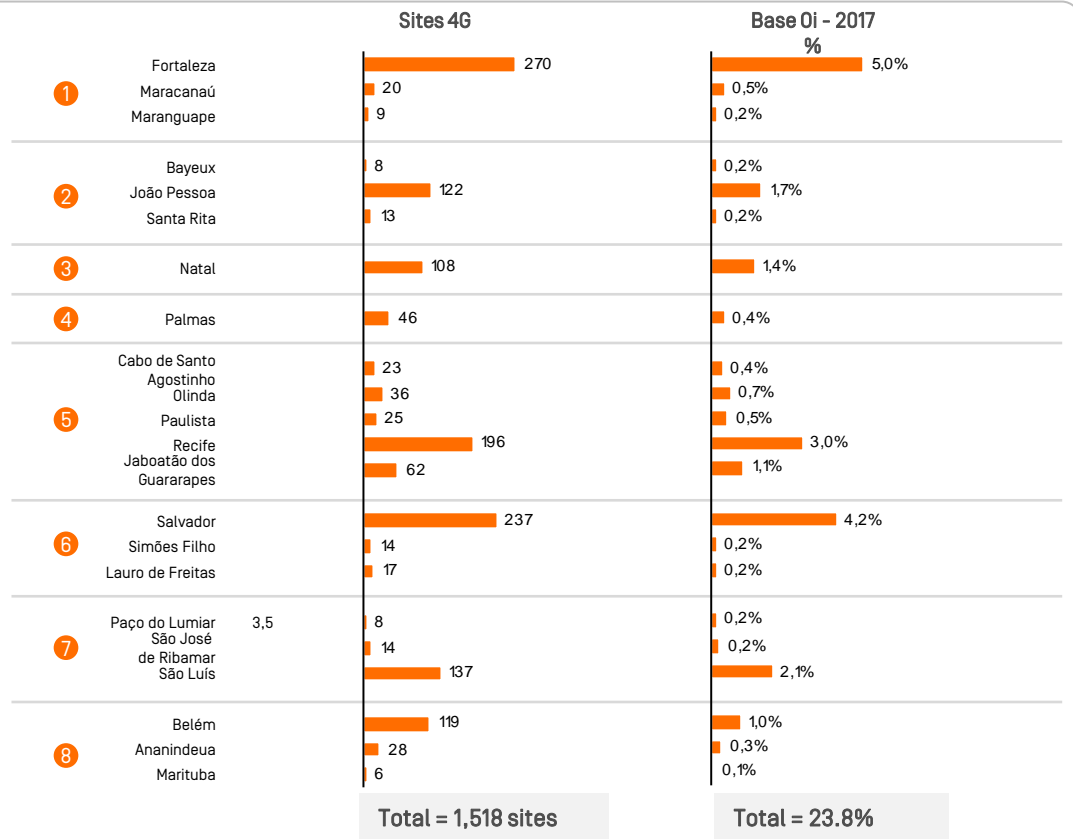


**2** Belém present NPV / IPV > 0



## 1.8 GHZ REFORMING PROJECT HAS ALREADY STARTED PRIORITIZING 22 MUNICIPALITIES WITH HIGH MARKET SHARE TO BE COVERED IN 2018

### Prioritized Municipalities



# AGENDA

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A – Oi's priorities 2017 and 2018

B – Renewed Capital Structure

C – Market Strategy

D – Cost Strategy: Operational Efficiency & Digital Transformation

E – Incremental Capex Allocation Strategy

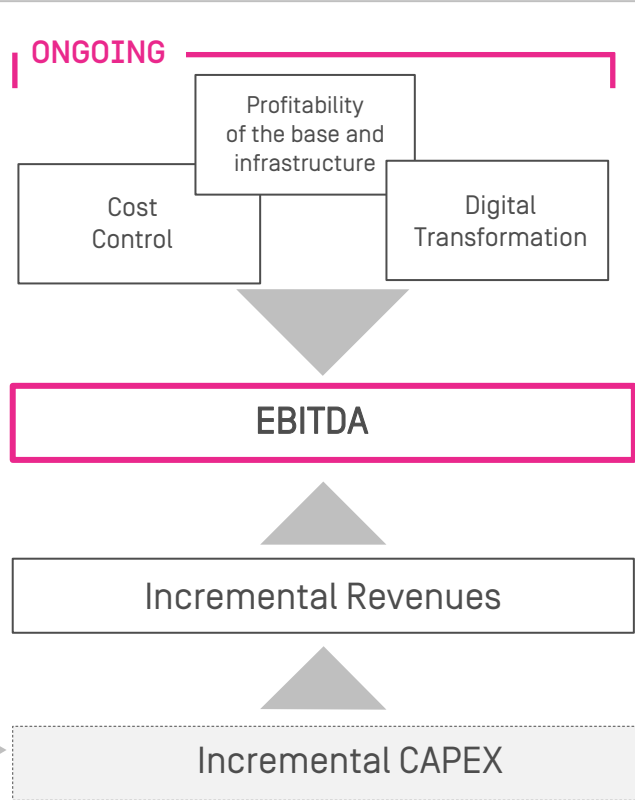
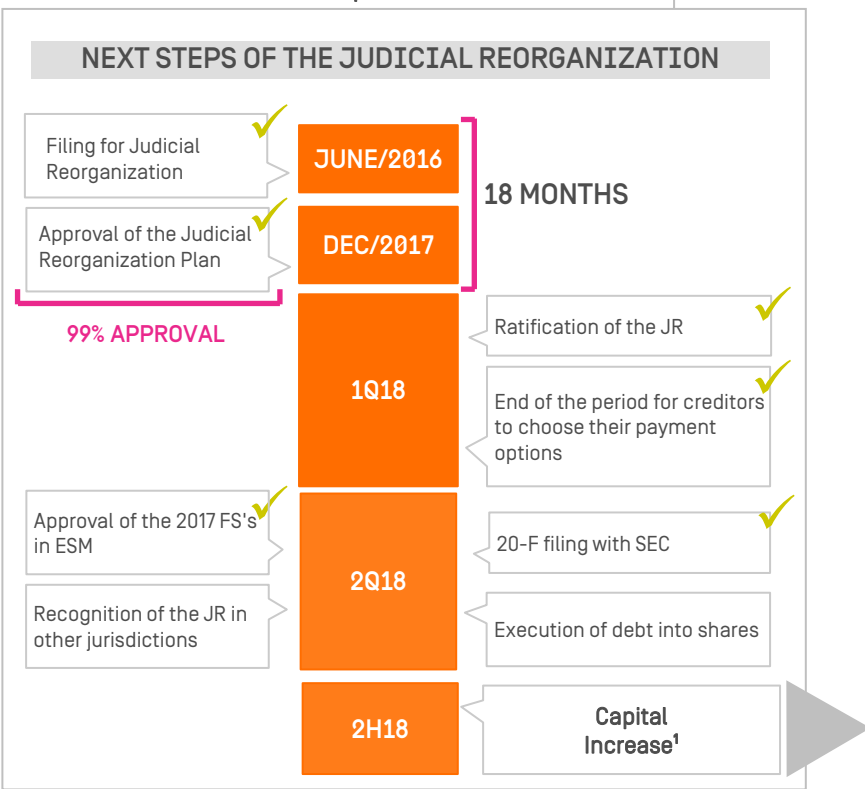
F – Judicial Reorganization Plan Implementation Status



# JR PLAN FORECASTS ADDITIONAL REVENUE GROWTH BASED ON INCREMENTAL CAPEX FINANCED BY THE CAPITAL INCREASE, IN CONJUNCTION WITH RECURRING ACTIONS FOR MARGIN GAINS

... will enable the beginning of the sustainable growth cycle.

The conclusion of the new capital structure...



### STRATEGY OF THE INCREMENTAL CAPEX

**Fixed Line:**

- FTTH and FTTC for:
  - ✓ Implementation in regions of competition with large players.
  - ✓ Maintain market share in regions where Oi may or may not have local competitors
- Expansion based on **improving customer experience:**
  - ✓ Higher contracted speed
  - ✓ Offering of more complete solutions: combos and video streaming VAS
  - ✓ FTTH: More stable networks (lower repair rates)

**Mobility:**

- **Accelerate the expansion of 1800 Mhz 4G**
  - ✓ 1800 MHz refarming
  - ✓ Network sharing
- Growth based on **improved data usage experience.**

1 - Judicial Reorganization Plan envisages a capital increase by Feb/2019.



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## BACKUP – EARNINGS RELEASE 1Q18

---





# COST EFFICIENCY FOCUSED ON OPERATIONAL AND QUALITY IMPROVEMENT SUPPORTS SEQUENTIAL EBITDA AND MARGIN GROWTH. OI RECORDED ACCOUNTING PROFIT IN THE QUARTER.

## Financial Highlights

R\$ million

	1Q18	1Q17	y.o.y.	4Q17	q.o.q
<b>Brazil</b>					
<b>Net Service Revenues<sup>1</sup></b>	5,575	6,009	-7.2%	5,722	-2.6%
Residential	2,201	2,354	-6.5%	2,269	-3.0%
Personal Mobility	1,768	1,890	-6.4%	1,827	-3.2%
<i>Customers<sup>2</sup></i>	1,635	1,748	-6.5%	1,693	-3.4%
B2B	1,548	1,703	-9.1%	1,560	-0.8%
<b>Net Customer Revenues<sup>2</sup></b>	5,374	5,794	-7.2%	5,517	-2.6%
<b>Routine OPEX</b>	4,055	4,374	-7.3%	4,482	-9.5%
<b>Routine EBITDA</b>	1,567	1,692	-7.4%	1,300	20.5%
Routine EBITDA Margin	27.9%	27.9%	0.0 pp	22.5%	5.4 pp
<b>CAPEX</b>	1,124	1,227	-8.3%	1,835	-38.7%
<b>Routine EBITDA - Capex</b>	442	465	-5.0%	-535	N/A
<b>Net Income from Brazilian Operations</b>	30,629	-29	N/A	-3,627	N/A



## CONVERGENCE SUPPORTS RESIDENTIAL ARPU. BASE CLEANUP IMPACTS PREPAID. POSTPAID AND B2B SHOW FIRST SIGNS OF RECOVERY IN SEQUENTIAL COMPARISON.

### Operating Highlights

In thousands of RGUs

	1Q18	1Q17	y.o.y.	4Q17	q.o.q.
<b>Total - Brazil</b>	<b>59,212</b>	<b>63,371</b>	<b>-6.6%</b>	<b>59,685</b>	<b>-0.8%</b>
<b>Residential</b>	<b>15,599</b>	<b>16,343</b>	<b>-4.5%</b>	<b>15,885</b>	<b>-1.8%</b>
Fixed line	9,001	9,802	-8.2%	9,233	-2.5%
Broadband	5,085	5,204	-2.3%	5,156	-1.4%
Pay tv	1,514	1,336	13.3%	1,496	1.2%
<b>Residential ARPU</b>	<b>80.8</b>	<b>79.6</b>	<b>1.5%</b>	<b>81.3</b>	<b>-0.6%</b>
<b>Personal Mobility</b>	<b>36,434</b>	<b>39,837</b>	<b>-8.5%</b>	<b>36,648</b>	<b>-0.6%</b>
Prepaid	29,660	32,957	-10.0%	29,917	-0.9%
Postpaid	6,774	6,880	-1.5%	6,731	0.6%
<b>B2B</b>	<b>6,539</b>	<b>6,550</b>	<b>-0.2%</b>	<b>6,512</b>	<b>0.4%</b>
Fixed line	3,611	3,727	-3.1%	3,641	-0.8%
Broadband	545	547	-0.3%	543	0.3%
Mobile	2,370	2,263	4.8%	2,316	2.3%
Pay tv	12	14	-14.2%	12	0.2%
<b>Payphones</b>	<b>640</b>	<b>641</b>	<b>-0.2%</b>	<b>640</b>	<b>0.0%</b>

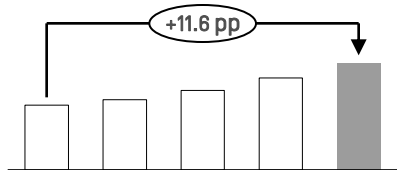


# STRATEGY FOCUSED ON CONVERGENCE AND DATA, WITH BUNDLE EXPANSION, OFFERING GREATER BROADBAND SPEEDS AND IMPROVING TV SALES PROFILE



## Bundles penetration<sup>1</sup>

Indexed % of total fixed line customer base

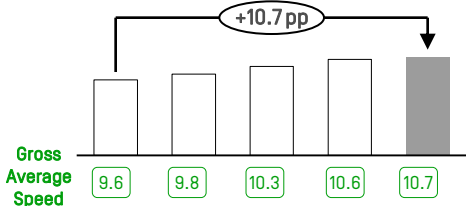


Fixed line



## Sales of speeds ≥ 15 Mbps

Indexed % of total broadband sales

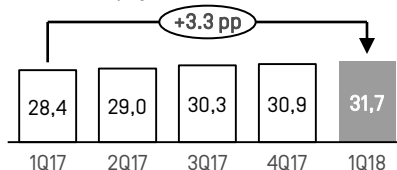


Broadband



## High-end Mix

% of total pay TV customer base

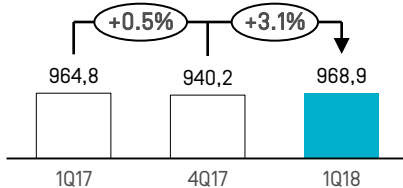


Pay TV

## RESIDENTIAL RESULTS

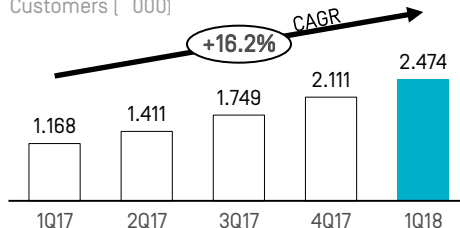
### Gross adds Residential

Indexed



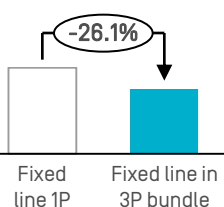
### Oi Total Base

Customers (´ 000)



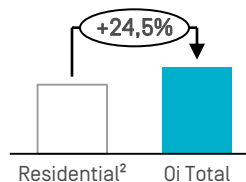
### Churn

Indexed 1Q18



### ARPU

Indexed 1Q18



## REVENUE STRATEGY 2018



### CONVERGENCE FOCUSED ON UPSELLING

- Oi Total Fiber;
- More data and content;
- Simplified portfolio with 12 price combinations;
- Value proposition through prices similar to competitors with higher added value;
- Churn reduction



### OFFER SEGMENTATION

- Granular offers using NBA (*Next Best Action*)
- Currently present throughout the customer's life cycle, covering the entire portfolio of products;
- Expansion forecast for digital channels in 1H18



### BETTER CUSTOMER EXPERIENCE

- Oi Play (video content)
- Launched on Sep/15, Oi Play was initially only available for Oi TV customers;
- On July 17, Oi Total Play combined fixed and broadband with OTT content, making Oi Play independent from Oi TV;
- Roadmap includes: (i) new content; (ii) integration with Chromecast; (iii) improvements in the customer experience.

1 - Includes the discontinued offer OCT [Oi Conta Total].



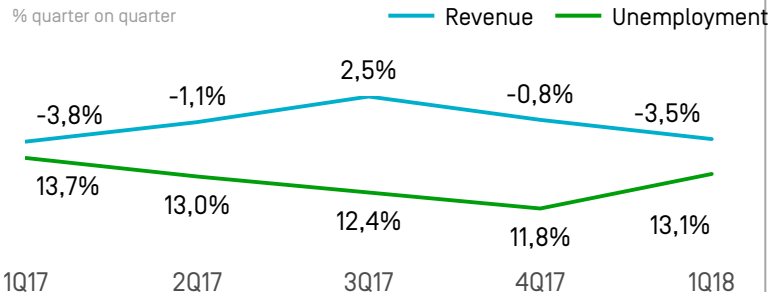
# PREPAID RECHARGES STILL PRESSED BY THE UNEMPLOYMENT CURVE. IN THE POSTPAID SEGMENT, THE LAUNCHING OF OI MAIS DIGITAL, FOCUSED ON DATA AND CONTENT BOOSTS NET ADDS PERFORMANCE

## PREPAID

- Unemployment rate growth has affected the performance of the prepaid segment.

### Net Revenue<sup>1</sup>

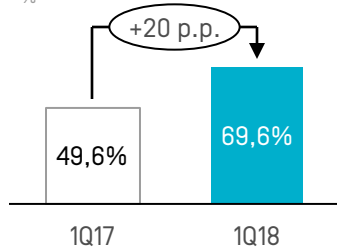
% quarter on quarter



- The Company has acted to increase the Oi Livre participation in the customer base and stabilize the revenue.

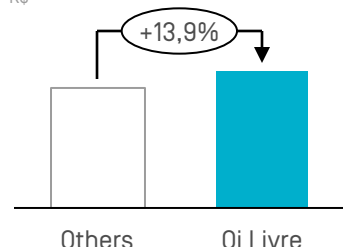
### % Oi Livre on total base

%



### Average recharges

R\$

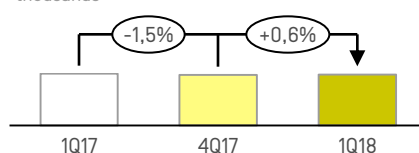


## POSTPAID + CONTROL

- Financial and operating indicators reflect the limitation of investments in the past. Reversal of the trend will come from new offers with more data and free content and the expansion of investments in access, which has already started.

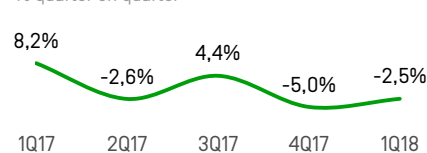
### Customer base

thousands



### Net Revenue<sup>1</sup>

% quarter on quarter



## 2018 REVENUE STRATEGY

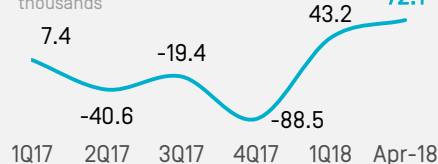
- Convergence: Increase postpaid sales by converging Voice + Data + Content
- Data and content: More data and content in offers
- Digitalization: Minha Oi app improving customer experience
- 1.8 GHz frequency refarming in 22 cities in 2018 focused on the North and Northeast regions;
- Launching of Oi Mais Digital for Mother's Day, with free content on offer, which had a positive impact and the highest level of pure postpaid net adds for a single month in the last 18 months.

## OI MAIS DIGITAL

15 GB UNLIMITED FOX+ 99.90 OI COLLECTION

### Postpaid Net adds<sup>2</sup>

thousands



1 - Excludes long distance revenues. | 2 - Excludes Control.

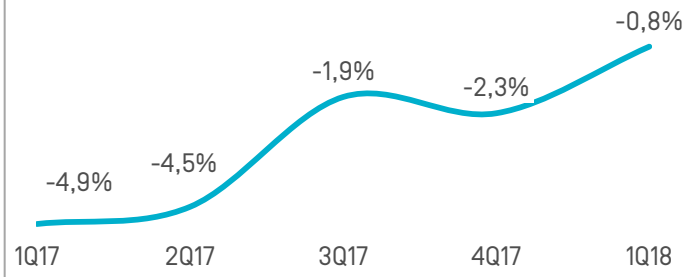


# WITH THE APPROVAL OF THE JUDICIAL REORGANIZATION PLAN AND REDUCTION OF UNCERTAINTIES, B2B BEGINS THE EXECUTION OF ITS TURNAROUND PLAN

Impacted by the JR process and the economic crisis in 2017, B2B begins to show signs of stabilization

- The uncertainties regarding the Judicial Reorganization process made it difficult to acquire new customers;
- Economic crisis increased credit risk and pressured our customers to reduce costs;
- Exposure to government customers, with relevant participation in Corporate revenues;
- Approval of JR plan improves business environment and enables the start of the turnaround process.

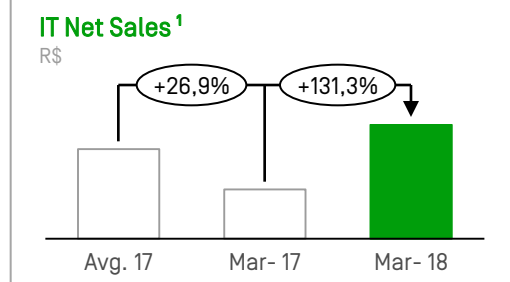
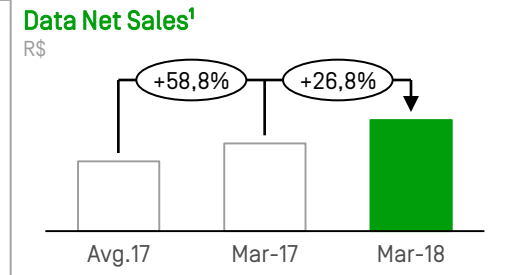
**B2B Net service revenues**  
% quarter on quarter



Strategy based on 3 pillars to boost commercial activity and revenue growth...

- ✓ **ACQUISITION**
  - Refine go-to-market policy by directing the sales force to actions based on winback, synchronized with infrastructure and operations;
  - Direct sale of MDM in Oi's customer base and others;
  - Increase commercial capillarity;
  - Increase IT solutions: Security, Datacenter, Cloud and IoT;
  - New revenue lines: Recharge and Big Data (Geo Marketing).
- ✓ **MONETIZATION**
  - Revenue Assurance;
  - Repositioning offers.
- ✓ **LOYALTY AND RETENTION**
  - Renegotiations adding services and increasing revenue;
  - Propensity Model;
  - IT sales as a loyalty solution for customers.

... this strategy produces its first results.



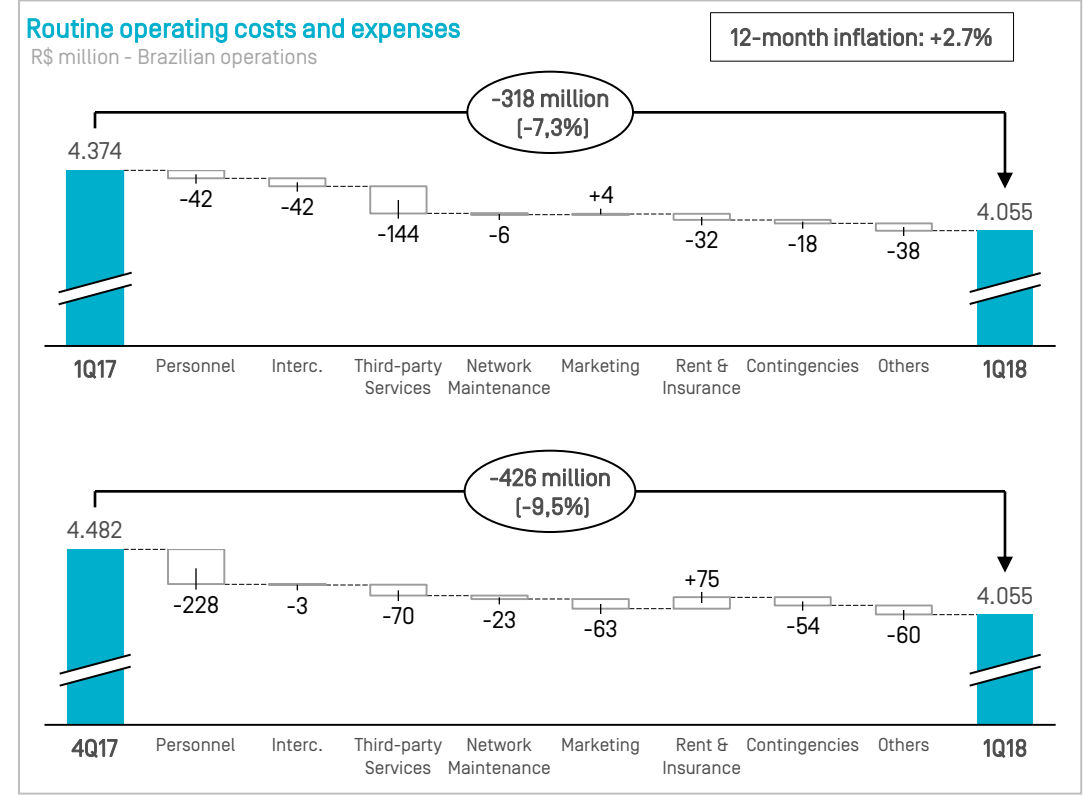
March 2018 registered better net sales result when compared to the average for the 2017 months

1 - Net sales data refers to the Corporate segment.

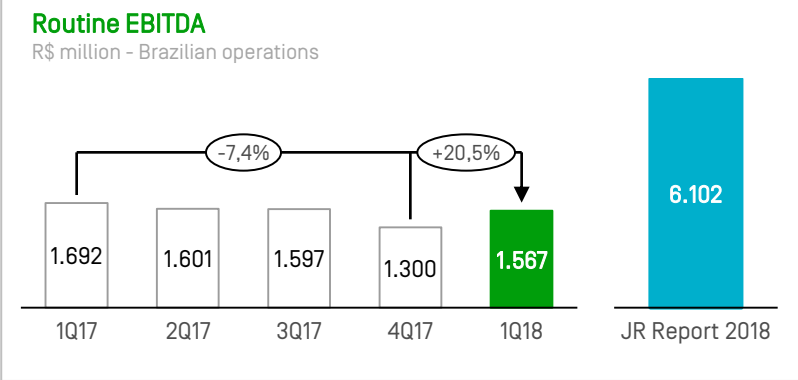


# COST MANAGEMENT BASED ON OPERATIONAL EFFICIENCY AND QUALITY IMPROVEMENT SUSTAIN MAINTENANCE OF EBITDA AND MARGIN IN-LINE WITH THE JUDICIAL REORGANIZATION PLAN

Oi reduced costs by 7.3% and 9.5% year-on-year and quarterly, respectively.



After seasonal effects in 4Q17, 1Q18 routine Ebitda returned to historical level, in-line with the JR Plan.

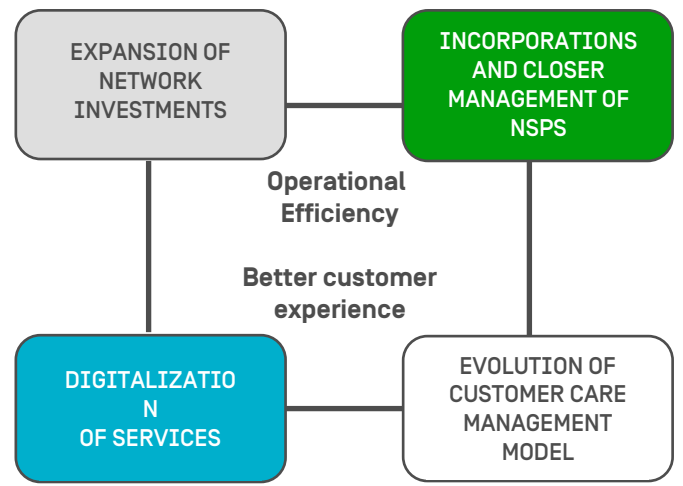


The Company continues to work on initiatives committed to the 2018 Ebitda under the JR Plan Report:

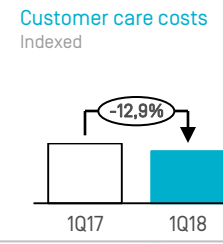
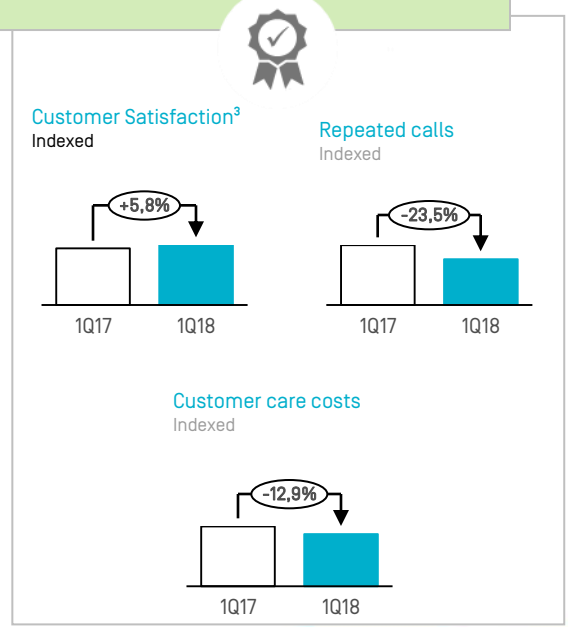
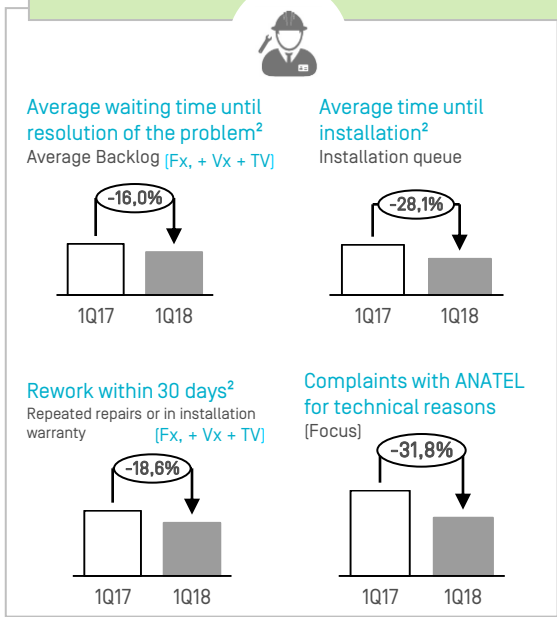
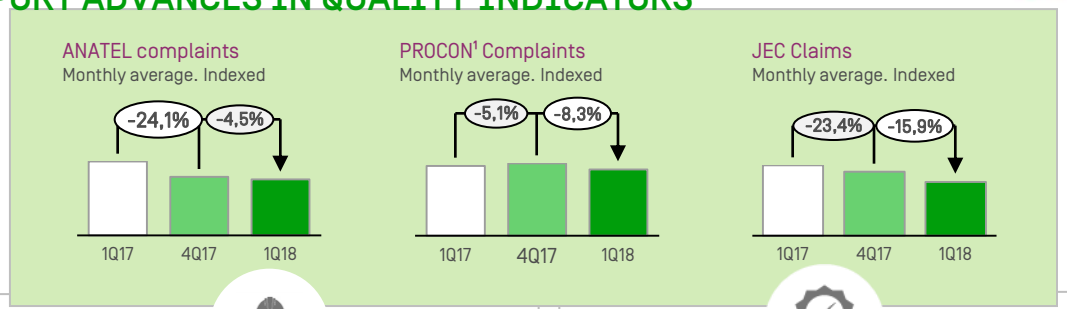
- Optimization of the existing infrastructure;
- Infrastructure sharing;
- Turnaround of the Corporate segment;
- Capturing synergies between the Retail and SMEs segments;
- Maintenance of focus on bundles;
- Initiatives to reduce churn through tools of customer repositioning to more suitable offerings;
- Expansion of digital transformation fronts;
- Continuation of cost control actions and efficiency gains.



# STRUCTURAL ACTIONS FOCUSED ON IMPROVING CUSTOMER EXPERIENCE, EFFICIENCY IN FIELD OPERATIONS AND PREVENTIVE ACTION SUPPORT ADVANCES IN QUALITY INDICATORS



Active management on the operational efficiency and digitalization fronts in conjunction with the evolution of service and NSRs management model resulted in **increased productivity and improved customer care quality**, generating **operational efficiency gains and improving the customer experience**, resulting in cost reduction with quality growth.



1 - Source: SINDE/DPDC | 2 - Results of the operations of the absorbed network services providers (NSRs) | 3- Customers who called Customer Care are contacted within 24 hours after the call and are questioned as to satisfaction regarding the service provided by the operator. This result is used for the attendant remuneration and the supplier's bonus.



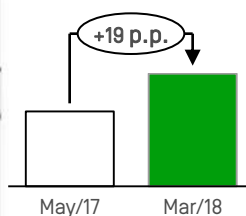
# DIGITALIZATION CONTRIBUTES TO AUTOMATION OF PROCESSES AND SERVICES, REFLECTING ON EFFICIENCY GAINS, COST REDUCTION AND IMPROVEMENT IN CUSTOMER EXPERIENCE.

## DIGITAL INITIATIVES IN THE SEGMENTS

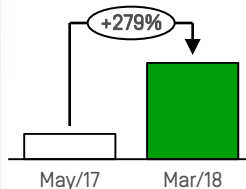
PREPAID, CONTROL AND POSTPAID	PREPAID AND CONTROL	CONTROL	PREPAID, CONTROL AND POSTPAID	POSTPAID
Minha Oi Online account	Voice and data Exchange	Digital Bill	Relevant Content on the Offering	Oi Mais Digital

The Virtual Technician App launched in May 2017 is an innovative solution that enables customers to solve fixed, broadband and pay-TV problems using a mobile phone.

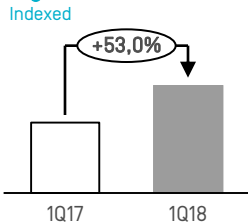
Problems solved using the app  
Effectiveness [%]



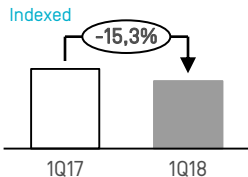
Avoided Calls  
In thousands



### Digital bills



### Reduction of calls answered in Customer Care



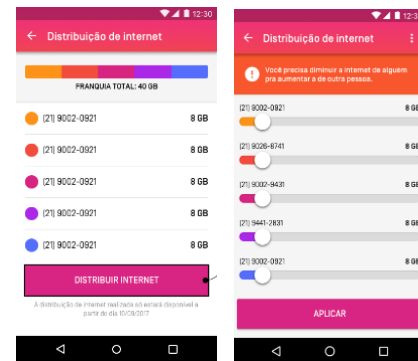
### Online sales



Evolving even further in the Digital Transformation program, Oi expanded its virtual assistant (chatbot) to Facebook Messenger, thus offering, through artificial intelligence, new customer service channels that provide more practicality and efficiency on a day-to-day basis.

## OI MAIS DIGITAL

The new Oi Mais digital postpaid mobile plans allow the account holder to manage the use of the family's data, share data with up to four dependents, and manage the franchise of all users of the plan digitally, at any time, through Minha Oi self-service, using a mobile phone or the web.





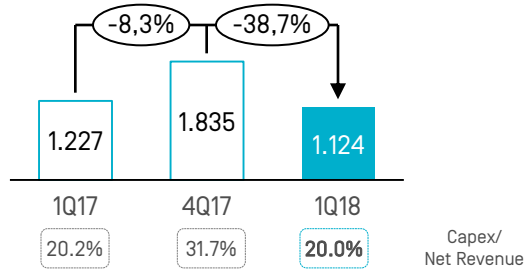


# INVESTMENTS IN THE NETWORK CORE AND TRANSPORT PREPARE THE COMPANY TO EXECUTE WITH AGILITY AND EFFICIENCY THE INCREMENTAL CAPEX PLAN FINANCED BY THE CAPITAL INCREASE

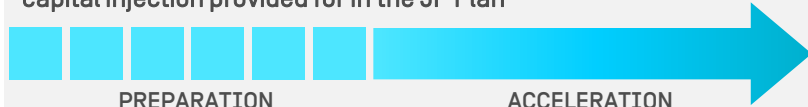
Part of the investment planned for 1Q18 was anticipated to 4Q17, prioritizing the expansion of Capex in infrastructure and network core

## CAPEX

R\$ million - Brazilian operations



In 2018, Oi prepares to start the new investment cycle after the capital injection provided for in the JP Plan



### PREPARATION

- Readjustment of the Organizational Structure
- Elaboration of the Incremental CAPEX Plan
- Structuring of areas, processes and infrastructure to execute the Incremental CAPEX plan
- Evolution of Digital Transformation, Efficiency and Quality

### ACCELERATION

- Capital Increase
- Beginning of the execution of the incremental CAPEX plan

The incremental CAPEX plan financed by the capital increase supports transformation and growth, through investment in access (FTTx and 4G), ensuring the sustainability of our business

Protect	Serve	Grow
Churn reduction due to improved service quality and the bundle strategy	Improved customer service experience due to digitalization and better field operations	Higher profitability due to the acquisition of new customers and focus on data and value-added services

## Financial Prioritization conditioned to available CAPEX

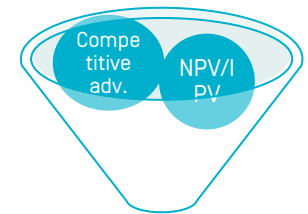
### Resource Allocation Matrix

Mobile: 3,449 cities  
Fixed line: 9,156 clusters

The prioritization of investment efforts considers:

- demand,
- competition and
- existing infrastructure

### Prioritization criteria



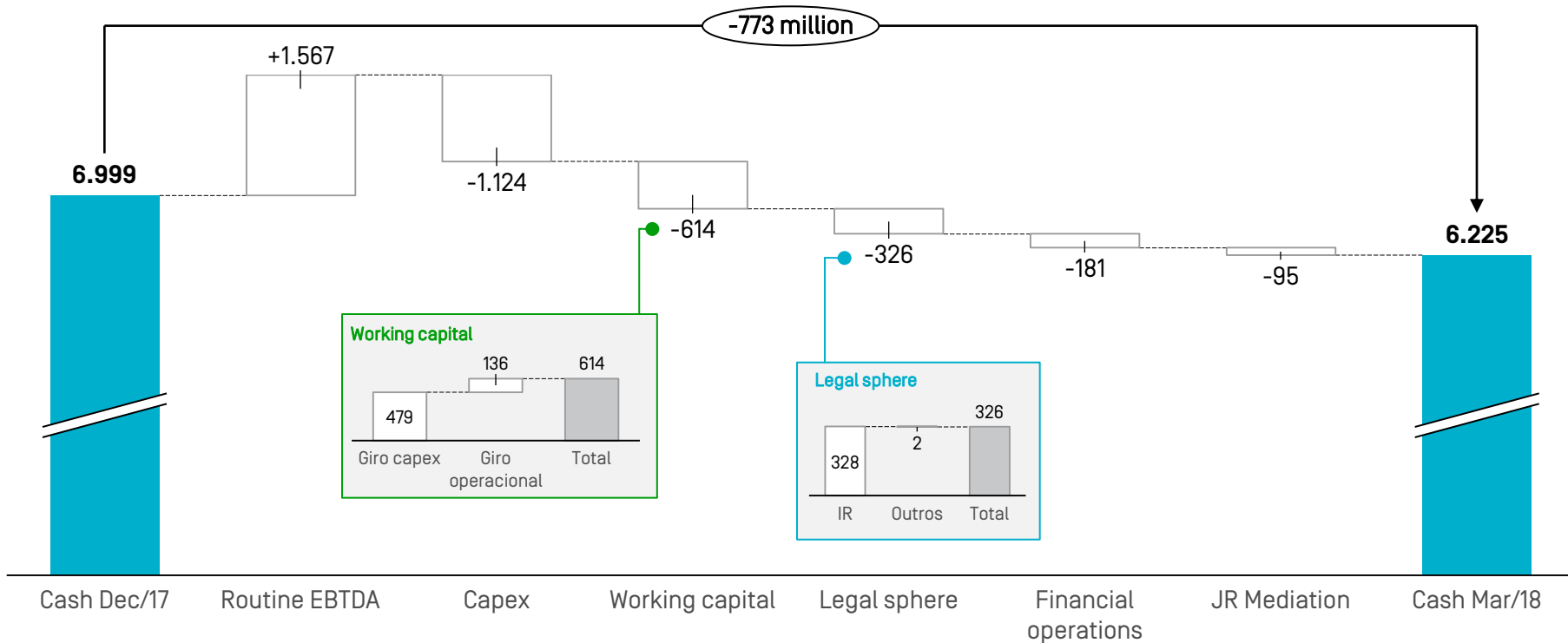
Ranking of projects



# FIRST QUARTER CASH POSITION REFLECTS ANTICIPATION OF INVESTMENTS IN 4Q17 AND PAYMENT OF INCOME TAX IN JANUARY

## Cash Position

R\$ million

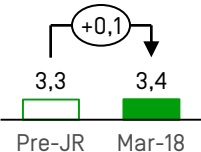




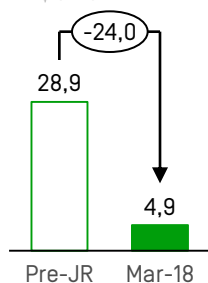
# APPROVAL OF THE JR PLAN ENABLES THE REDUCTION OF FINANCIAL INDEBTEDNESS BY MORE THAN R\$ 36 BILLION AND THE STRENGTHENING OF THE COMPANY'S BALANCE SHEET

## FINANCIAL DEBT RESTRUCTURING

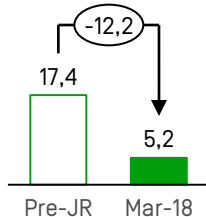
**BNDES**  
R\$ billion



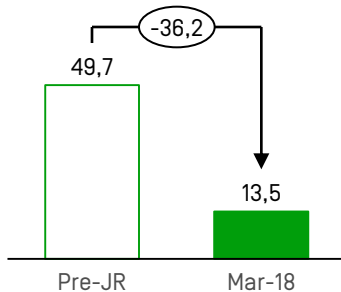
**Bonds<sup>1</sup>**  
R\$ billion



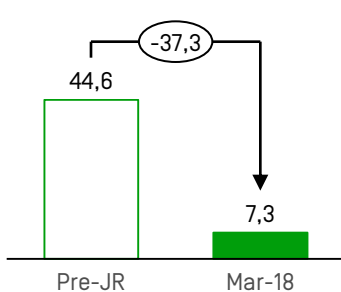
**Other Debts<sup>2</sup>**  
R\$ billion



**Gross Debt**  
R\$ billion

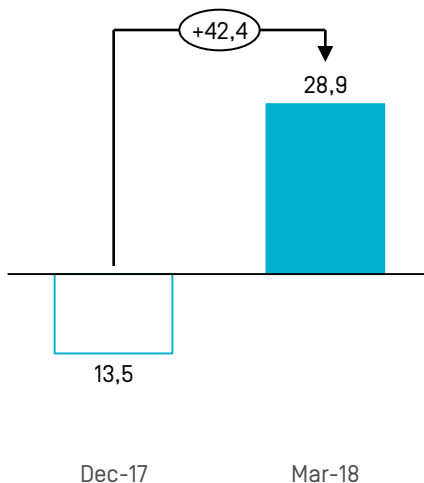


**Net Debt**  
R\$ billion



## CHANGE IN SHAREHOLDERS' EQUITY

**Shareholders' Equity**  
R\$ billion



## NEW SHAREHOLDING STRUCTURE<sup>3</sup>

### Debt to Equity Conversion

Current amount of shares (mm)	676
Conversion shares (mm)	1.749
<b>Shares post conversion (mm)</b>	<b>2.424</b>

### Capital Increase Price per Share

Equity Pre Money (R\$ mm)	3.000
Shares post conversion (mm)	2.424
<b>Price per share (R\$)</b>	<b>1,24</b>

### Capital Increase

Capital Increase (R\$ mm)	4.000
Price per share (R\$)	1,24
<b>Capital Increase Shares (mm)</b>	<b>3.232</b>

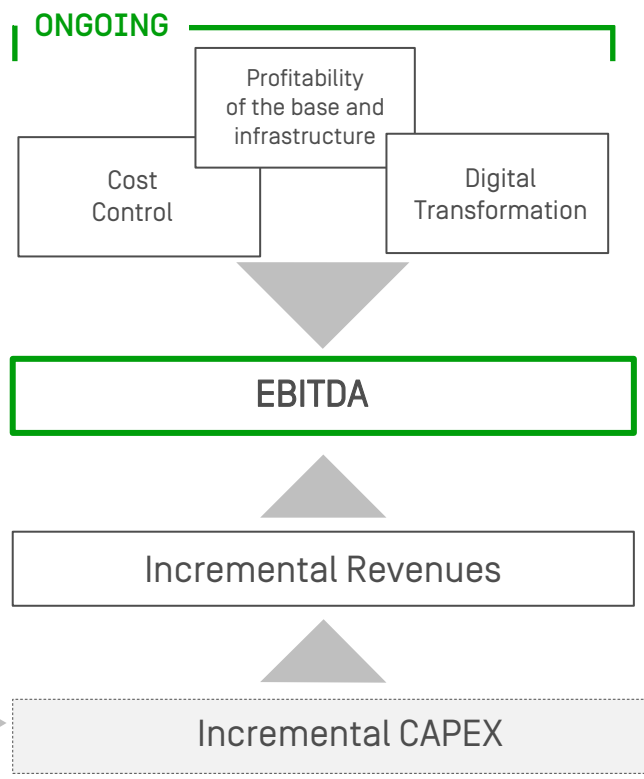
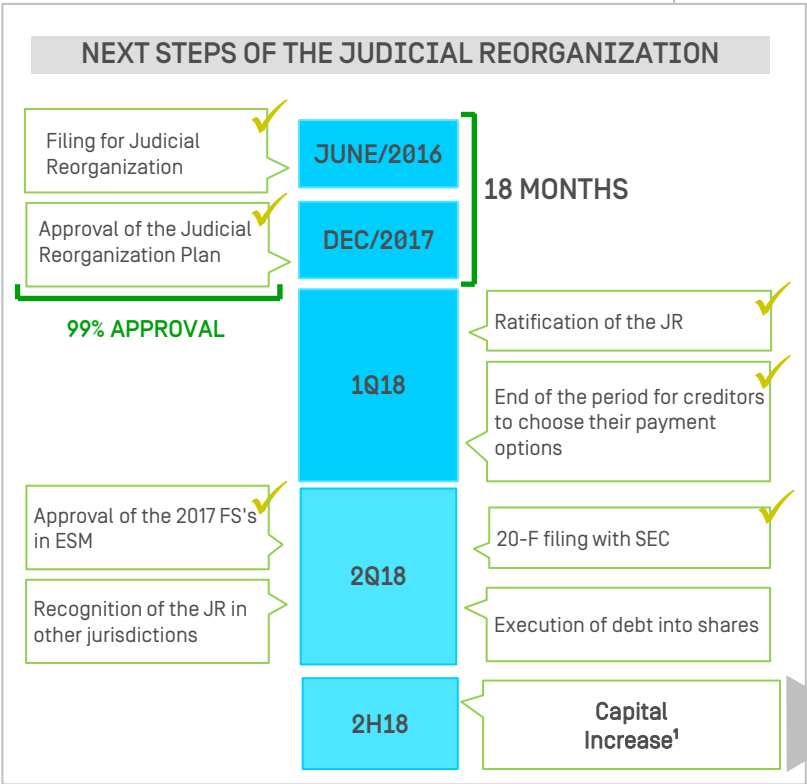
<b>Total Shares After Conversion and Capital Increase (mm)</b>	<b>5.656</b>
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# JR PLAN FORECASTS ADDITIONAL REVENUE GROWTH BASED ON INCREMENTAL CAPEX FINANCED BY THE CAPITAL INCREASE, IN CONJUNCTION WITH RECURRING ACTIONS FOR MARGIN GAINS

... will enable the beginning of the sustainable growth cycle.

The conclusion of the new capital structure...



### STRATEGY OF THE INCREMENTAL CAPEX

**Fixed Line:**

- FTTH and FTTC for:
  - ✓ Implementation in regions of competition with large players.
  - ✓ Maintain market share in regions where Oi may or may not have local competitors
- Expansion based on **improving customer experience:**
  - ✓ Higher contracted speed
  - ✓ Offering of more complete solutions: combos and video streaming VAS
  - ✓ FTTH: More stable networks (lower repair rates)

**Mobility:**

- Accelerate the expansion of 1800 Mhz 4G
  - ✓ 1800 MHz refarming
  - ✓ Network sharing
- Growth based on **improved data usage experience.**

1 - Judicial Reorganization Plan envisages a capital increase by Feb/2019.