

OI S.A.
Form 6-K
August 12, 2016

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 6-K

**Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934
For the month of August 2016
Commission File Number: 1-15256**

OI S.A.

(Exact Name as Specified in its Charter)

N/A

(Translation of registrant's name into English)

Rua General Polidoro, No. 99, 5th floor/part – Botafogo

22280-001 Rio de Janeiro, RJ

Federative Republic of Brazil

(Address of principal executive offices)

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(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F: **Form 40-F:**

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1)):

Yes: **No:**

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7)):

Yes: **No:**

(Indicate by check mark whether the registrant by furnishing the information contained in this Form, the Registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes: **No:**

If "Yes" is marked, indicate below the file number assigned to the
registrant in connection with Rule 12g3-2(b):

**Conference Call
in Portuguese**

August 11, 2016
10:00 a.m. (Brasília)
9:00 a.m. (NY) / 2:00 p.m. (UK)
Webcast: [Click here](#)
Phone: +55 (11) 2188-0155 / Code: Oi
Replay available until August 17, 2016:
+55 (11) 2188-0400 / Code: Oi

**Conference Call
in English**

SIMULTANEOUS
TRANSLATION

August 11, 2016
10:00 a.m. (Brasília)
9:00 a.m. (NY) / 2:00 p.m. (UK)
Webcast: [Click here](#)
Phone: +1-866-890-2584 (USA) /
+1-646-843-6054 (Other) / Code: Oi
Replay available until August 17, 2016:
+1-646-843-6054 / Code: Oi

Consolidated Information and Earnings Release (Unaudited)

This report contains the operating and financial performance data of Oi S.A. - Under Judicial Reorganization (“Oi S.A.” or “Oi” or “Company”) - and its subsidiaries for the second quarter of 2016.

OPERATIONAL IMPROVEMENTS AND FOCUS ON PROFITABILITY

- Oi S.A. - Under Judicial Reorganization (“Oi S.A.” or “Oi” or “Company”) continues with its strategic plan focused on digitalization, convergence, data, cost control and improved user experience, and it has recorded operational advances in its business segments, especially the Residential segment.
- Since its launch, the new portfolio of offers (*Oi Total*, *Oi Livre*, *Oi Mais*, *Oi Mais Controle* and *Oi Mais Empresas*) has substantially improved the Company’s main KPIs, confirming the success of the strategy in offering convergent and high-end plans, in order to build customer loyalty and increase the profitability of the base while providing an improved user experience and higher-quality services.
- In the Residential segment, ARPU continued to grow (+4.5% y.o.y.), reaching R\$ 82.1. All residential services (wireline, broadband and pay TV) recorded an increase of ARPU and gross adds, and lower churn. As a result, Residential revenues totaled R\$ 2,411 million, reversing its downward trend and presenting a sequential growth of 0.7% in the quarter.
- The residential wireline segment recorded the lowest level of net disconnections since 2013, with 79,000 disconnections. In the broadband segment, the average speed of the customer base exceeded 6 Mbps for the first time and the average speed of gross adds reached 8.0 Mbps, with 57.6% of the sales with speeds equal to or greater than 10 Mbps in 2Q16 (+5.6 p.p. y.o.y.). Oi TV’s penetration in households with Oi fixed lines came to 12.3% and the high-end offers accounted for over one quarter of the total pay TV base. It is worth noting that Oi TV’s ARPU increased 19.0% y.o.y.
- In the Personal Mobility segment, service revenues, which exclude handsets, totaled R\$ 1,878 million (-3.7% y.o.y.), mainly due to the cuts on interconnection tariffs and the decline in prepaid revenues, which were affected by the Brazilian macroeconomic environment. These effects were partially offset by the good performance of the postpaid segment and data revenues, which supported the improving trend in service revenues. In addition, the recharger base (prepaid customers who make recharges) reversed its trend and began to grow in July, indicating better outlook for the next quarters.
- Data revenues in the Personal Mobility segment grew 20.3% y.o.y., fueled by the launch of new plans (*Oi Livre* and *Oi Mais*), which offer more extensive data allowances, the increase in 3G/4G handset penetration in customer base,

and investments in upgrading and expanding the capacity of the network.

- The B2B segment is facing challenges in the macro environment, but the quality of its revenues continues to improve, based on digitalization and IT and data services. The Corporate segment maintained its focus on profitability by offering data, IT and other non-traditional services, in order to reduce dependence on voice services. Non-voice revenues already represent 67% of total Corporate revenues.
- In the B2B segment, small and medium enterprises (SMEs), albeit more strongly affected by the adverse macroeconomic environment, presented an improvement in the main KPIs due to the new strategy implemented at the end of 2015, comprising the simplification of the portfolio focused on digitalization (*Oi Mais Empresas*), more efficient alternative channels and the acquisition of high-end customers.
- Net revenues from the Brazilian operations totaled R\$ 6,323 million in 2Q16, 3.5% lower than in the same period last year, chiefly due to: (i) the macroeconomic deterioration, affecting especially the prepaid and B2B segments; (ii) the cut in the interconnection (MTR) and fixed-to-mobile (VC) regulated tariffs; and (iii) lower customer base. These effects were partially offset by the increase in revenues from broadband (+5.4%) and pay TV (+21.3%) in the Residential segment and the upturn in data revenues (+20.3%) in the Personal Mobility segment.
- Routine Opex in the Brazilian operations increased 2.9% y.o.y., well below the level of inflation in the period (+8.9%), totaling R\$ 4,878 million in 2Q16, thanks to the cost control. Routine EBITDA in the Brazilian operations stood at R\$ 1,444 million, 20.5% down year-over-year.
- Capex in Brazil totaled R\$ 1,215 million in 2Q16, presenting an annual increase of 16.7% y.o.y. Investments in modernizing and expanding the capacity of the network and IT allow the delivery of offers better suited to consumers' current needs, promoting greater possibilities of use and continuous improvement in user quality and experience.

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- Net debt closed 2Q16 at R\$ 41,386 million, mainly impacted by the payment of the last installment of the 3G license and severance costs, in addition to investments in working capital and the payment of judicial deposits.
- Oi recorded a consolidated net loss of R\$ 656 million in 2Q16.

Summary

in R\$ million or otherwise stated	2Q16	2Q15	1Q16	YoY	QoQ	1H16	1H15	YoY
Total Net Revenues	6,524	6,784	6,755	-3.8%	-3.4%	13,279	13,824	-3.9%
EBITDA	1,435	1,899	1,766	-24.4%	-18.7%	3,201	3,910	-18.1%
EBITDA Margin (%)	22.0%	28.0%	26.1%	-6.0 p.p.	-4.1 p.p.	24.1%	28.3%	-4.2 p.p.
Routine EBITDA	1,520	1,947	1,776	-21.9%	-14.4%	3,296	3,958	-16.7%
Routine EBITDA Margin (%)	23.3%	28.7%	26.3%	-5.4 p.p.	-3.0 p.p.	24.8%	28.6%	-3.8 p.p.
Consolidated Net Earnings (Loss)	-656	671	-1,644	-197.8%	-60.1%	-2,300	224	-1126.6%
Net Debt	41,386	34,644	40,844	19.5%	1.3%	41,386	34,644	19.5%
Available Cash	5,106	16,636	8,527	-69.3%	-40.1%	5,106	16,636	-69.3%
CAPEX	1,253	1,069	1,252	17.3%	0.0%	2,505	2,093	19.7%

in R\$ million or otherwise stated	2Q16	2Q15	1Q16	YoY	QoQ	1H16	1H15	YoY
Revenue Generating Unit - ('000)	69,198	72,975	69,496	-5.2%	-0.4%	69,198	73,577	-6.0%
Residential	16,153	16,791	16,170	-3.8%	-0.1%	16,153	17,148	-5.8%
Personal Mobility	45,319	47,756	45,559	-5.1%	-0.5%	45,319	47,940	-5.5%
B2B	7,078	7,778	7,115	-9.0%	-0.5%	7,078	7,836	-9.7%
Public Telephones	648	651	651	-0.5%	-0.5%	648	653	-0.7%
Total Net Revenues	6,323	6,555	6,539	-3.5%	-3.3%	12,861	13,396	-4.0%
Net Service Revenues(1)	6,256	6,486	6,480	-3.5%	-3.5%	12,736	13,125	-3.0%
Residential	2,411	2,460	2,394	-2.0%	0.7%	4,805	4,951	-2.9%
Personal Mobility	1,878	1,950	1,974	-3.7%	-4.9%	3,852	4,009	-3.9%
Customer (2)	1,740	1,757	1,784	-1.0%	-2.5%	3,524	3,557	-0.9%
B2B	1,908	2,001	2,065	-4.6%	-7.6%	3,973	4,019	-1.1%
Net Customer Revenues(2)	6,008	6,131	6,159	-2.0%	-2.4%	12,167	12,334	-1.4%
Routine EBITDA	1,444	1,816	1,686	-20.5%	-14.3%	3,130	3,745	-16.4%
Routine EBITDA Margin (%)	22.8%	27.7%	25.8%	-4.9 p.p.	-2.9 p.p.	24.3%	28.0%	-3.6 p.p.
CAPEX	1,215	1,041	1,204	16.7%	0.9%	2,419	2,025	19.4%
Routine EBITDA - CAPEX	229	775	482	-70.4%	-52.5%	711	1,719	-58.6%

(1) Excludes handset revenues.

(2) Excludes handset and network usage revenues.

Net Revenues

Table 1 – Breakdown of Net Revenues

R\$ million						Half Year		Weight %		
	2Q16	2Q15	1Q16	YoY	QoQ	1H16	1H15	YoY	2Q16	2Q15
Brazil	6,323	6,555	6,539	-3.5%	-3.3%	12,861	13,396	-4.0%	96.9%	96.8%
Residential	2,411	2,460	2,394	-2.0%	0.7%	4,805	4,951	-2.9%	37.0%	35.4%
Personal Mobility	1,944	2,018	2,032	-3.6%	-4.3%	3,976	4,276	-7.0%	29.8%	30.1%
Service	1,878	1,950	1,974	-3.7%	-4.9%	3,852	4,009	-3.9%	28.8%	29.2%
Customer	1,740	1,757	1,784	-1.0%	-2.5%	3,524	3,557	-0.9%	26.7%	26.4%
Network Usage	138	193	189	-28.1%	-26.9%	328	453	-27.6%	2.1%	2.8%
Sales of handsets, SIMcards and others	66	68	58	-2.7%	13.5%	124	267	-53.5%	1.0%	0.9%
B2B	1,908	2,001	2,065	-4.6%	-7.6%	3,974	4,022	-1.2%	29.3%	30.6%
Other services	59	76	48	-22.7%	23.1%	106	146	-27.2%	0.9%	0.7%
Others	202	229	217	-12.0%	-6.9%	418	428	-2.3%	3.1%	3.2%
Net Service Revenues	6,256	6,486	6,480	-3.5%	-3.5%	12,736	13,125	-3.0%	95.9%	95.9%
Net Customer Revenues	6,008	6,131	6,159	-2.0%	-2.4%	12,167	12,334	-1.4%	92.1%	91.2%

In 2Q16, consolidated net revenues totaled R\$ 6,524 million, -3.8% y.o.y. and -3.4% q.o.q. Net revenues from the Brazilian operations came to R\$ 6,323 million (-3.5% y.o.y. and -3.3% q.o.q.), while net revenues from the other international operations (Africa and East Timor) declined 12.0% y.o.y. and 6.9% q.o.q. to R\$ 202 million.

Total net revenues from the Brazilian operations (“Brazil”) came to R\$ 6,323 million in 2Q16, 3.5% lower than in 2Q15, chiefly due to: (i) deterioration of the macroeconomic environment, which impacted mainly the prepaid and B2B segments; (ii) cut in the interconnection (MTR) and fixed-to-mobile (VC) regulated tariffs; and (iii) lower customer base. These effects were mainly offset by the increase in revenues from broadband (+5.4%) and pay TV (+21.3%) in the Residential segment and the growth in data revenues (+20.3%) in the Personal Mobility segment. Comparing to 1Q16, the decline of 3.3% was chiefly due to the increase in the number of one-time service contracts and to agreements with operators occurred last quarter in the B2B segment.

In 2Q16, total net service revenues, which exclude handset revenues, totaled R\$ 6,256 million, 3.5% down y.o.y. Total net customer revenues, which exclude network usage and handset sales, fell 2.0% in the same period, totaling R\$ 6,008 million in the quarter.

Residential

	2Q16	2Q15	1Q16	YoY	QoQ	1H16	1H15	YoY
Net Revenues (R\$ million)	2,411	2,460	2,394	-2.0%	0.7%	4,805	4,951	-2.9%
Revenue Generating Units (RGU) - ('000)	16,153	16,791	16,170	-3.8%	-0.1%	16,153	16,791	-3.8%
Fixed Line in Service	9,795	10,440	9,874	-6.2%	-0.8%	9,795	10,440	-6.2%
Fixed Broadband	5,149	5,167	5,115	-0.3%	0.7%	5,149	5,167	-0.3%
Pay TV	1,209	1,184	1,181	2.1%	2.4%	1,209	1,184	2.1%
ARPU Residential (R\$)	82.1	78.5	80.8	4.5%	1.6%	81.4	78.1	4.3%

Net revenues from the Residential segment totaled R\$ 2,411 million in 2Q16, 2.0% down y.o.y., mainly impacted by lower fixed voice revenues, as a result of the lower wireline base and the annual reduction in fixed-to-mobile regulated tariffs (VC). These effects were partially offset by the year-on-year upturn in revenues from broadband (+5.4%) and pay TV (+21.3%). It is worth noting that in 2Q16 the Residential segment reversed its downward revenue trend, with a 0.7% increase in the sequential comparison. This performance is due to the ongoing evolution of the segment, which is presenting higher gross add levels, lower churn rates and consistent ARPU increases, as a result of the resumption of commercial activities with the new portfolio of offers, improved sales quality focused on high-end offers, and customer retention initiatives.

In 2Q16, Oi registered 16,153 thousand RGUs in the Residential segment, -3.8% y.o.y. and virtually in line with 1Q16. Net wireline disconnections reached their lowest level in recent years, while broadband and pay TV recorded an increase in net adds. Year on year, the segment recorded an improvement in ARPU and churn rates in all its products, as a result of the strategy of making the base more profitable and building customer loyalty.

This improvement is related to the new offer *Oi Total*, launched nationwide at the end of March 2016. *Oi Total* combines wireline, broadband, TV and mobility (under the all-net model), in addition to offering benefits including a single customer service, integrated billing, joint installation, and sharing of allowances between services, which is an Oi differentiation among the convergent offerings available in the market. The concept of convergence, the main strategy of the Residential segment, allows for higher ARPU because it offers more services per household and, consequently, improves customer loyalty, reducing churn rates, besides providing a better user experience.

Residential ARPU

Residential ARPU continued to improve, presenting an increase of 4.5% up y.o.y. and 1.6% up q.o.q., and reaching R\$ 82.1 in 2Q16. It is worth noting the positive ARPU performance in each of the services: wireline, broadband and pay TV.

Wireline

Oi ended 2Q16 with 9,795 thousand wireline customers in the Residential segment (-6.2% y.o.y. and -0.8% q.o.q.). Gross adds moved up 6.1% q.o.q. and net disconnections fell in the same period, totaling 79 thousand fixed lines in 2Q16.

Wireline ARPU increased 2.5% year on year, while the share of low-end offerings in gross adds fell 8.3 p.p. and the volume of disconnections declined 22.7%. The improvement of these indicators reflects the Company's efforts to reduce the exposure of the wireline base and build customer loyalty in the Residential base, increasing the share of wallet of households with Oi services by selling convergent offers, such as *Oi Total*, which have lower churn rates and higher ARPU than standalone products. In the quarter, the percentage of customers with more than one Oi product reached 64.0%, 1.5 p.p. up y.o.y.

In 2Q16, *Oi Total* accounted for 4.4% of the wireline base of the Residential segment, while the share of *Oi Total Residencial* sales to new customers came to more than 20% of all sales of this offer in June 2016.

Before the launch of *Oi Total*, the main convergent product of Oi was *Oi Conta Total* (OCT), which combined wireline, broadband and mobility. The sales of this offer were discontinued after the national launch of *Oi Total* at the end of 1Q16. The OCT base has been retained; however, the Company has begun a process of organic migration to *Oi Total*, following a plan of customer retention with profitability. It is worth noting that 62% of the sales of *Oi Total Solução Completa* (4P) in June were to OCT (3P) customers, as part of a strategy of cross selling and customer profitability.

Oi Voz Total (OVT), which combines wireline and prepaid mobile, corresponded to 14.1% of the Residential wireline base in 2Q16, with a churn rate 28.3% lower than the standalone wireline offering. The average penetration of SIM cards per OVT customer remained at 1.6 in the quarter.

In 2Q16, the penetration of unlimited fixed plans in the fixed line base reached 24.2%, increasing 4.7 p.p., reflecting the strategy of improving customer profitability and loyalty.

Broadband

Oi ended 2Q16 with 5,149 thousand fixed broadband RGUs in the Residential segment (-0.3% y.o.y. and +0.7% q.o.q.), having recorded 33 thousand net adds in the quarter (versus +6 thousand in 1Q16 and -47 thousand in 2Q15).

In recent years, investments focused on upgrading and expanding the capacity of the optic fiber network have enabled the Company to deliver higher broadband speeds, resulting in a better customer experience and improved product indicators. In addition, the availability of VDSL technology (broadband with speeds of up to 35 Mbps) has boosted the sales of *Oi Total*, which began to offer broadband starting at 15 Mbps as standard speed since July 2016.

In 2Q16, net adds totaled 33 thousand (versus 6 thousand last quarter), gross adds reached their highest level in the last six quarters and the churn rate was an all-time low. In addition, Oi's broadband penetration in households that have fixed line continued to increase, reaching 52.6% in the quarter (+3.1 p.p. y.o.y. and +0.8 p.p. q.o.q.). The share of low-end offerings in the gross adds continued to fall (-5.9 p.p. y.o.y. and -2.4% q.o.q.). It is worth noting the ongoing growth of broadband ARPU (+6.2 y.o.y. and +7.1% q.o.q.) due to the efforts to increase customer profitability through the speed upgrade for existing customers and focus on high end offers sales for new customers.

The average speed of broadband customers exceeded 6 Mbps for the first time, reaching 6.1 Mbps this quarter (+24.2% y.o.y. and +5.2% q.o.q.). In 2Q16, the share of RGUs with speeds equal to or greater than 5 Mbps increased 10.9 p.p. over 2Q15 to 65.4%, while the share of RGUs with speeds equal to or greater than 10 Mbps increased 10.9 p.p. to 37.5% in the same period. The average speed of gross adds was 8.0 Mbps (+11.8% y.o.y. and +5.6% q.o.q.). In this quarter, 80.6% of gross adds had speeds equal to or greater than 5 Mbps (+6.1 p.p. y.o.y.) and 57.6% had speeds equal to or greater than 10 Mbps (+5.6 p.p. y.o.y.). The average speed of *Oi Total* gross adds reached 8.1 Mbps, 3.1% higher than last quarter.

Pay TV

Oi's pay TV base ended the quarter with 1,209 thousand RGUs, +2.1% y.o.y. and +2.4% q.o.q. Net adds maintained their upward trend, reaching 28 thousand this quarter (versus +12 thousand in 1Q16 and -48 thousand in 2Q15), as a result of higher gross adds (+14.2% q.o.q.) and stable churn rates.

Oi TV's penetration in households with Oi fixed line reached 12.3% in 2Q16, +1.0 p.p. y.o.y. The share of high-end offers grew 2.4 p.p. in the period to 25.6%. Pay-TV ARPU continued to grow this quarter (+19.0% y.o.y. and +3.1% q.o.q.) thanks to upselling initiatives and the improvement in the acquisition mix.

Oi TV offers full content, with high-definition channels (including open channels) in all the plans, and up to 183 channels, including more than 50 in HD. The Company has recently launched services like PenVR (content recording and live/pause service via pen drive available in any plan) and iPPV (purchase of Pay-Per-View events by remote control). In addition, the *Oi Play* platform allows customers to watch content from 12 programmers with 30 live channels and more than 13 thousand on-demand titles in any device (smartphone, tablet or PC) connected to the

internet at no additional cost. *Oi Play* allows customers to do more optimized searches and to better interact with the content. This platform reinforces Oi's positioning in providing a better customer experience through the digitization of services.

Oi has also recently launched a prepaid service for Oi TV, in which customers have the option to share the credits, acquired in any recharge point of sale, between their mobile phones and pay TV. Prepaid Oi TV has the option of biweekly or monthly recharges (beginning at R\$ 29.90 and R\$ 54.90, respectively), which can be paid by credit card or through sharing the customer's mobile credits.

Personal Mobility

	2Q16	2Q15	1Q16	YoY	QoQ	1H16	1H15	YoY
Net Revenues (R\$ million)	1,944	2,018	2,032	-3.6%	-4.3%	3,976	4,276	-7.0%
Service	1,878	1,950	1,974	-3.7%	-4.9%	3,852	4,009	-3.9%
Customer (1)	1,740	1,757	1,784	-1.0%	-2.5%	3,524	3,557	-0.9%
Network Usage	138	193	189	-28.1%	-26.9%	328	453	-27.6%
Sales of handsets, sim cards and others	66	68	58	-2.7%	13.5%	124	267	-53.5%
Revenue Generating Units (RGU) - ('000)	45,319	47,756	45,559	-5.1%	-0.5%	45,319	47,756	-5.1%
Prepaid Plans	38,299	40,719	38,668	-5.9%	-1.0%	38,299	40,719	-5.9%
Postpaid Plans (2)	7,020	7,037	6,891	-0.2%	1.9%	7,020	7,037	-0.2%

Note: (1) Excludes handset and network usage revenues.

(2) Includes high-end postpaid plans, *Oi Controle*, bundled mobile services and 3G (mini-modem).

Net revenues from the Personal Mobility segment totaled R\$ 1,944 million in 2Q16, -3.6% y.o.y. and -4.3% q.o.q., mainly explained by the annual MTR cuts.

In 2Q16, customer revenues, which exclude interconnection and handsets, totaled R\$ 1,740 million (-1.0% y.o.y. and -2.5% q.o.q.), mainly due to the decline in prepaid revenues, which were affected by the Brazilian macroeconomic environment. This impact was partially offset by the healthy performance of the postpaid segment, whose revenues moved up 17.1%¹ y.o.y., thanks to the growth of *Oi Mais* offer, the sales of high-end and bundled offers, and the high penetration of 3G/4G handsets in the customer base, currently in 63%.

Data revenues increased 20.3% y.o.y., reaching R\$ 853 million in 2Q16. These revenues accounted for 49.1% of total customer revenues in the quarter (+8.7 p.p. y.o.y.), as a result of the increased penetration of smartphones in the customer base, higher investments in transmission and transport infrastructure and the launch of new plans (*Oi Livre* and *Oi Mais*), with higher data allowances.

In 2Q16, network usage revenues totaled R\$ 138 million, 28.1% down y.o.y., mainly due to the MTR cuts. In February 2015, interconnection tariffs (MTR) declined 33.3% to R\$ 0.15517, R\$ 0.15897 and R\$ 0.15485 in Regions I, II and III, respectively. In February 2016, these same tariffs fell to R\$ 0.09317, R\$ 0.10309 and R\$ 0.11218 in Regions I, II and III, respectively. ANATEL approved additional cuts, as follows: (i) in 2017: R\$ 0.04928, R\$ 0.05387 and R\$ 0.06816; (ii) in 2018: R\$ 0.02606, R\$ 0.02815 and R\$ 0.04141; and (iii) in 2019: R\$ 0.01379, R\$ 0.01471 and R\$ 0.02517 in Regions I, II and III, respectively.

In 2Q16, handset revenues totaled R\$ 66 million, 2.7% down y.o.y. and 13.5% up q.o.q. The sequential increase was chiefly due to Mother's Day sales. Smartphones accounted for 100% of the sales in the quarter and 4G handsets represented 63% of the sales and 11% of the total base. The penetration of 3G and 2G handsets was 52% and 37%,

respectively, in 2Q16.

Oi ended 2Q16 with 45,319 thousand RGUs in the Personal Mobility segment, 5.1% down from 2Q15. Net disconnections totaled 2,437 thousand in the last 12 months, of which 2,420 thousand were prepaid and 17 thousand were postpaid. In comparison with 1Q16, the Personal Mobility segment fell 0.5%. It is worth noting the 129 thousand net adds in the postpaid segment this quarter, thanks to the launch of the new offers, *Oi Mais* and *Oi Mais Controle*, which better meet customers' current needs, offering higher data and all-net calls.

The mobile customer base (Personal Mobility + B2B) reached 47,575 thousand RGUs in 2Q16, 45,319 thousand of which in the Personal Mobility segment and 2,256 thousand in the B2B segment. The Company maintained gross adds at 5.1 million and recorded 195 thousand net disconnections in 2Q16.

¹ The post-paid performance includes the Control segment (*Controle*) and excludes long distance revenues from customers of other operators.

Prepaid

The prepaid customer base came to 38,299 thousand RGUs in 2Q16, 5.9% down y.o.y., mainly due to the base cleanup policy focused on reducing costs and increasing profitability. In the sequential comparison, there was a 1.0% decline, with 369 thousand net disconnections.

The impact of the economic slowdown was observed mainly in the prepaid segment, with a 6.8% year-on-year decline in recharges, due to the strong correlation with the country's unemployment rate, which increased in the past twelve months. Despite the decline, the recharger base (active customers who make recharges) already showed signs of improvement in July.

In November 2015, the Company launched *Oi Livre*, a prepaid offer with daily, weekly and monthly plans and an extensive data allowance. This offer also provides a single tariff for calls to any operator anywhere in the country (all-net model), taking advantage of the MTR cuts and breaking with the model in which consumers buy SIM cards from different operators to make on-net calls, due to the high tariffs charged for off-net calls. At the end of 2Q16, *Oi Livre* accounted for 39% of the total prepaid base, with an average increase of 17.1% in recharges from the customers that migrated to the *Oi Livre per Week* offering, underlining the success of Oi's strategy of anticipating the trend of SIM card consolidation by prepaid consumers.

Postpaid

Oi closed the quarter with 7,020 thousand RGUs in the postpaid segment (-0.2% y.o.y. and +1.9% q.o.q.), corresponding to 15.5% of the total Personal Mobility customer base. It is worth highlighting the net adds of 129 thousand RGUs in the quarter.

ARPU from the postpaid segment continued to rise (+18.9% y.o.y.), chiefly due to price adjustments in the first quarter, fueled by the inflation pass-through.

At the end of 2015, complementing the new portfolio of Personal Mobility offers, Oi launched the *Oi Mais* and *Oi Mais Controle* plans in the postpaid and control segments, respectively, which offers a higher data allowance with no use restrictions, in addition to minute allowances and reduced single tariffs to call any operator anywhere in the country. In 2Q16, customers who adhered to the new plans represented 20% of the total postpaid + control base (+7 p.p. q.o.q.). *Oi Mais'* ARPU was 33.3% higher than that of other plans, while *Oi Mais Controle's* ARPU was 18.4% higher. The postpaid segment also continues to be fueled by *Oi Total Conectado*, an *Oi Total* plan which combines postpaid mobile, fixed line and broadband.

2G, 3G and 4G LTE Coverage

Oi's 2G coverage reached 3,402 municipalities in 2Q16 (93% of the country's urban population). The 3G coverage reached 1,464 municipalities (+23.5% y.o.y.), or 80% of the Brazilian urban population.

4G LTE coverage reached 133 municipalities, or 51% of Brazil's urban population, 15 p.p. more than in 2Q15. Oi is working in partnership with other operators in the sharing of the 3G/4G network, in line with the strategy of optimizing investments and controlling costs combined with the improvement in customer experience.

Oi's efforts to improve its 3G and 4G network capacity and coverage quality have allowed continued growth of data traffic in the network, meeting the growing demand for data usage while improving Anatel's network quality metrics.

Mobile ARPU

Mobile ARPU treats total mobile service revenues (Personal Mobility + B2B) as if they were generated by a separate mobile company, i.e. including revenues from traffic between Oi's mobile and wireline divisions (intercompany), but excluding revenues from mobile long-distance calls that belong to the STFC license (fixed voice concession). This amount is then divided by the average customer base to calculate mobile ARPU.

Mobile ARPU came to R\$ 15.6 in the quarter, 4.3% down y.o.y. and 6.6% down q.o.q., due to the MTR cuts (occurred in February 2016) and the decline in prepaid recharges. Excluding interconnection revenues, mobile ARPU increased 5.8% over 2Q15, thanks to the launch of new plans at the end of 2015 and the efforts to increase the profitability of the customer base.

B2B

	2Q16	2Q15	1Q16	YoY	QoQ	1H16	1H15	YoY
Net Revenues (R\$ million)	1,908	2,001	2,065	-4.6%	-7.6%	3,974	4,022	-1.2%
Revenue Generating Units (RGU) - ('000)	7,078	7,778	7,115	-9.0%	-0.5%	7,078	7,778	-9.0%
Fixed	4,261	4,677	4,335	-8.9%	-1.7%	4,261	4,677	-8.9%
Broadband	561	604	569	-7.0%	-1.4%	561	604	-7.0%
Mobile	2,256	2,497	2,211	-9.7%	2.0%	2,256	2,497	-9.7%

Net revenues in the B2B segment amounted to R\$ 1,908 million in 2Q16, 4.6% lower y.o.y, mainly impacted by lower voice traffic as a result of the deterioration of the macroeconomic environment and the reduction in the fixed-to-mobile (VC) and interconnection (MTR) tariffs, as well as the non-handset subsidies policy for mobility. In the sequential comparison, net revenues in the B2B segment fell 7.6%, chiefly due to the increase in demands for non-recurring services and some agreements with operators in 1Q16.

Oi closed 2Q16 with 7,078 thousand RGUs in the B2B segment, 9.0% down y.o.y. and 0.5% lower than in 1Q16.

Corporate

The data, IT and value-added services offered by the Company, such as VPN networks, cloud services, ICT, datacenter, home office, management services, security solutions and M2M (Machine-to-Machine), among others, have been accounting for an increasingly larger share of Corporate revenues. This growth of IT and other non-traditional services has reduced the segment's dependence on voice services. This quarter, the share of non-voice in total revenues from this segment increased 3.9 p.p. over 2Q15 to 67%, offsetting the impacts of the decline in voice revenues. In addition, non-traditional services, such as IT and VAS, moved up 29.7% over 2Q15.

SMEs

Although the SME segment was more significantly impacted by the adverse macroeconomic environment, it is presenting positive results thanks to the new strategy implemented at the end of 2015, with the implementation of more efficient alternative channels, acquisition of high-end customers, simplification of the portfolio of offers and improvement of the customer experience focused on digitization.

At the end of 2015, Oi launched *Oi Mais Empresas*, the new mobile portfolio with 4G data and wireline at a fixed monthly fee (flat fee model), which is simpler and allows customers for cash flow predictability. Thanks to this new offer, there was an increase in sales and new customers' mobile and fixed ARPU, as well as a continuous reduction in the number of billing complaints in the SME segment in the first two quarters of 2016, underlining market acceptance of the new *Oi Mais Empresas* portfolio.

At the end of 2015, the Company also launched a fully digital customer channel, the *Oi Mais Empresas* free app, which works as a digital customer service center, allowing customers to acquire services, contract plan upgrades and

make requests, such as repairs, bill copies and change of address, among others, using a smartphone without having to contact a call center. More than 137 thousand small and medium enterprises have adhered to the new portfolio and are benefiting from Oi's new customer service channel, which has a user satisfaction level of 90% and 87% of the requests completed within the deadline. Besides, 65% of these customers recommend Oi's services.

Oi also has an active customer service channel, through which the Company contacts directly customers facing problems, has been an important tool to reduce future complaints. As a result, billing complaints as a percentage of revenues have consistently declined since the end of 2015.

Operating Costs and Expenses

Table 2 – Breakdown of Operating Costs and Expenses

R\$ million	2Q16	2Q15	1Q16	YoY	QoQ	1H16	1H15	YoY
Brazil	4,878	4,739	4,853	2.9%	0.5%	9,731	9,651	0.8%
Personnel	721	596	657	21.0%	9.8%	1,378	1,188	16.0%
Interconnection	215	427	347	-49.7%	-38.2%	562	931	-39.6%
Third-Party Services	1,577	1,574	1,515	0.2%	4.1%	3,092	3,106	-0.5%
Network Maintenance Service	506	490	478	3.3%	6.0%	984	942	4.5%
Handset Costs/Other (COGS)	51	36	62	43.3%	-17.7%	113	174	-34.9%
Marketing	131	91	88	43.9%	49.5%	218	124	75.9%
Rent and Insurance	1,060	811	1,085	30.6%	-2.3%	2,144	1,687	27.1%
Provision for Contingencies	290	269	205	7.7%	41.3%	494	492	0.5%
Provision for Bad Debt	164	179	127	-8.4%	29.1%	290	324	-10.4%
Taxes and Other Expenses (Revenues)	164	266	290	-38.4%	-43.5%	454	683	-33.6%
Others	126	98	127	27.7%	-0.9%	253	215	17.6%
Routine OPEX	5,004	4,837	4,979	3.5%	0.5%	9,983	9,866	1.2%

In 2Q16, consolidated routine opex, including the international operations, totaled R\$ 5,004 million, 3.5% up on 2Q15 and 0.5% higher than in 1Q16.

Routine opex in the Brazilian operations increased 2.9% y.o.y. and 0.5% q.o.q., reaching R\$ 4,878 million in 2Q16 and presenting growth well below inflation registered at 8.9% in the last twelve months (IPCA).

Personnel

In 2Q16, personnel costs and expenses in Brazil totaled R\$ 721 million, +21.0% y.o.y. and +9.8% q.o.q., mainly due to the collective bargaining agreement in December 2015, and the absorption of network service operations in the state of Rio de Janeiro in October 2015 and in the South region of Brazil in April and May of 2016, in order to increase operational efficiency and quality of services. The cost increase associated to the absorption of these operations and the collective bargaining agreement more than offset the positive impact of the headcount reduction in May 2016.

Interconnection

Interconnection costs in Brazil ended 2Q16 at R\$ 215 million, 49.7% down y.o.y. and 38.2% down q.o.q., chiefly due to the cuts in the interconnection tariffs.

Third-party Services

In 2Q16, costs and expenses related to third-party services in the Brazilian operations totaled R\$ 1,577 million, in line with 2Q15. The sequential increase of 4.1% was chiefly due to a higher pay-TV customer base mix, which generates higher expenses with content. In the annual comparison, these impacts were offset by the reduction in call center costs.

Network Maintenance Service

Network maintenance service costs and expenses in Brazil totaled R\$ 506 million in 2Q16, +3.3% y.o.y. and +6.0% q.o.q., due to the initial increase in costs associated to the absorption of network service operations in the South region of Brazil in April and May of 2016. It is important to highlight that, as mentioned before, this process was conducted with the aim of improving the customer experience and operational efficiency, which should reflect in the operational and financial indicators later on.

Handset Costs/Other (COGS)

In 2Q16, handset costs in the Brazilian operations amounted to R\$ 51 million, 43.3% up y.o.y. due to the impact of the *Oi Pontos Dia das Mães* (Oi Mother's Day Point) campaign occurred only in 2016. In the sequential comparison, these costs

declined 17.7% explained by higher handset subsidy costs occurred in the first quarter associated to the launch of the new brand and the new portfolio of offers.

Marketing

Marketing expenses totaled R\$ 131 million in 2Q16, an increase of 43.9% y.o.y. and 49.5% q.o.q., chiefly due to higher spending with the launch of the new brand and the intensification of *Oi Total*, *Oi Livre*, *Oi Mais* and *Oi Mais Empresas* marketing campaigns, as a consequence of the Company's return to more intense commercial activity at the end of 2015.

Rent and Insurance

Rent and insurance expenses in the Brazilian operations totaled R\$ 1,060 million in 2Q16, 30.6% up y.o.y., chiefly due to: (i) the dollar appreciation, which especially affected rental costs of submarine cables and leasing of satellites; (ii) contractual adjustments linked to inflation; (iii) higher costs with the leasing of vehicles (after the absorption of network operations); and (iv) settlement with other operators.

Provision for Contingencies

The Company recorded provisions for contingencies in the Brazilian operations totaling R\$ 290 million in 2Q16, 7.7% up on 2Q15, due to increased expenses with corporate, tax and civil contingency, partially offset by the lower number of claims in the Special Civil Court (JEC – *Juizado Especial Cível*). The 41.3% sequential increase was due to higher expenses with contingencies and claims in the Special Civil Court.

Provision for Bad Debt

The provision for bad debt totaled R\$ 164 million in 2Q16, 8.4% down y.o.y., due to an improvement in the customers' payment profile, thanks to the Company's focus on sales quality throughout 2015, especially in the B2B segment. The provision for bad debt represented 2.6% of net revenues from the Brazilian operations in the period (-0.1 p.p. y.o.y. and +0.6 p.p. q.o.q.).

EBITDA**Table 3 – EBITDA and EBITDA margin**

	2Q16	2Q15	1Q16	YoY	QoQ	1H16	1H15	YoY
EBITDA (R\$ million)	1,435	1,899	1,766	-24.4%	-18.7%	3,201	3,910	-18.1%
Brazil	1,360	1,768	1,676	-23.1%	-18.9%	3,035	3,697	-17.9%
Others	76	131	90	-41.9%	-15.4%	166	213	-22.4%
EBITDA Margin (%)	22.0%	28.0%	26.1%	-6.0 p.p.	-4.1 p.p.	24.1%	28.3%	-4.2 p.p.
Non-routine Items	-85	48	-10	n.m.	747.1%	-95	48	n.m.
Routine EBITDA (R\$ million)	1,520	1,947	1,776	-21.9%	-14.4%	3,296	3,958	-16.7%
Brazil	1,444	1,816	1,686	-20.5%	-14.3%	3,130	3,745	-16.4%
Others	76	131	90	-41.9%	-15.4%	166	213	-22.4%
Routine EBITDA Margin (%)	23.3%	28.7%	26.3%	-5.4 p.p.	-3.0 p.p.	24.8%	28.6%	-3.8 p.p.
Brazil	22.8%	27.7%	25.8%	-4.9 p.p.	-2.9 p.p.	24.3%	28.0%	-3.6 p.p.
Others	37.6%	57.0%	41.4%	-19.4 p.p.	-3.8 p.p.	39.6%	49.8%	-10.2 p.p.

In the second quarter of 2016, consolidated routine EBITDA totaled R\$ 1,520 million, 21.9% down y.o.y. and 14.4% down q.o.q. Routine EBITDA in the Brazilian operations reached R\$ 1,444 million in the same period (-20.5% y.o.y. and -14.3% q.o.q.), while Brazil routine EBITDA margin stood at 22.8%.

Non-routine opex items totaled R\$ 85 million in 2Q16 and are related to severance costs as a result of the headcount reduction in May 2016.

Routine EBITDA from the other international operations (Africa and East Timor) totaled R\$ 76 million in the quarter (-41.9% y.o.y. and -15.4% q.o.q.), chiefly due to the exchange variation.

Capex**Table 4 – Capex**

R\$ million	2Q16	2Q15	1Q16	YoY	QoQ	1H16	1H15	YoY
Brazil	1,215	1,041	1,204	16.7%	0.9%	2,419	2,025	19.4%
Others	38	27	49	38.4%	-22.2%	86	68	26.7%
Total	1,253	1,069	1,252	17.3%	0.0%	2,505	2,093	19.7%

In the quarter, the Company's consolidated investments totaled R\$ 1,253 million (+17.3% y.o.y. and in line with 1Q16), and the Capex in Brazilian operations came to R\$ 1,215 million (+16.7% y.o.y. and +0.9% q.o.q.).

These investments are concentrated in the modernization and expansion of network capacity, with focus on: (i) structuring initiatives in the mobile network core; (ii) modernization and optimization initiatives in Oi's access network, both fixed and mobile; (iii) initiatives to encourage 3G and 4G network use; and (iv) implementation of infrastructure projects, including the expansion of 100 Gbps OTN transport optical network backbone, the modernization of the IP network core, and the expansion of its access through the Single Edge project.

The combination of these initiatives continued to improve service quality, both in terms of network quality indicators and as perceived by Oi's customers, besides allowing the Company to launch new and better offers, aligned to new customer consumption trends.

Oi invested R\$ 1,054 million in the network, corresponding to 86.8% of the total investments in the Brazilian operations.

Operational Cash Flow (Routine EBITDA – Capex)**Table 5 - Operational Cash Flow**

R\$ Million	2Q16	2Q15	1Q16	YoY	QoQ	1H16	1H15	YoY
Routine EBITDA	1,520	1,947	1,776	-21.9%	-14.4%	3,296	3,958	-16.7%
Capex	1,253	1,069	1,252	17.3%	0.0%	2,505	2,093	19.7%
Routine Operational Cash Flow (EBITDA - Capex)	267	878	523	-69.6%	-48.9%	790	1,865	-57.6%

Table 6 - Operational Cash Flow of Brazilian Operations

R\$ million	2Q16	2Q15	1Q16	YoY	QoQ	1H16	1H15	YoY
Routine EBITDA	1,444	1,816	1,686	-20.5%	-14.3%	3,130	3,745	-16.4%
Capex	1,215	1,041	1,204	16.7%	0.9%	2,419	2,025	19.4%
Routine Operational Cash Flow (EBITDA - Capex)	229	775	482	-70.4%	-52.5%	711	1,719	-58.6%

In 2Q16, consolidated routine operational cash flow (routine EBITDA minus Capex) totaled R\$ 267 million, 69.6% down y.o.y. and 48.9% down q.o.q. Routine EBITDA minus Capex of the Brazilian operations totaled R\$ 229 million in this quarter, a decrease of 70.4% compared to 2Q15, mainly due to the EBITDA decline and higher investments. In the sequential comparison, the operational cash flow of the Brazilian Operations decreased 52.5%.

Depreciation / Amortization

The Company reported depreciation and amortization expenses of R\$ 1,336 million in 2Q16 (+5.0% y.o.y. and -2.7% q.o.q.).

Table 7 – Depreciation and Amortization

R\$ million	2Q16	2Q15	1Q16	YoY	QoQ	1H16	1H15	YoY
Total	1,336	1,272	1,373	5.0%	-2.7%	2,710	2,491	8.8%

Financial Results

Table 8 – Financial Results (Oi S.A. Consolidated)

R\$ Million	2Q16	2Q15	1Q16	1H16	1H15
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