

# Liquidation and Going Concern analysis of Oi S.A.

Oi S.A. and its subsidiaries

**Reliance Restricted**

23 March 2018



**Ernst & Young Assessoria  
Empresarial Ltda.**

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**Private and Confidential**

**Oi S.A.**

Rua do Lavradio no. 71, Centro  
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ZIP: 20230-070

23 March 2018

**Project Liquidation and Going Concern analysis of Oi S.A. (“Oi”) on the theoretical liquidation and going concern valuation of Oi and its subsidiaries (the “Oi Group”)**

Dear Sirs,

In accordance with our engagement letter dated 7 July 2017 and the addendum to the engagement letter dated 25 July 2017 (hereinafter jointly referred to as “the Engagement Agreement”) with Oi S.A. (“Oi Group”, “Company” or “Oi”), we have undertaken a theoretical liquidation and going concern valuation of the Oi Group which can only be used for the Dutch composition plan of Oi Brasil Holdings Cooperatief U.A. (“Oi Coop”) and Portugal Telecom International Finance B.V. (“PTIF”) in the Netherlands (“the Purpose” or “the Analysis”). The scope and nature of our work, including its basis and limitations are detailed below.

**Purpose of the report and restrictions on its use**

This report was prepared on the specific instructions solely to assist Oi in connection with the Composition Plan process of Oi Coop and PTIF in the Netherlands and cannot be relied upon for any other purpose, including litigation process conducted by Oi or against Oi in Brazil or any other jurisdiction. Because others may use it for different purposes, this report should not be quoted, referred to or shown to any other party (other than Oi Group’s professional advisers acting in that capacity in connection with the bankruptcy process of Oi Coop and PTIF in the Netherlands provided that they accept that we assume no responsibility or liability whatsoever to them in respect of the contents) unless so required by court order or a regulatory authority, without our prior consent in writing. Ernst & Young Assessoria Empresarial Ltda. (“we” or “EY”) assumes no responsibility whatsoever in respect of, or arising out of, or in connection with the contents of this report to parties other than Oi. If other parties choose to rely in any other way on the contents of this report they do so entirely at their own risk.

EY acknowledges and accepts that for the Purpose this report can, subject to Oi’s exclusive criteria, be provided to (i) the trustees of Oi Coop and PTIF for the purpose of rendering their advice on the Dutch composition plan and (ii) to the Dutch court for the purpose of deciding on the homologation of the Dutch composition plan. Oi Coop and PTIF (and the respective trustees) may provide the Report to the creditors of Oi Coop and PTIF for information purposes only (no reliance) as part of the voting process on the Dutch composition plan of Oi Coop and PTIF.

It is and will be the responsibility of the Oi Group as to what the Oi Group wishes to do with the information obtained in the Report taking into account the limitations as explained in this engagement letter. EY does not accept any responsibility whatsoever in this respect.



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No rights and/ or reliance may be derived from the content of this report by any third parties, including the trustees, Dutch court and creditors of Oi Coop and PTIF. EY acts as an advisor to Oi, therefore third parties should engage their own professional advisors to prepare their own valuation of Oi Coop and PTIF and should not rely on this report.

Without our prior written permission, this report may not be provided to any third parties other than the parties explicitly aforementioned and other than as required by or pursuant to the law or a court order. Neither may Oi quote from this Report nor have another party quote from this Report, regardless of whether the source is stated, without our prior written permission.

Our services do not constitute an audit opinion or statement as issued in the context of an audit. Our activities do not have the character of a legal opinion.

We will not provide to Oi any of our software, tools, models or systems that we may use from time to time in the delivery of the Analysis.

This report was prepared by EY's Valuation & Business Modeling team (Going Concern Analysis) and EY's Restructuring team (Liquidation Analysis).

### **Scope of our work**

This review has encompassed the matters set out in the Engagement Agreement:

The going concern valuation is based upon Oi Group's assumptions provided by Management (as at 30 June 2017) and the RJ Plan ratified on 08 January 2018.

For the liquidation analysis we have assumed a theoretical insolvency of Oi Group, on a substantive consolidated basis for the companies under the Judicial Recovery Process and on an entity by entity basis for the remaining companies, that allows management to analyze and assess potential illustrative liquidation values for Oi Coop and PTIF creditors according to their respective rights and priorities. Specifically this analysis assumes the appointment of insolvency office holders followed by an immediate break-up of Oi Group (as at 30 June 2017), caused by revoke of permits by Anatel with very limited ability to trade the business following insolvency appointments and with mainly asset sales and monetization being achievable after bankruptcy.

The liquidation analysis is based upon Oi Group's legal entities and consolidated balance sheets prepared by Management (as at 30 June 2017) and in conjunction with legal opinions performed by Oi Group's legal advisers, Barbosa Müssnich Aragão (BMA), Basílio Advogados, Rosman Penalva Souza Leão Franco Advogados, Maneira Advogados, José Alexandre Tavares Guerreiro (lawyer), Pereira Neto Macedo and Loyens & Loeff.



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### Disclosure

The report, letters and information are prepared solely for the benefit of Oi and should not be used or relied upon for any other purpose or by any other person. Notwithstanding the Engagement Agreement Oi may disclose the report to Oi's professional advisers, solely for the purpose stated in our covering letter, provided that each adviser is informed and agrees before being provided with a copy of the report (or any portion or summary of it) that we assume no responsibility or liability whatsoever to them in respect of the contents and that they agree to be bound by the terms and conditions of this Agreement relating to restrictions on the use and disclosure of the report.

### Limitations of the scope of our work

Our work will consist primarily of analytical procedures applied to the data, information and explanations provided to us. Except to the extent that we have agreed to perform specified verification procedures, we will not verify the accuracy, reliability or completeness of the information provided to us.

The Analysis is highly sensitive to a number of key assumptions which are based on Management estimates and Oi's professional advisers legal opinion, including:

- According to legal counsel to Oi, there are certain relevant legal aspects, such as the absence of recognition of the Dutch bankruptcy by Brazilian Superior Court and the contractual limitations to the assignment of the intercompany claims pursuant to Brazilian law, that are very likely to hinder the enforcement of such claims. Based on this, we assumed recovery value of the intercompany claims held by Oi Coop would worth nothing in a Dutch liquidation scenario. Nevertheless, based on the RJ Plan, one can argue that under certain legal scenarios there is a possibility, in which the intercompany claims could be executed taking into consideration that, under Brazilian law these intercompany claims would start to be paid in 44 years, 20 years after the end of general option payment. In this scenario, the recovery value of this instrument could range from BRL 0,1bn to BRL 0,5bn for Oi Coop. This recovery value is based on the estimated cash flow for the instruments discounted by the Brazilian interbank deposit rate plus Oi's credit spread range (Merrill Lynch B- to BB credit rating for the debt). In any case, the assignment of intercompany claims following a liquidation of the Dutch companies in the Netherlands is not expected to increase the recovery of the creditors at the level of Oi Coop and PTIF, considering that, pursuant to the RJ Plan, the Oi Group is entitled to: (i) deduct, from the consideration to be paid to creditors, any amounts received by creditors directly from the Dutch entities; and (ii) at its sole discretion, offset intercompany claims (i.e. restructured intercompany claims against intercompany claims arising from the execution of guarantees provided by Oi to its subsidiaries).

### Going concern valuation

- The conditions offered by Oi to Oi Coop and PTIF creditors remain in the same term as presented in the RJ Plan.
- The expectation/estimated fair value of the Financial Instruments, as included in the RJ Plan, contained in this Report was calculated based on the DCF method, which does not necessarily reflect the trading price of the Financial Instrument. It is noteworthy that the DCF method has some limitations, as mentioned in this Report.



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### Going concern valuation (continued)

- We assume no responsibility for any financial and tax reporting judgments, which are appropriately those of Oi. It is our understanding that Oi accepts responsibility for any financial statement and tax reporting issues with respect to the financial instruments covered by our analysis, and for the ultimate use of our Report.
- All operational and administrative assumptions made in this Report were based on expected scenarios and forecasted exclusively by the Company and its managers, advisors and further service providers hired to develop the RJ Plan and were not subject of independent investigation by EY.
- We note that Oi is allowed to deduct all amounts eventually received under or as result of any liquidation, disposal or enforcement against assets of the Oi Group (including Oi Coop and PTIF) from the amount that creditors (of Oi Coop and PTIF) are entitled to receive under the RJ Plan.

### Liquidation analysis

- Validity, perfection, enforceability and relative priority of the security in respect to the secured debt facilities;
- Substantive consolidated liquidation of the RJ Debtors, meaning that the proceeds of the RJ Debtors assets in a liquidation scenario will be distributed to the creditors on a substantive consolidated basis only (not entity-by-entity) based on a legal opinion of Oi's legal professional advisers<sup>1</sup>;
- The other Brazilian companies of Oi Group, excluding RJ Debtors, will have their bankruptcies processed entity-by-entity and investments offshore will be sold;
- Calculation of taxes resulting from the liquidation should be done individually (entity-by-entity), as indicated by Oi's tax advisors;
- Tax implications for the Oi Group following the bankruptcy of the Dutch financing entities (Oi Coop and PTIF) and/or a potential write off on the intercompany claims of Oi Coop against Oi Móvel and Oi S.A. as part of a plan or liquidation are based on a legal opinion of BMA<sup>2</sup>. We have not independently verified the tax opinions provided by Oi and BMA in connection with this Report;
- We have not independently revised any legal opinion or legal advice provided by Oi or Oi's legal advisers and have relied on the opinion of Oi's legal advisers;
- The existent liabilities and the liabilities generated after the initial bankruptcy date, such as suppliers, debts, contingent liabilities, severance costs and other costs will be considered as bankruptcy estate debt;
- Cash held in bank accounts and investments, unless stated otherwise, are assumed to be available for the bankruptcy estate to be distributed to creditors;

<sup>1</sup> Tavares Guerreiro, "Judicial Reorganization of the Oi Group. Bankruptcy decree of the companies Oi Coop and PTIF by the Dutch Court", September 2017

<sup>2</sup> BMA Advogados, "Sale of intercompany claims – legal and tax aspects in Brazil", August 2017.





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### Liquidation analysis (continued)

- For this theoretical exercise, Oi's legal advisor have advised us that in case of bankruptcy, all the fixed lines concessions would expire and mobile authorizations revoked and the Brazilian telecom regulator ("Anatel") would take over the concessionaires and authorizations. In order to guarantee the continuity of the services, Anatel would most likely subrogate in the third party contracts with services providers and long-term suppliers<sup>1</sup>;
- Priority rules for the Liquidation Waterfall Analysis are based on legal opinions received from Oi's legal advisors<sup>2</sup>;
- The base case scenario considers a recovery of 61% of judicial deposits including the costs to monetize it, this recovery is based exclusively on Management best estimate.
- In order to determine the liquidation value of the minority equity interests we used the book value, adjusted for a forced sale scenario, as a simplified assumption.
- Considering a liquidation of the size of Oi, it is difficult for EY to predict how long a process like this could take. Usually, complex liquidation processes could take many years. As a result, this analysis takes no account of the time value of the money and no account of interest on financial claims has been made in the Analysis.

Changing these key assumptions stated above could lead to a materially different outcome. Please also refer to the Basis of preparation – important disclosures and the Overview and approach sections of this Report relating to the basis of preparation.

The contents of the Report and our key findings were reviewed by Management on 17 March 2018. Management's comments on factual accuracy have been sought and incorporated where appropriate. A letter of representation confirming that, to the best of their knowledge, the contents of this Report are free from material error, was signed by Management on 23 March 2018.

The contents of the Report were also reviewed by Oi's legal advisers, who confirmed that our interpretation of their legal opinions reasonably reflect their advices in respect to the legal aspects of this Liquidation and Going Concern Report.

We shall be pleased to discuss the contents of this Report with Oi and to provide Oi with such further information as Oi may require.

Yours faithfully,

Otávio Bachir  
Partner  
Valuation & Business Modeling

Beni Rosenzvaig  
Executive Director  
Restructuring

Lucio Teixeira  
Partner  
Restructuring

For and behalf of Ernst & Young Assessoria Empresarial Ltda.

<sup>1</sup> Pereira Neto, Macedo Advogados; "Regulatory aspects applicable to a consolidated bankruptcy scenario of the Oi Group", November 2017.

<sup>2</sup> BMA Advogados; Basilio Advogados; Rosman, Penalva, Souza Leão, Franco Advogados; "Bankruptcy Legal Waterfall according to Brazilian Law nº 11.101/2005", November 2017.

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## Basis of preparation – important disclosures

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- ▶ We have prepared a consolidated liquidation analysis for RJ Debtors and an entity-by-entity liquidation analysis for the Other Companies of the Group based largely upon Oi Group's legal entities unaudited management accounts balance sheets as at 30 June 2017, being the latest common reference date. EY has not audited or verified the accuracy of the management accounts and has relied on Management to identify all material external borrowings.
- ▶ Management has represented to us that the balance sheet provided by them represent materially all the assets and liabilities within Oi Group. The presence of any significant contingent or off-balance sheet liabilities has been discussed and we are advised that, to the best of Management's knowledge, any applicable material liabilities have been disclosed by Oi Group and are reflected in the analysis. The mapping of accounting entity to legal entity has been provided by Management and has not been independently verified by EY.
- ▶ Our Analysis is based on financial information as at 30 June 2017. Significant events may have occurred after this date that could materially impact the outcomes of this Report, such as changes to market conditions, cancellation of contracts, facility repayments, material dividend payments or significant movements of cash balances around Oi Group.
- ▶ Our estimated outcome is, in essence, a theoretical exercise in respect of multiple domestic and foreign insolvency processes which, by their nature, are inherently uncertain. We have not sought any separate detailed legal advice on these processes and have relied on information provided by Management (who have received the benefit of external legal advice).
- ▶ Detailed underlying legal documentation has not been reviewed by us (including loan facility agreements, hedging instrument documentation, guarantees (including effectiveness or limitations) and security documentation, joint venture agreements, lease agreements (e.g. property / equipment related), employment contracts, customer agreements, supplier contracts and pension scheme documentation). We have relied upon summaries and summary interpretations of contractual positions provided by Management and, where indicated in our Report, have used summaries provided by Oi's external legal advisers which have been based on information presented by Management.
- ▶ Oi's external legal advisers have provided information in connection with this Report on behalf of Oi Group.
- ▶ The Analysis is based on a theoretical insolvency break up scenario on a substantive consolidated basis for the group companies under judicial reorganization and an entity-by-entity basis for the other companies. The entities of Oi Group are mostly located in the following jurisdictions: Brazil, Netherlands, Portugal, Angola, Timor and Luxembourg.
- ▶ No independent legal opinions have been received in respect of contingent claims that may crystallise on a group wide insolvency. Furthermore, unless otherwise stated, our work assumes that all security is valid, perfected and enforceable and no antecedent transactions would be successfully challenged. We have also assumed that certain creditors could assert certain rights against Oi Group (including, without limitation, guarantees, and rights of subordination and of set-off) which are valid and enforceable.
- ▶ No legal due diligence has been undertaken, and no legal conclusions are presented, in respect of such security, perfection, guarantee, subordination, or set-off arrangements (or the absence thereof) for the purposes of this Report.
- ▶ Our Analysis is based upon assumed realizations for assets and businesses. To calculate these realizations, for assets other than non reversible assets, net book values as shown in the entity balance sheets have been used and, for the non reversible assets, net book values have been replaced with distressed market value estimates that reflect Management's view on realizations achievable in a break-up scenario. Where Management has not provided a view as to valuation, we have discounted the net book values by between 0-100% based upon discussions with Management and legal advisers.



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- ▶ This Analysis has relied upon Management's explanation of the assets available within Oi Group. We have not independently verified the existence or value of these assets. Actual values achieved may materially differ.
- ▶ Please note that the Analysis is highly sensitive to key assumptions relating to asset values including, without limitation, building, equipment and court deposits values. The valuation assumptions made in the Analysis in relation to these assets are based mainly on Management's view on realizations achievable in a distressed scenario. In light of the fact that fixed assets disposal values are likely to be a very significant source of recovery to the creditors, there is material uncertainty as to the recoveries that could be achieved in a distressed scenario. For the avoidance of doubt, the asset values and recovery levels set out herein should in no way be relied upon.
- ▶ The considerations presented in this Report are common practices in studies of this nature, which we believe we have, and are publicly recognized as having, meaningful knowledge and experience. The provided services are limited to such knowledge and experiences and do not represent an audit, advisory or tax related services, which can be provided by EY. Notwithstanding these limitations, the conclusion of this Report is not intended or written by EY to be used, and should not be used, by the recipient or any third party for the purpose of avoiding sanctions that may be imposed by the Brazilian laws, especially the tax law, neither for the purpose of supporting actions that might infringe Brazilian Federal Law 12.846/13.
- ▶ With the purpose of achieving this work's objective, procedures were applied based on the analysis of historical facts, socioeconomic and market information, as well as data and assumptions provided by the Oi Group, its employees, managers, advisors and further service providers ("Data and Information").
- ▶ The conclusions presented here are the result of the Data and Information analysis, along with macroeconomic and market forecast, as well as on performance and results of future events, and are subject to the following

considerations:

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

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Below we present the limitations of the scope of work:

1. Our analysis is based on information provided by Oi's management, which will be considered true since it is not part of the scope any type of audit procedure. According to professional practices and legal requirements, the analysis is based on the RJ Plan elaborated by Oi.
2. In order to achieve our objective, we only apply procedures based on historical, economic and market facts. The estimate of value presented in the Report is a result of the analysis of historical (financial and management) data as well as projections of future events prepared by Management, including the RJ Plan.
3. The considerations presented in the Report are analyzed by EY professionals and are prepared based on information provided by Management and in the RJ Plan, in addition to external sources, as indicated in our Report.
4. The estimated conclusion for the going concern analysis of Oi contained in the Report was calculated based on the approved RJ Plan dated 20 December 2017.
5. Any user of our Report must be aware of the conditions that guided this work, as well as market and economic conditions in Brazil, as of the Valuation Date of assessment.
6. Our assessment will be done based on elements that are reasonably expected, therefore, does not take into account possible extraordinary and unforeseeable events (new regulation for the company, changes in tax laws, natural disasters, political and social events, nationalizations etc.).
7. The factors that may result in differences between the projected cash flows and actual results include changes in the external environment, changes in Oi's internal operating environment and differences in modeling. The DCF method does not anticipate changes in the external and internal environments in which Oi operates, except those noted in the Report.

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

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ADR	American Depositary Receipts	CPI	Consumer Price Index – USA
Affiliates	Refers to any direct and indirect person within the Controlling, Controlled or under Common Control	CSLL	Contribuição Social sobre o Lucro Líquido – Social Contribution over EBT (BR)
Analysis or Report	This report, dated 23 March 2018	Company	Oi S.A. – Under Judicial Reorganization
ANATEL	Agência Nacional de Telecomunicações – Brazilian National Telecommunications Agency	COPART 4	Copart 4 Participações S.A. – Under Judicial Reorganization
ARPU	Average Revenue per User	COPART 5	Copart 5 Participações S.A. – Under Judicial Reorganization
B3	Bolsa, Brasil, Balcão - Stock Exchange, Brazil, Over the counter	CVM	Comissão de Valores Mobiliários – Brazilian Stock Market Regulator
BBL	Brazilian Bankruptcy Law - Law nº 11.101/05	RJ Debtors	Oi, Oi Móvel, TLM, Copart 4, Copart 5, PTIF and Oi Coop - Companies under Judicial Reorganization
bn	Billion(s)	Dutch companies	PTIF and Oi Coop
BNDES	Banco Nacional de Desenvolvimento Econômico e Social – Brazilian National Bank for Economic and Social Development	DCF	Discounted Cash Flow
BMI	Business Monitor International	EBIT	Earnings Before Interest and Taxes
BMA	Barbosa Müssnich Aragão	EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
BR GAAP	Brazilian Financial Reporting Standards, aligned to International Financial Reporting Standards	EBT	Earnings Before Taxes
BRL	Brazilian Reais	EUR	Euros
CAGR	Compound Annual Growth Rate	EY	Ernst & Young Assessoria Empresarial Ltda.
CAPEX	Capital Expenditures	Fair Value	The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction (IFRS 3 - Appendix A – Defined Terms).
CAPM	Capital Asset Pricing Model	FGTS	Fundo de Garantia do Tempo de Serviço - Length-of-Service Guarantee Fund
CARF	Conselho de Administração de Recursos Fiscais - Administrative Tax Appeals Council	FISTEL	Fundo de Fiscalizações das Telecomunicações, or Telecommunications Supervisory Fund
CDI	Certificado de Depósito Interbancário – Interbank Deposit Rate		
COPOM	Comitê de Política Monetária do Banco Central do Brasil - Central Bank of Brazil's Monetary Policy Committee		

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FMV	Fair Market Value	MRED	Brasil Telecom Comunicação e Multimídia Ltda
GDP	Gross Domestic Product	NPV	Net Present Value
IAS 38	International Accounting Standards N° 38, Intangible assets	NYSE	New York Stock Exchange
IBAPE-SP	Brazilian Appraisal and Engineering Institute	Oi	Oi S.A. – Under Judicial Reorganization
ICMS	Imposto Sobre Circulação de Mercadorias e Serviços Tax on Circulation of Goods and Transportation and Communication Services	Oi Coop	Oi Brasil Holdings Coöperatief U.A. - Under Judicial Reorganization
		Oi Group	Oi and all its subsidiaries
IFRS	International Financial Reporting Standards	Oi Internet	Oi Internet S.A.
IFRS 13	International Financial Reporting Standards 13 – Fair Value Measurement	Oi Móvel	Oi Móvel S.A. – Under Judicial Reorganization
IPTU	Imposto Predial e Territorial Urbano - Municipal Property Tax	Other Companies of the Group	All Subsidiaries not Under Reorganization
IRPJ	Income Tax (BR)	OPEX	Operational Expenditures
IT and SC	Income Tax and Social Contribution	p.a.	per annum
TNL or TMAR	Telemar Norte Leste S.A. – Under Judicial Reorganization	PEX	Plano de expansão de telecomunicações - Telecommunication Expansion Plan
JEC	Special Civil Court	PIK	Payment in kind
JRP or RJ Plan	Judicial Reorganization Plan	PV	Present Value
k	Thousand(s)	PTIF	Portugal Telecom International Finance B.V. – Under Judicial Reorganization
LAFIS	LAFIS Consultoria Ltda.	PTPT	PT Participações SGPS S.A.
LIBOR	London Interbank Offered Rate	Qualified Bondholders	Bondholders with claims exceeding USD 750.000
LRF	Lei de Responsabilidade Fiscal- Fiscal Responsibility Law	Non-Qualified Bondholders	Bondholders with claims up to USD 750.000
m	Million(s)	REFIS	Programa de Recuperação Fiscal - Tax Recovery Program
Management	The Oi Group's management team		
ME	Microenterprises		

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Shareholders	Direct and indirect Oi S.A. shareholders and its successors of any kind.
Shareholders Agreement	The agreement entered into between the Shareholders on the purchase and sale of shares issued by the RJ Debtors, preference to acquire them, exercise of the voting right, or control power, which shall be observed by the company when filed at its headquarters, as the terms of art. 118 of the Law of S.A.
SME	Small and medium enterprises
SMP	Personal Mobile Service
TFI	Taxas de Fiscalização de Instalação – Installation Fiscalization Tax
TR	Taxa de Referência – Reference Rate
USD	United States Dollars
Valuation Date	30 June 2017
WACC	Weighted Average Cost of Capital
We	EY

# 1

## Executive Summary

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# 1.1

## Introduction – Oi Group / RJ Plan

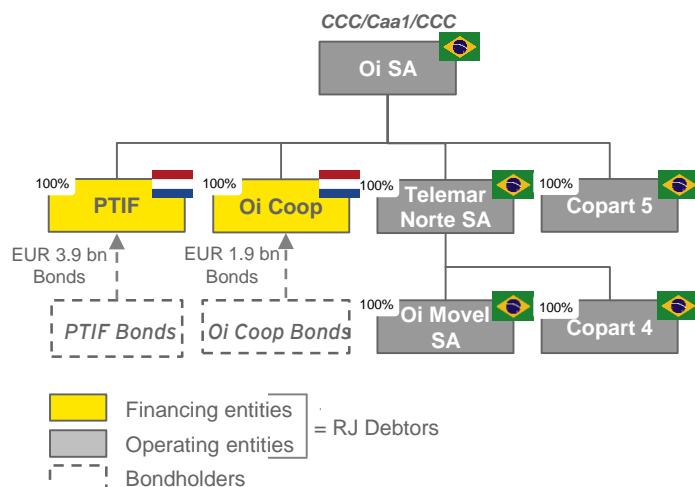
# 1 Executive Summary

## Introduction to Oi Group

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## Oi Group – Simplified Legal Structure



## Oi Group – At a glance

Currency: BRL m	FY14A	FY15A	FY16A
<b>Operating Revenue</b>	28.247	27.354	25.996
<i>Growth over prior year</i>	(0,6)%	(3,2)%	(5,0)%
<b>EBITDA Margin</b>	24,4%	25,1%	22,3%
<b>CAPEX (as % of revenue)</b>	19,0%	15,3%	18,9%
<b>Net Debt</b>	30.674	38.281	40.511
<i>Net Debt / EBITDA</i>	4,5x	5,6x	7,0x

Source: Oi Group.

## Oi Group, Oi Coop and PTIF

- ▶ Oi Telecom is one of the largest providers of telecommunication services in Brazil. Oi Telecom consists of a group of companies (the “Oi Group”) headed by Oi S.A. (“Oi”).
- ▶ The Oi Group operates one of the largest telecom company of Brazil, in which it has a concession to offer telecom services, including the obligation to maintain fixed telephone lines in a large part of Brazil. Most operational activities of the Oi Group take place in Brazil, which are subject to supervision by the Brazilian Telecom regulator ANATEL.
- ▶ A major part of the Oi Group’s financing runs through its two Dutch 100% owned subsidiaries: Oi Brasil Holdings Cooperatief U.A. (hereafter “Oi Coop”) and Portugal Telecom International Finance B.V. (hereafter “PTIF”).
- ▶ Both Oi Coop and PTIF have issued a series of Bonds on the international capital markets of EUR 1,9bn and EUR 3,9bn respectively. The financing provided by the Bondholders essentially (and indirectly) financed the Oi Group.
- ▶ Over the last years, Oi has experienced a substantial increase in its outstanding debt, while also realizing a reduction in operational performance.
- ▶ The increase of Oi Group’s debt can be explained primarily by three events: (i) the financing of the telecommunications services expansion, (ii) acquisition of Brasil Telecom and subsequent identification of relevant liabilities, and (iii) the merger with and debt incorporation of Portugal Telecom.
- ▶ Furthermore, the Brazilian system of concessions for fixed telephony services establishes certain obligations under the LGT (“Lei Geral das Telecomunicações”) for the concessionaires (i.e. Oi). Among these required obligations are the service universalization requirement for fixed telephony throughout the entire national territory, which in some cases reduce or even render unfeasible returns on the investments made. This is considered by Oi as another factor which contributed to the current financial situation of the Oi Group.
- ▶ In June 2016, Oi Group decided to (i) implement a cost reduction and operational efficiency plan and (ii) restructure its financial liabilities through the Brazilian Restructuring Proceedings, in order to improve its operational and financial position. Reference is also made to the Economical Feasibility Report drafted by EY Brazil dated 21 December 2017.

# 1 Executive Summary

## Overview of the Brazilian Restructuring Proceedings

### 1 Executive Summary

2 Introduction

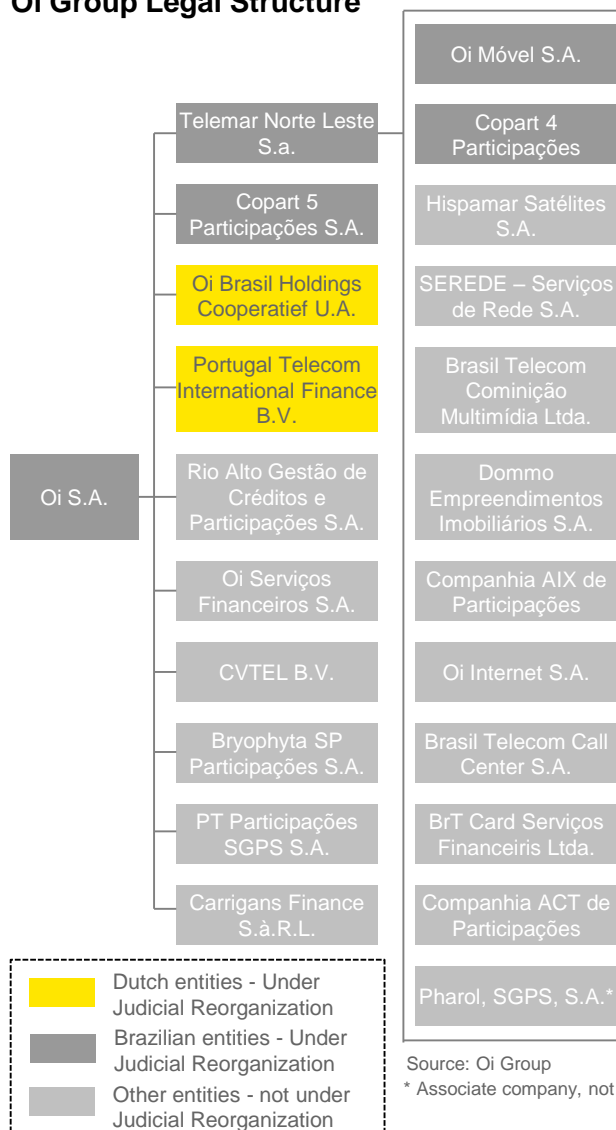
3 Scenario A

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### Oi Group Legal Structure



### Brazilian RJ Plan (RJ Plan)

- ▶ As indicated, on June 29, 2016 Oi and six of its subsidiaries (including Oi Coop and PTIF) obtained legal protection under the “Brazilian Restructuring Proceedings” (or “RJ”) to restructure more than BRL 63bn of debt with a wide range of creditors, including but not limited to, labor related creditors, financial institutions, suppliers and bondholders.
- ▶ As part of the Brazilian Restructuring Proceedings Oi has presented a restructuring proposal known as “plano de recuperação judicial” (hereafter: “RJ Plan”), which has been amended several times, to its various creditor classes (including the intercompany claims of Oi Coop and PTIF).
- ▶ As shown in the adjacent legal structure of the Oi Group the RJ Plan involves Oi, Oi Coop, PTIF, Oi Móvel S.A., Telemar Norte Leste S.A., Copart 4 Participacoes S.A. and Copart 5 Participacoes S.A. (hereafter jointly the “RJ Debtors” or individually “RJ Debtor”).
- ▶ The RJ Debtors strive by means of the RJ Plan to restructure their debts and thus safeguard the operational continuity of the Oi Group. The RJ can be characterized as a “debtor in possession” procedure, whereby the board of the RJ Debtors retains to a certain extent full authority. However, in case of Oi Group, the Brazilian bankruptcy court restricted substantially the power of the Board of Directors (Shareholders) while increasing the power of the CEO to negotiate with Oi Group’s creditors.
- ▶ One of the cornerstones of the RJ Plan is that it assumes a consolidated settlement meaning that the assets and liabilities of the RJ Debtors are only treated jointly (and as a total). Therefore, under the RJ Plan it makes no legal difference for the creditors of the RJ Debtors against which company of the Oi Group they have a claim.
- ▶ All RJ Debtors (including PTIF and Oi Coop) are jointly and severally liable towards all creditors of all RJ Debtors for the performance of all obligations arising from the RJ Plan.

# 1 Executive Summary

## Overview of the Brazilian Restructuring Proceedings (continued)

### 1 Executive Summary

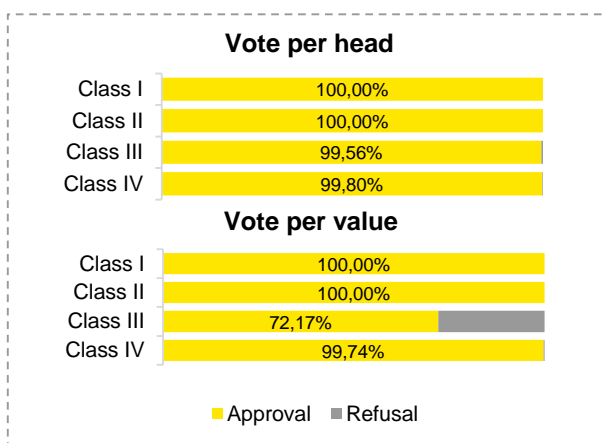
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### Oi Group – Creditors Classes

	May17 BRL m	
<b>Class I: Labour</b>	<b>912</b>	
<b>Class II: Secured</b>	<b>3.327</b>	
Unsecured Others	2,483	
Anatel	11,093	
Other Loans	13.639	
Oi S.A. – Bondholders	9.749	Qualified and Non- Qualified Bondholders
PTIF – Bondholders	14.799	
Oi Coop – Bondholders	7.226	
<b>Class III: Unsecured</b>	<b>58.989</b>	
<b>Class IV: Small Business</b>	<b>68</b>	
<b>Total</b>	<b>63.297</b>	

Source: Creditors List of the Bankruptcy Trustee dated May-2017.

### RJ Plan voting and approval



Source: Ratification of the RJ Plan dated Feb-2018.

### Brazilian RJ Plan (RJ Plan) – Continued

- ▶ The Brazilian Restructuring Proceedings allocate creditor claims to four classes to establish their priority as highlighted in the adjacent table.
- ▶ Despite the parent company guarantee granted to the Oi Coop and PTIF Bondholders by Oi, these Bondholders among others are allocated to Class III Unsecured Creditors (hereafter “Unsecured Creditors”) and thus under the Brazilian law don’t receive any priority rights as a result of their parent company guarantee.
- ▶ The RJ Plan sets out the criteria under which the various creditor classes are to be restructured, whereby the creditors can vote on the final plan during a creditors meeting.
- ▶ The various elements of the restructuring options per creditor class are summarized in Appendix VIII, however the main elements of the RJ Plan can be summarized as follows:
  - Significant debt reduction through the use of a debt-for-equity swap whereby the current Bondholders receive 74% of the outstanding shares of the group;
  - An adjustment to current amortization schedules, whereby debt maturity is significantly extended, also including new interest rates and face value haircut in some cases;
  - Additional equity contribution of BRL 4bn to be finalized in 2018;
  - Additional debt issuance of BRL 4,5bn to be obtained from the capital market in 2019 and 2020.
- ▶ On 19 and 20 December 2017 a creditors’ meeting was held wherein a revised version of the RJ Plan dated 12 December 2017 was approved by the majority that is required under Brazilian law as shown in the adjacent graph below.
- ▶ On 8 January 2018 the Brazilian bankruptcy court ratified the RJ Plan and this decision was published on 5 February 2018 (hereafter “Confirmation Date”).
- ▶ Following the Confirmation Date the Unsecured Creditors should inform the Oi Group within 20 days (i.e., February 26, 2018, or the “Election Deadline”) of the manner in which they would like to receive the payment they are entitled to under the RJ Plan. For Bondholders, more in particular, section 4.3.3. (*Bond Restructuring*) of the RJ Plan contains important provisions. On 26 February 2018 the Brazilian bankruptcy court extended the Election Deadline to 8 March 2018 for the Bondholders only.
- ▶ Based on the RJ Plan, the Unsecured Creditors will be renewed and discharged under Brazilian law and Unsecured Creditors are entitled to receive the recoveries set forth in the RJ Plan in exchange for their credits, for which reference is made to the following pages.
- ▶ Until the end of July 2018 all creditor classes need novation for the implementation of the RJ Plan. For further details regarding the next steps for the final implementation of the RJ Plan, reference is made to the RJ Plan.

# 1.2

**Introduction – Oi Coop / PTIF**

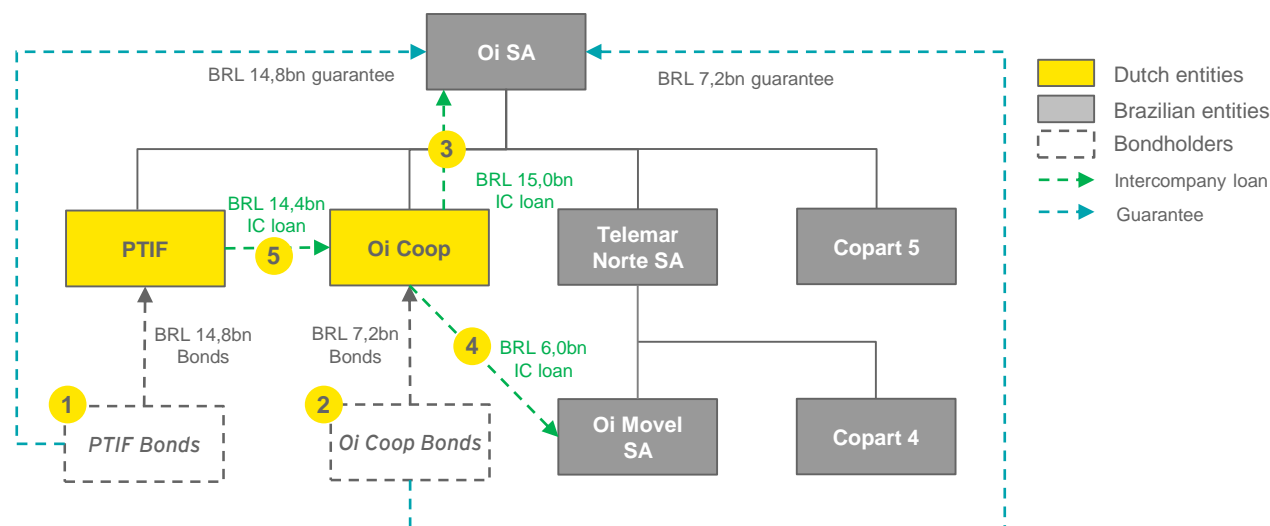
# 1 Executive Summary

## Oi Coop and PTIF - Bonds

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## Oi Coop and PTIF – Financing structure



Source: Oi Group.

## Oi Coop and PTIF – Bonds

	EUR bn	BRL bn
Retail Bonds 2016, 6,25%	0,2	0,9
Bonds 2017, 4,375%	0,4	1,5
Bonds 2017, 5,242%	0,3	1,0
Bonds 2018, 5,875%	0,8	2,9
Bonds 2019, 5,00%	0,8	2,9
Bonds 2020, 4,625%	1,0	3,8
Bonds 2025, 4,5%	0,5	1,9
<b>1 Subtotal PTIF Bonds</b>	<b>3,9</b>	<b>14,8</b>
Finco Bonds 2021, 5,75%	0,6	2,4
Finco Bonds 2022, 5,75%	1,3	4,8
<b>2 Subtotal Oi Coop Bonds</b>	<b>1,9</b>	<b>7,2</b>
<b>Total PTIF and Oi Coop Bonds</b>	<b>5,8</b>	<b>22,0</b>

Source: Creditors List of the Bankruptcy Trustee dated May-2017.

PTIF Bonds are governed by English law and in addition the Retail Notes are also subject to Portuguese Law.  
Oi Coop Bonds are ruled by US New York law.

## Oi Coop and PTIF – Introduction

- ▶ Oi Group is partly financed through the Dutch legal entities Oi Coop and PTIF.
- ▶ PTIF and Oi Coop do not generate own revenues and are fully dependent on the operating companies within the Oi Group to fulfil its obligations (interest and redemption).
- ▶ Both Oi Coop and PTIF have issued a series of Bonds on the international capital markets as listed in the adjacent table below.
- ▶ The financing provided by the Bondholders essentially (and indirectly) financed the Oi Group. As such the total amount in intercompany loans were granted to operating companies of Oi Group:
  - 3** Aug12A Oi Coop funded USD 1,5bn to Oi S.A., Feb16A EUR 0,14bn and Mar16A EUR 2,5bn;
  - 4** Mar16A Oi Coop funded EUR 1,6bn to Oi Móvel;
  - 5** Mar16A PTIF funded EUR 3,8bn to Oi Coop.
- ▶ The Bonds are all unsecured and are guaranteed by Oi. Under the Oi guarantee, the Bondholders have a claim on Oi.
- ▶ On 19 April 2017, the suspension of payments proceedings of Oi Coop and PTIF were converted into a bankruptcy. This decision, however, was not subject to any recognition request in Brazil, where both companies remain under the judicial reorganization process.



# 1 Executive Summary

## Oi Coop and PTIF - Intercompany Claims

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### Oi Coop – Balance Sheet

	Jul16 EUR m	Jun17 EUR m	Jun17 BRL m
<b>3</b> Loan - Oi SA	3.986	3.664	13.831
<b>4</b> Loan - Oi Móvel SA	1.552	1.552	5.859
<b>Non-current assets</b>	<b>5.538</b>	<b>5.216</b>	<b>19.690</b>
Interest receivable and other debtors	94	271	1.022
Prepaid expenses	1	3	11
Cash	4	1	5
<b>3</b> Loan - Oi SA	-	209	789
<b>4</b> Loan - Oi Móvel SA	-	120	451
<b>Current assets</b>	<b>99</b>	<b>604</b>	<b>2.278</b>
<b>Assets</b>	<b>5.637</b>	<b>5.820</b>	<b>21.968</b>
<b>Equity</b>	<b>(160)</b>	<b>(215)</b>	<b>(812)</b>
Intercompany account - Oi SA	4	3	10
<b>5</b> Loan - PTIF	3.776	2.295	8.664
<b>Non-current liabilities</b>	<b>3.780</b>	<b>2.298</b>	<b>8.674</b>
<b>1</b> Oi Coop - Bonds	1.963	2.013	7.599
<b>5</b> Loan - PTIF	-	1.481	5.591
Oi Coop – Bonds Interest	54	242	914
<b>Current liabilities</b>	<b>2.017</b>	<b>3.737</b>	<b>14.106</b>
<b>Equity and liabilities</b>	<b>5.637</b>	<b>5.820</b>	<b>21.968</b>

Source: Oi Group  
Currency Exchange: BRL 3,775/ EUR

**1** up to **5** = reference is made to the previous page of this report

### PTIF – Balance Sheet

	Jul16 EUR m	Jun17 EUR m	Jun17 BRL m
<b>5</b> Loan - Oi Coop	3.776	2.295	8.664
<b>6</b> Financial Investments (Oi shares and others)	112	98	371
<b>Non-current Assets</b>	<b>3.888</b>	<b>2.393</b>	<b>9.035</b>
Loan - Timor Telecom	19	18	68
<b>5</b> Loan - Oi Coop	-	1.481	5.592
Other taxation	3	3	12
Interest receivable and other debtors	56	242	914
Cash	10	11	41
<b>Current assets</b>	<b>88</b>	<b>1.755</b>	<b>6.627</b>
<b>Assets</b>	<b>3.976</b>	<b>4.148</b>	<b>15.662</b>
<b>Equity</b>	<b>46</b>	<b>32</b>	<b>122</b>
<b>2</b> PTIF – Bonds	3.857	3.859	14.568
Corporate income tax	0	2	6
Other payables	0	1	3
PTIF – Bonds Interest	74	255	963
Accrued expenses	0	0	0
<b>Non-current liabilities</b>	<b>3.930</b>	<b>4.116</b>	<b>15.540</b>
<b>Equity and liabilities</b>	<b>3.976</b>	<b>4.148</b>	<b>15.662</b>

Source: Oi Group  
Currency Exchange: BRL 3,775/ EUR

### Oi Coop and PTIF – Intercompany Claims

- ▶ As Oi Coop and PTIF were established as pure financing entities, their most important assets are intercompany claims against other Oi entities as highlighted in the respective company balance sheets opposite (items **3** and **4**).
- ▶ These two claims will hereinafter jointly be referred to as the Intercompany Claims.
- ▶ The Brazilian bankruptcy court decided that the Trustees of Oi Coop and PTIF will not obtain any voting rights for the Intercompany Claims during the RJ Proceedings and based on section 4.6.1 and 4.6.2 of the RJ Plan the total repayment period for the Intercompany Claims was set to 50 years.
- ▶ Additionally, there might be the issuance of the new financial instruments to the Bondholders, which will be reflected into new intercompany obligations from Oi Coop and PTIF to Oi.
- ▶ Furthermore, according to Brazilian law, a sale of the Intercompany Claims would only be allowed if approved by the management of Oi preventing the Dutch Trustees to sell these claims to a 3rd party.

### PTIF – ADRs

- 6** Section 4.3.3.4 of the RJ Plan stipulates that the RJ Debtors intend to use the ADRs held by PTIF to partially comply with their obligations by offering them to Qualified Bondholders.

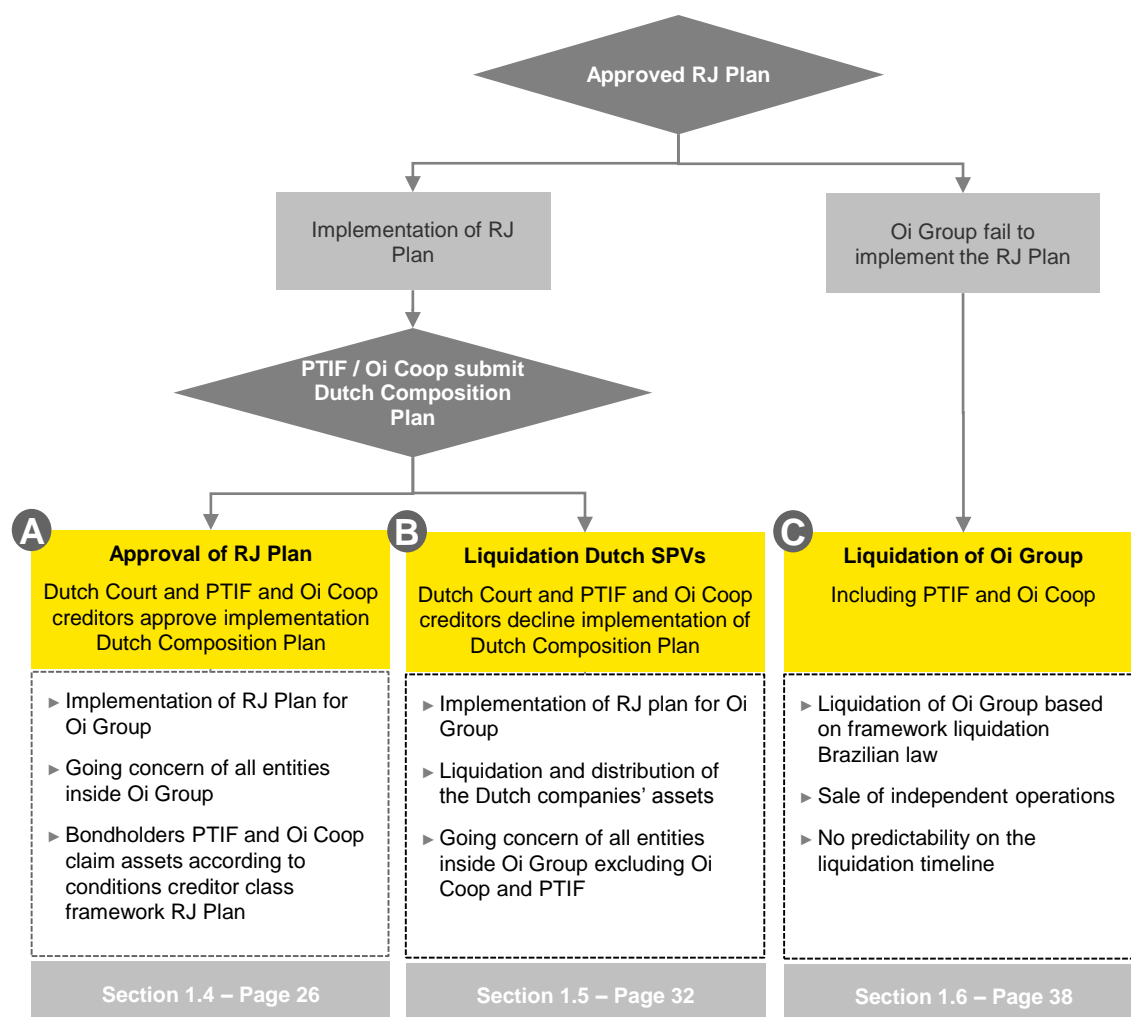
# 1 Executive Summary

## RJ Plan Decision Tree and impact on Oi Coop and PTIF

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### Oi Coop and PTIF – Decision tree implementation RJ Plan



### Oi Coop and PTIF – Dutch Composition Plan

- On 9 August 2016 and 3 October 2016, the Court of Appeal of Amsterdam granted Coop's and PTIF's suspension of payments, respectively. The suspension of payments proceedings of PTIF and Coop were converted into a bankruptcy on 19 April 2017 by the District Court of Amsterdam, which subsequently appointed the mr. J.R. Berkenbosch and mr. J.L.M. Groenewegen as the bankruptcy trustees of respectively Oi Coop and PTIF (together the "Dutch Trustees").
- To date, these Dutch proceedings, however, have not been recognized in Brazil.
- As a consequence, Oi Coop and PTIF are subject to two separate (coexisting) judicial reorganization procedures: the Brazilian RJ (subject to Brazilian law) and the Dutch bankruptcy (subject to Dutch law).
- In order to ensure the proper implementation of the RJ Plan in the Netherlands (and in other European member states that do not recognize the RJ Proceedings and the RJ Plan) for Oi Coop and PTIF, a composition plan (hereafter "Dutch Composition Plan") - which mirrors and is consistent in all material respects with the RJ Plan - will need to be offered to the creditors of Oi Coop and PTIF and put to the vote at the verification meeting.
- If the Dutch Composition Plans are approved by the creditors, homologated by the Dutch Court and if no appeals have been filed, the Dutch Composition Plans will be effective and PTIF and Oi Coop will exit bankruptcy.
- In order for the Dutch Composition Plan to be approved by the creditors and comply with Dutch bankruptcy laws, the offer made by PTIF and Oi Coop pursuant to the respective composition plans must represent a better recovery than under a liquidation scenario (or at a minimum a substantially similar recovery).
- As a result, these procedures will have three potential outcomes for Oi Coop and PTIF as shown in the adjacent decision tree.

# 1.3

## Scope of Work

# 1 Executive Summary

## EY Scope of Work

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## Scenarios – EY Scope of Work

Scenario	PTIF / Oi Coop	Oi Group (excluding PTIF and Oi Coop)
A) Going Concern Oi Group	Going Concern (= RJ Plan)	Going Concern (= RJ Plan)
B) Going Concern Oi, Liquidation Dutch SPVs	Liquidation (exclusively in the Netherlands)	Going Concern (= RJ Plan)
C) Liquidation Oi Group	Liquidation	Liquidation

## Purpose of our work

- To support the Dutch Composition Plan, Oi has asked EY to prepare (hereafter: the “Purpose”):

*A liquidation and going concern valuation of the Oi Group as well as the underlying assumptions / calculations in order to submit Oi management with relevant (financial) information which can be used for the Dutch Composition Plan and to use our advisory report in the bankruptcy process of Oi Coop and PTIF in the Netherlands.*

## Scope of our Work – Introduction

- For the Purpose of this engagement the adjacent three scenarios have been identified for the work to be performed by EY and are aligned with the three scenarios as described in the previous section:
  - A. The realizable value of the assets of each of the Dutch legal entities (PTIF and Oi Coop) in case the RJ Plan will be implemented, i.e. the distribution of the assets to creditors and shareholders which are governed by the rights of the PTIF / Oi Coop's creditors/shareholders under the RJ Plan (i.e. as a going concern).
  - B. A liquidation value analysis of each of the Dutch legal entities (PTIF and Oi Coop) in case the remaining Oi Group continues as a going concern as a result of the implementation of the RJ Plan, whilst the Dutch legal entities are liquidated exclusively in the Netherlands, i.e. the distribution of the assets to its creditors (and sole member) which are governed by the rights of PTIF / Oi Coop's creditors/member under insolvent conditions.
  - C. A liquidation value analysis of each of the Dutch legal entities (PTIF and Oi Coop) in case the entire Oi Group goes into liquidation. This analysis addresses the distribution of the Dutch assets to its creditors which are governed by the rights of PTIF / Oi Coop's creditors under insolvent conditions (and any surplus would go to its sole member Oi S.A.).

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## EY Scope of Work

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### Avoidance Procedure / Claim

- ▶ We note that the liquidator of Oi Coop in the Netherlands has filed an Avoidance Claim against Oi Movel and Oi S.A. in relation to funds that were transferred from Oi Coop to Oi S.A. shortly before the Dutch bankruptcy of Oi Coop;
- ▶ The possible impact of the Avoidance Claim is not part of the EY scope but Oi management has performed a high-level legal assessment of the theoretical effect of the Avoidance Proceedings initiated by the Trustee of Oi Coop against Oi;
- ▶ According to Oi's Brazilian legal advisors, the Dutch bankruptcy decision must first be confirmed by the Brazilian Superior Court ("STJ") to allow the Dutch award on the avoidance proceeding to be effective and enforceable in Brazil;
- ▶ So far, the STJ has not confirmed the acknowledgement of the Dutch bankruptcies and hence to date, the claim has not been accepted by the STJ;
- ▶ Should, in a theoretical situation, the Brazilian Superior Court accept the bankruptcy decision and the avoidance proceedings by the Dutch court, the legal advisers argue that the claim in result thereof, including the torts claim, would be, according to Dutch law, a monetary claim against Oi and Oi Móvel, without any priority status for repayment;
- ▶ The legal opinion from the Dutch legal advisors confirms the above, stating that "under the Dutch law, the tort claim does not create any preference". This means that claims rank *pari passu* with other non-secured and non-preferred claims;
- ▶ Limited to the information available so far and the legal opinions provided by Oi's legal counsels and also based on Oi's management estimates that the value of an avoidance claim of Oi Coop would have the same recoveries as the intercompany claims and will follow the same waterfall as detailed in our analysis, our preliminary understanding of the position aforementioned indicates that there would not be any additional recovery value for creditors in case of a hypothetical scenario where the avoidance procedure would be accepted by the Brazilian STJ;
- ▶ While EY has not separately assessed the financial impact of the theoretical situation in which the Avoidance Claim is acknowledged by the STJ, there is a possibility that the outcome of our analysis could change as a result of this.

#### Sources:

Loyens & Loeff N.V., "Avoidance Proceedings – Dutch law issues", March 2018.

BMA Advogados; Rosman, Penalva, Souza Leão, Franco Advogados; "Avoidance Proceeding and the expected legal effects of the award on the Brazilian Judicial Reorganization Proceeding of the Oi Group", March 2018.

# 1.4

**Scenario A - RJ Plan Going Concern  
Valuation (Oi Group, Oi Coop and  
PTIF)**



# 1 Executive Summary

## Scenario A – Going Concern

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## RJ Plan Restructuring Options per Creditor Class

RJ Plan Restructuring Option	Creditor Classes				Equity
	I	II	III	IV	
A) General Rule Labor Claims					No
B) Fundação Atlântico Labor Credit					No
C) Secured Credits proposal					No
D) Linear payment of unsecured credits					No
E) Restructuring Option 1					No
F) Restructuring Option 2					No
G) Non-Qualified Bondholders' Unsecured Credits					No
H) Qualified Bondholders' Unsecured Credits					Yes
I) General Payment Method					No
J) Court deposit payment of unsecured credits					No
K) Regulatory Agencies Pre-Petition Credits					No
L) Strategic supplier Creditors					No

### High Level Summary RJ Plan Restructuring Options – Reference is made to RJ Plan

- G** Non-Qualified Bondholders' Unsecured Credits (maximum value up to USD 0,75m):
- The total of credits to be restructured under this option will be limited to USD 500 million;
  - 50% discount on the credit amount. Hence, the amount of principal of the restructured credits will be limited to USD 250 million;
  - 6-year grace period for principal and interest payments and 6-year amortization (total payment period of 12 years).
- H** Qualified Bondholders' Unsecured Credits (value above USD 0,75m):
- Common shares, issued by Oi and held by PTIF, as ADRs;
  - A package with (i) New Bonds with a limit of BRL 6,3bn, (ii) New Common Shares (as ADRs), and (iii) Subscription Bonus, to be issued by Oi;
  - 7-year grace period for principal payments and a single instalment on the 84<sup>th</sup> month after the Issuance Date of the New Bonds (total payment period of 7 years).
- I** General Payment Method: Bondholders who do not fit in the other offers will have a 20-year grace period and 5-year equal instalments (total payment period of 25 years).

## Introduction

- In the adjacent table the RJ Plan Restructuring Options are summarized and allocated per Creditor Class. Each Restructuring Option includes an explanation of the payment terms and other conditions for which reference is made to the RJ Plan.
- Unsecured Creditors (excluding Bondholders, Regulatory Agencies, Court deposit creditors and strategic suppliers) may opt for having their Unsecured Credit paid or restructured according to the Restructuring Options D, E, F or I. Once the limit of a Restructuring Option is reached, the remaining balance will (pro rata) be allocated to the Restructuring Option I (General Payment Method).
- The Non-Qualified and Qualified Bondholders' Unsecured Credits (including Oi Coop and PTIF Bonds) are entitled for the Restructuring Options G, H and I.
- As shown in the adjacent table the Restructuring Option H (Qualified Bondholders' Unsecured Credits) is entitled to receive equity shares of Oi. The other Restructuring Options are not entitled to a financial equity instrument.

## Going Concern Valuation

- As a consequence of the above, the calculation of the going concern value of the Restructuring Options G, H and I to which Oi Coop and PTIF Bondholders are entitled to, EY has to perform the following valuations:
  - Calculate the present value of the instalment payments based on Restructuring Options G, H and I;
  - Calculate the equity value of Oi Group based on the RJ Plan and allocate the equity value to the equity instrument of Restructuring Option H.
- Based on the sum of aforementioned points the calculated going concern value needs to be allocated to the Oi Coop and PTIF Bondholders.

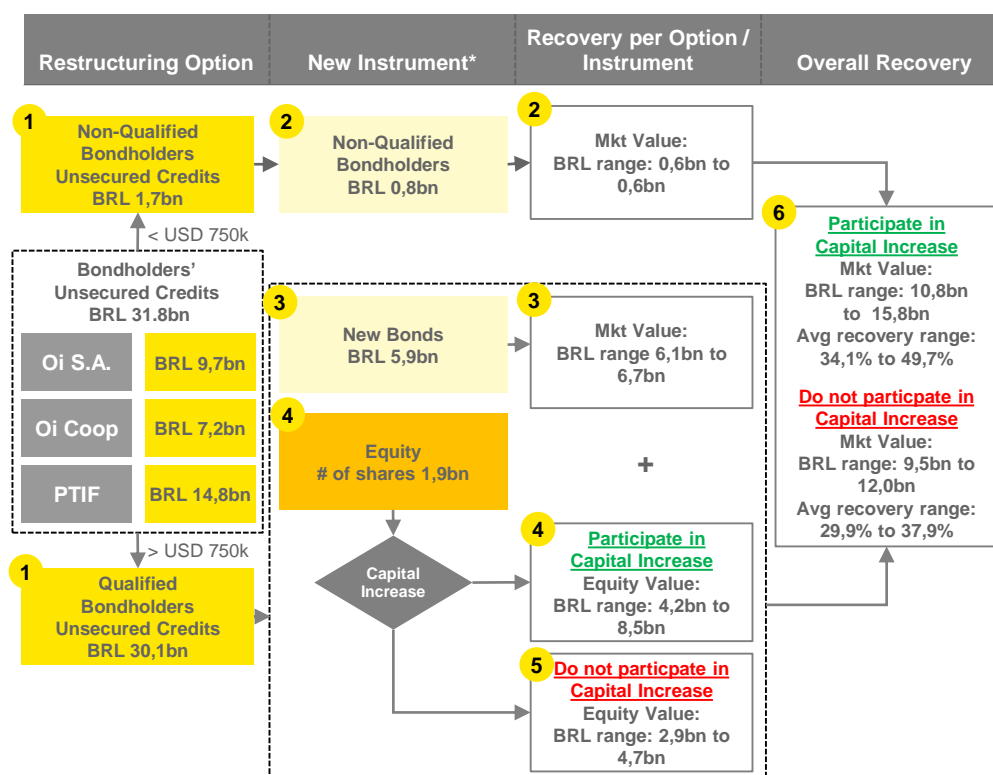
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## Scenario A – Present value of Bondholders options

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### Bondholders options present value – Overview



### Restructuring Options – Bondholders' Unsecured Credits

In the above overview we have summarized the outcome of our valuation analysis regarding the average recovery percentage of the Bondholders' Unsecured Credits based on the RJ Plan (hereafter "Average Recovery Percentage").

\*) The conversion ratio of the old to new instruments is explained on the next page

Source: RJ Plan, Creditors List of the Bankruptcy Trustee dated May-2017. EY Analysis.  
Average Recovery Percentage = Average Recovery of the Bondholders' Unsecured Credit

### Restructuring Options – Bondholders' Unsecured Credits

- 1 For our valuation, Oi has assumed that the Bondholders' Unsecured Credits of total BRL 31,8bn (including Oi Coop and PTIF Bondholders) are allocated to the Restructuring Options Non-Qualified Bondholders' Unsecured Credits (Option G) and Qualified Bondholders' Unsecured Credits (Option H) only.

As such, it is assumed that the Bondholders' Unsecured Credits will not opt for Option I as Oi considers this option to be less favorable compared to Restructuring Options G and H.

Furthermore, it is assumed by Oi that the distribution of Bondholder claims over Option G and H is split 5% / 95% whereby the limit of Option G (USD 500m) is fully utilized.

- 2 The Non-Qualified Bondholders' Unsecured Credits Option (Option G) assume a 50% haircut in the face value of the credit (BRL 1,7bn / USD 0,5bn).
- 2 The market value of the Non-Qualified Bondholders of BRL 0.6bn is calculated based on the estimated cash flow for the instruments discounted by the Brazilian interbank deposit rate plus Oi's credit spread range (Merril Lynch B- to BB credit rating for the debt).
- 3 The Qualified Bondholders' Unsecured Credits Option (Option H) offers Bondholders the option to exchange their current debt (BRL 30,1bn) for New Bonds and newly to be issued shares of Oi.
- 3 The new Bonds under Option H are assumed to have a face value of BRL 5,9bn (out of a maximum face value of BRL 6,3bn) and a market value ranging from BRL 6.1bn to BRL 6,7bn depending on the assumed discount rate.

The Qualified Bondholders' Unsecured Credits are also entitled to participate in a future capital increase of BRL 4,0bn, due to take place shortly after the implementation of the RJ Plan, at a specified pre-capital increase valuation of BRL 3.0bn.

- 4 Based on the applicable conversion rate (see next page), the Qualified Bondholders are entitled to 1.9bn shares (some of which are held by PTIF as ADRs), assuming that they will participate in the capital increase keeping the 73,6% of the outstanding shares, the value would range from BRL 4,2bn to BRL 8,5bn (based on the total equity value ranging from BRL 5,8bn to BRL 11,5bn pre-money).
- 5 In case the bondholders do not participate in the capital increase, they would be diluted to 31,5% of the outstanding shares, therefore its equity share would have a value range of BRL 2,9bn to 4,7bn (based on the total equity value ranging from BRL 9,2bn to BRL 14,9bn post-money).
- 6 Based on the analysis performed, the Recovery Range Percentage amounts to 34,1% to 49,7%, assuming Bondholders' participation in the equity increase, or to 29,9% to 37,9% in case of non-participation and subsequent dilution.

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## Scenario A – Bonds and Equity Conversion

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### Qualified Bondholders Unsecured Credits – Conversion Assumptions

Pre-RJ Plan	USD		BRL		%
Total Bonds	USD	9,6 bn	BRL	31,8 Bn	100,0%
Non-Qualified Bondholders Unsecured Credits	USD	0,5 bn	BRL	1,7 bn	5,2%
<b>Qualified Bondholders Unsecured Credits</b>	<b>USD</b>	<b>9,1 bn</b>	<b>BRL</b>	<b>30,1 bn</b>	<b>94,8%</b>

#### 1 Exchange Ratio “Qualified Bondholders’ Unsecured Credits” based on RJ Plan

Old Bonds	USD	664.574
New Bonds	USD	130.000
Total Shares	#	137.309
ADRs (held by PTIF)	#	9.137
New Common Shares	#	119.017
Subscription Bonus	#	9.155

#### 2 Post-RJ-Plan

New Bonds	USD	1,8 bn	BRL	6,0 bn
Total New Shares issued	#	1.881,2 m	#	1.881,2 m

### Oi Shares – Pre-RJ Plan, Post-RJ Plan and Post-Capital Increase

Oi Shares (millions)	Pre-RJ Plan		Post-RJ Plan		Post-Capital Increase	
		%		%		%
Total Shares	825,8		2.581,8		6.011,4	
Treasury Shares	150,1		25,5		25,5	
<b>Total Outstanding Shares</b>	<b>675,7</b>	<b>100,0%</b>	<b>2.572,2</b>	<b>100,0%</b>	<b>6.001,8</b>	<b>100,0%</b>
Current Shareholders	675,7	100,0%	675,7	26,4%	690,9	11,3%
Bondholders Shares	-	0,0%	1.881,2	73,6% <b>2</b>	1.881,2	31,5% <b>3</b>
Follow on (Capital Injection)*	-	0,0%	-	0,0%	3.409,2	57,1%

Source: RJ Plan. EY Analysis.

\*Based on the RJ Plan the total Capital Increase will amount to BRL 4,0bn based on an Issue Price of BRL 1,17 per share (Oi Outstanding Shares / Defined Equity Value of BRL 3,0bn) results in total number of new shares of 3.409,2m

### Explanation

**1** Based on the RJ Plan it is agreed that the Qualified Bondholders’ Unsecured Credits are entitled to New Bonds and Oi Shares based on a conversion ratio on the current level of credits, whereby each USD 664,5k in credits is entitled to New Bonds with a face value of USD 130.000 and 137.309 Oi shares.

**2** Post-RJ Plan (before the Capital Increase) the Qualified Bondholders’ Unsecured Credits should receive BRL 6,0bn in New Bonds and 1.881,2m in Oi Shares which represent 73,6% of the outstanding shares of the Oi Group.

Since the pre-Capital Increase equity value is higher than the specified pre-money valuation of BRL 3.0bn, shareholders (which at that point include the Qualified Bondholders) have the option to exercise their preemptive rights and buy more shares at the lower price to avoid dilution.

**3** Post-Capital Increase, the converted Qualified Bondholders’ Unsecured Credits can be diluted to 31,5% if they do not participate in the Capital Increase. In case the Qualified Bondholders take up the option to subscribe to more shares and avoid dilution, their equity stake would remain at 73,6%.

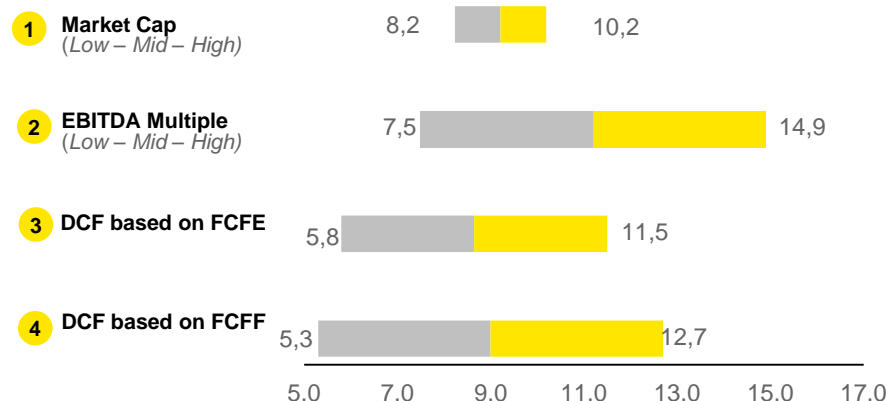
# 1 Executive Summary

## Scenario A – Valuation of Oi shares

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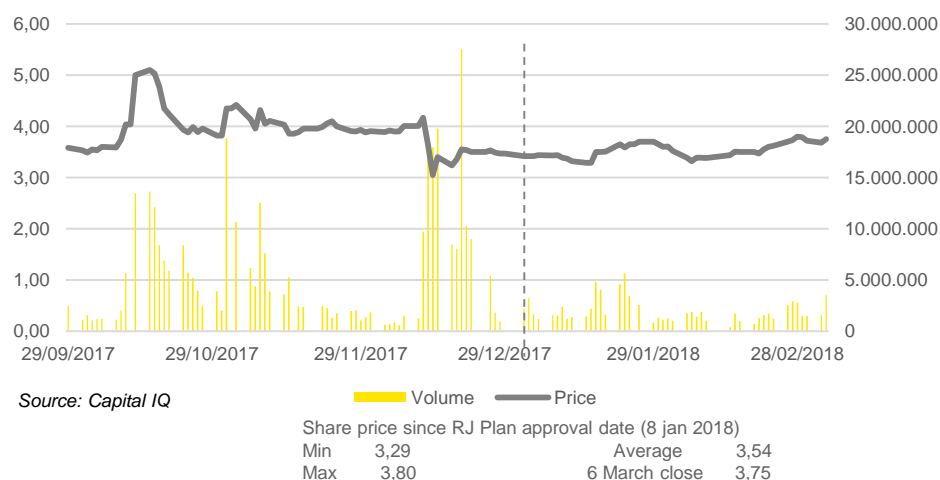
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## Oi Equity value comparison (BRL billion) – pre Capital Increase



Source: EY Analysis

## Oi Share price development



Source: Capital IQ

## Valuation of Oi shares

- ▶ As highlighted on the previous page, the Qualified Bondholders' Unsecured Credits are entitled to 1.881,2m of new shares in Oi under the conditions of the debt-for-equity swap proposed in the RJ Plan. The number of shares after the debt conversion amount to 2.572m (reference is made to the previous page).
- ▶ With regards to determining the value of the newly shares to be issued, the resulting value from the DCF based on free cash flow to equity ("FCFE") of Oi is in EY's view the best representation of fair value. Nevertheless, the current share price of Oi is also a relevant indication of value, since it is determined by knowledgeable investors trading in the capital markets. The RJ Plan is publicly available, the investors are aware of the dilution regarding debt-to-equity swap and pre-emptive rights related to the new capital increase (the BRL 4.0bn) and would price these accordingly.
- ▶ It is important to note that the current share price includes the value of the preemptive rights as it is assumed by EY that any investor that is willing to buy the shares today should also be willing to subscribe for more shares at a lower price upon the Capital Increase. Under this assumption, the BRL 4,0bn equity contribution would not affect the equity value today.

- 1 Market Cap range from Minimum to Maximum value after the RJ Plan approval until 6 March 2018 and that the total number of shares after the debt conversion is 2.572m.

EY also performed a valuation of Oi's shares using the DCF approach, relying on Management forecast and the restructuring cash flows according to the RJ Plan, as well as the market approach. The outcomes of the our analysis are shown in the adjacent char and briefly explained as follows:

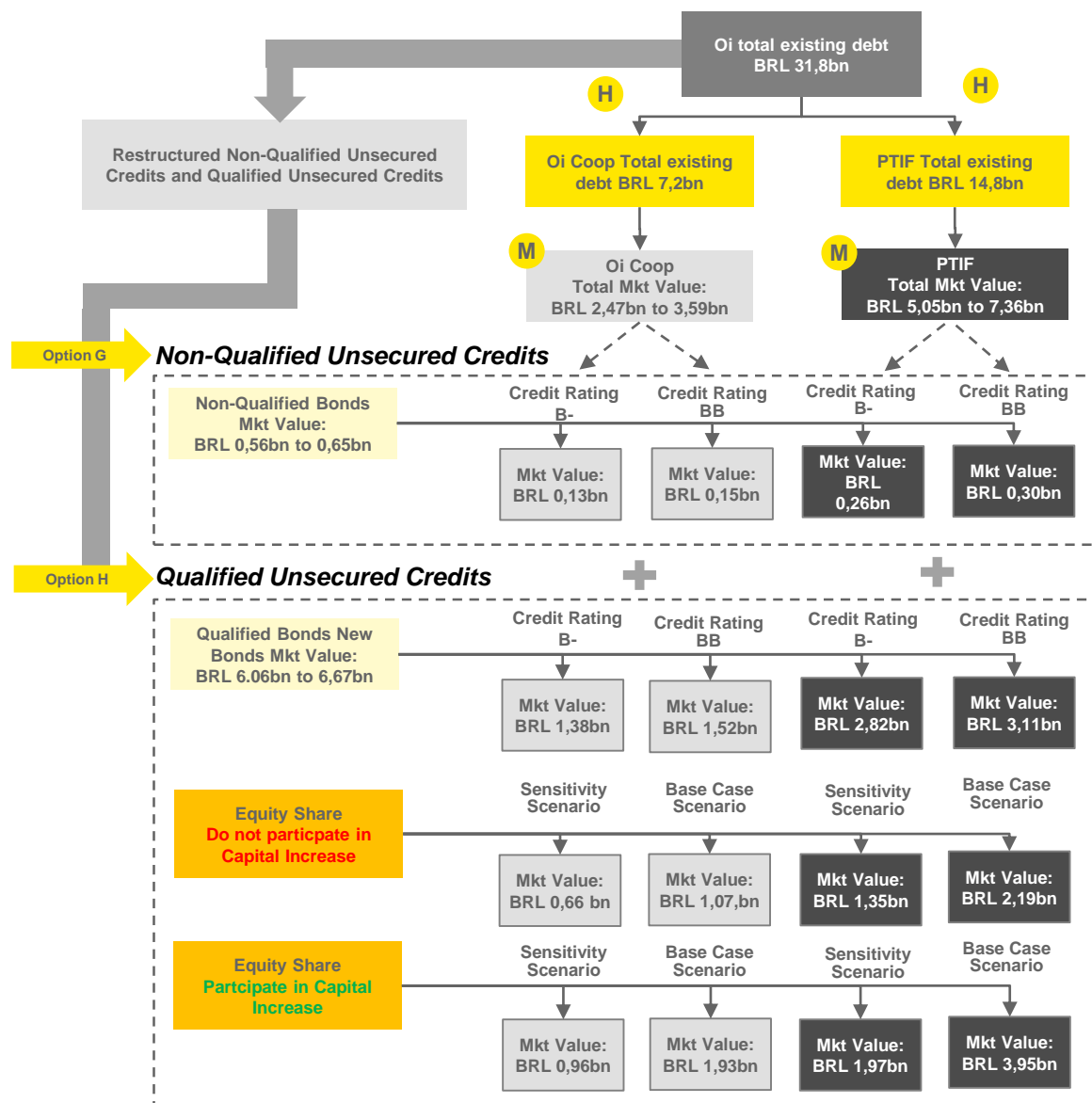
- 2 EV/EBITDA multiple range of value was based on the average of 2017 and 2018 EBITDA multiple from the guideline companies. We adjusted the Low EBITDA multiple by 75% for a sensitivity scenario and 100% for base case. The selected Low EBITDA multiples are 3,6x and 4,8x respectively.
- 3 Free cash flow to equity value range is based on the sensitivity analysis and base case scenario for which reference is made to page 99.
- 4 Free cash flow to firm value range is based on the sensitivity analysis and base case scenario and calculated for comparative purposes, for which reference is made to page 95. The base case scenario implies a EV/EBTIDA 2018 multiple of 4,4x while the sensitivity scenario implies a EV/EBITDA 2018 multiple of 3,2x.

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## Scenario A – Oi Coop and PTIF

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### Summary recovery Oi Coop and PTIF Bondholders

- On page 28 we have set-out the recovery values for Class III Unsecured Creditors eligible for Options G and H, which include the bondholders of Oi Coop and PTIF.
- With PTIF and Oi Coop holding respectively 46,6% and 22,7% of the total Bondholder Unsecured Credits of BRL 31,8bn, the total Bondholder Unsecured Credits allocated to PTIF and Oi Coop amount to BRL 14,8bn and BRL 7,2bn (see item **H**).
- Applying the same assumptions as used for when valuing Options G and H for all Class III Unsecured Creditors, the total Market Value range for Oi Coop and PTIF is the sum of the Non-Qualified Bondholders' Unsecured Credits Option (Option G) and the Qualified Bondholders' Unsecured Credits Option (Option H) as presented in the adjacent overview.
- For Oi Coop The Recovery Range Percentage is estimated from 33,7% to 39,2% for that part of the Bonds classified as Non-Qualified Unsecured Credit and from 29,7% to 37,8% for credits classified as Qualified Unsecured Credits, assuming the they do not participate on the capital increase and from 34,1% to 49,7% assuming they participate in the capital increase of BRL 0,57bn (present value [BRL 1,01 per share] applied to Oi shares [567m]).
- For PTIF The Recovery Range Percentage is estimated from 33,7% to 39,2% for that part of the Bonds classified as Non-Qualified Unsecured Credit and from 29,7% to 37,8% for credits classified as Qualified Unsecured Credits, assuming the they do not participate in the capital increase and from 34,1% to 49,7% assuming they participate in the capital increase of BRL 1,17bn (present value [BRL 1,01 per share] applied to Oi shares [1.162m]).
- The amount presented in **M** is the sum of recoveries for the Non-Qualified Bondholders Unsecured Credits and Qualified Bondholders Unsecured Credits, assuming they will participate in the Capital Increase.

# 1.5

**Scenario B - Going Concern Oi  
Group, Liquidation Oi Coop and PTIF**



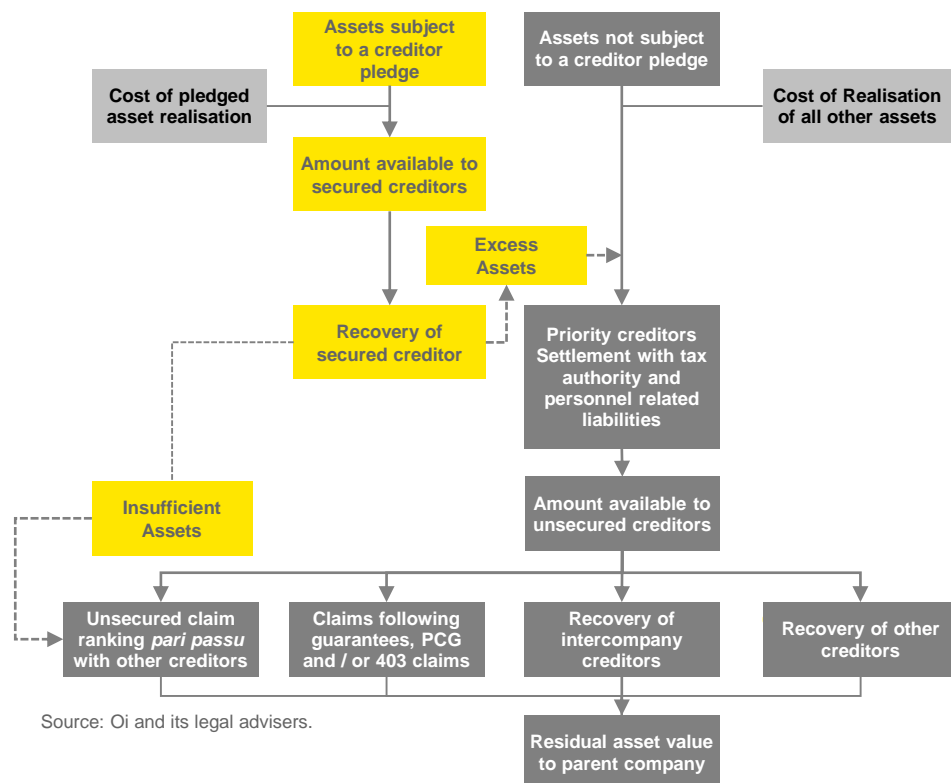
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## Scenario B – Introduction and Key Assumptions

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### General Liquidation framework – Dutch bankruptcy law



Source: Oi and its legal advisers.

### Key Assumptions

- ▶ Main assumptions to determine the realisable value of assets are as follows:
  - ▶ The recoverable value is subject to deductions for costs of realisations;
  - ▶ Any excess asset value is combined with the remaining asset pool and allocated to priority creditors (employee and tax liabilities if any);
  - ▶ Unsecured creditors rank *pari passu* with each other;
  - ▶ Where residual value exists, this is allocated to the parent entity.
- ▶ Based on experience, reference with other cases and discussions with management on specific items EY has made high-level assumptions on recovery rates for each asset/liability class.

### Introduction Scenario B – Liquidation Oi Coop and PTIF

- ▶ In Scenario B it is assumed that the RJ Plan is implemented in Brazil but Oi Coop and PTIF would be liquidated under Dutch bankruptcy law.
- ▶ In a liquidation scenario of Oi Coop and PTIF, the following is assumed by Oi and its legal advisers:
  - The Bondholders' Unsecured Credits will continue to be part of the creditors of the RJ Plan<sup>1</sup> and as such are entitled to Restructuring Options as described in Scenario A (Non Qualified and Qualified Bondholders' Unsecured Credits);
  - The extinguishment of the Intercompany Claims at Oi level will result in tax obligations<sup>2</sup> (financial gains recognized in Oi S.A. and Oi Móvel S.A.);
  - The Dutch Trustees will not be able to enforce the payment of the Intercompany Claims as the payment on the Intercompany Claims is subject to the RJ. Furthermore, the Dutch liquidation proceedings are not recognized by the Brazilian Superior Court of Justice. As a result the Dutch Trustees will only have access to the assets located in the Netherlands<sup>1</sup>;
  - The Dutch Trustees would as a matter of Brazilian law be unable to sell the Intercompany Claims, as the intercompany loan agreements provide that both buyer and seller need to approve the sale. Based on Brazilian law, the Dutch Trustees are not authorized to represent the seller and thus a sale would be void or ineffective<sup>2</sup>;
  - According to clause 11.1.1 of the RJ Plan, Oi is allowed to deduct from the amount that creditors are entitled to receive under the RJ Plan all amounts eventually received under or as result of any liquidation, disposal or enforcement against assets of the Oi Group (including Oi Coop and PTIF).
- ▶ The Dutch law deviate from the Brazilian bankruptcy law and as such, we have highlighted the flow of value rules within a Dutch context in the adjacent overview. The liquidation analysis assumes break up values on an entity-by-entity basis unlike to the Brazilian framework in which a consolidated approach is taken.
- ▶ The liquidation analysis assumes break-up values for both Oi Coop and PTIF with no entities divested on a going concern basis.

<sup>1</sup> Tavares Guerreiro, "Judicial Reorganization of the Oi Group. Bankruptcy decree of the companies Oi Coop and PTIF by the Dutch Court", September 2017.

<sup>2</sup> BMA Advogados, "Sale of intercompany claims – legal and tax aspects in Brazil", August 2017.

# 1 Executive Summary

## Scenario B – Liquidation analysis of Oi Coop

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### Oi Coop – Liquidation analysis

Currency: BRL m		Jun17A	Recovery	Recovery %
1	Loan - Oi SA	13.830,7	-	0,0%
1	Loan - Oi Móvel SA	5.858,8	-	0,0%
	<b>Non-current assets</b>	<b>19.689,5</b>	<b>-</b>	<b>0,0%</b>
1	Interest receivable and other related to Debtors	1.022,2	-	0,0%
2	Prepaid expenses	11,1	-	0,0%
	Cash & Equivalents	5,3	5,3	100,0%
1	Loan - Oi SA	788,8	-	0,0%
1	Loan - Oi Móvel SA	450,9	-	0,0%
	<b>Current assets</b>	<b>2.278,3</b>	<b>5,3</b>	<b>0,0%</b>
	<b>Total Proceeds and Credits</b>	<b>21.967,8</b>	<b>5,3</b>	<b>0,0%</b>

Currency: BRL m		Oi Coop
	Proceeds from sale of unencumbered assets	-
	Unencumbered cash balances	5,3
	Other proceeds	-
	<b>Net realisable assets</b>	<b>5,3</b>
3	Less costs of realisation	(5,3)
	<b>Available for priority creditors</b>	<b>-</b>
	Less settlement of priority creditors	-
	<b>Available for unsecured creditors</b>	<b>-</b>
4	Less return to unsecured creditors	-
	<b>Excess cash after settlement of unsecured creditors</b>	<b>-</b>
	<b>Recovery bondholders</b>	<b>-</b>

Source: Oi Group. EY Analysis.

### Oi Coop – Scenario B

- 1 As detailed on the previous page, unless the Brazilian Superior Court of Justice acknowledges the bankruptcy of the Dutch companies within the Brazilian legal proceedings, the payment of Intercompany Claims of Oi Coop with the Brazilian companies would not be enforceable in Brazil<sup>1</sup> as they are subject to restructuring under the JRP. The account Interest receivable and other debtors are also related to Oi SA and Oi Móvel SA.
- 2 With regards to the prepaid expenses, Oi and its legal advisors believe that these amount would not be recoverable in a bankruptcy.
- 3 In the scenario where Oi Coop is liquidated solely, Oi Coop creditors would only benefit from the unencumbered cash balances present within Oi Coop in the Netherlands. However, the total amount recovered would be used to pay the costs with the liquidation, such as liquidator costs and personnel expenses related to the liquidation process.
- 4 The bondholders would be entitled to their share (Options G, H and I) under the Brazilian RJ Plan, but according to Oi's legal advisors no value would come from the Intercompany Claims nor from the parent company guarantee when liquidating Oi Coop within the Dutch bankruptcy framework.

### Conclusion

In a theoretical liquidation scenario where Oi Coop and PTIF are liquidated solely, the recovery to Oi Coop's creditors would be nil.

<sup>1</sup> BMA Advogados, "Sale of intercompany claims – legal and tax aspects in Brazil", August 2017.

# 1 Executive Summary

## Scenario B – Liquidation analysis of PTIF

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### PTIF – Scenario B

Currency: BRL m		Jun17A	Recovery	Recovery %
1	Loan to Oi Coop	8.663,9	-	0,0%
2	Financial Investments (Oi shares)	371,2	-	0,0%
<b>Non-current Assets</b>		<b>9.035,2</b>	-	0,0%
3	Loan to Timor Telecom	68,1	34,1	50,0%
1	Loan to Oi Coop	5.591,8	-	0,0%
	Other taxation	11,7	-	0,0%
1	Interest receivable and other related to Debtors	913,9	-	0,0%
	Cash & Equivalents & other receivables	41,5	41,5	99,9%
<b>Current assets</b>		<b>6.627,0</b>	<b>75,6</b>	<b>1,2%</b>
<b>Total Proceeds and Credits</b>		<b>15.662,2</b>	<b>75,6</b>	<b>0,5%</b>

Currency: BRL m		PTIF
	Proceeds from sale of unencumbered assets	-
	Unencumbered cash balances	41,5
	Other proceeds	34,1
4	<b>Net realisable assets</b>	<b>75,6</b>
5	Less costs of realisation	(12,0)
	<b>Available for priority creditors</b>	<b>63,6</b>
	Less settlement of priority creditors	(6,0)
	<b>Available for unsecured creditors</b>	<b>57,6</b>
6	Less return to unsecured creditors	(57,6)
	<b>Excess cash after settlement of unsecured creditors</b>	<b>-</b>
	<b>Recovery bondholders</b>	<b>0,4%</b>

Source: Oi Group. EY Analysis.

### PTIF – Scenario B

A bankruptcy of PTIF would follow the same framework as described for Oi Coop on the previous page.

- 1 As described on the previous page, Oi Coop would not recover any amount after its liquidation and consequently would not pay any amount to PTIF. The account interest receivable and other debtors also refers to the loan to Oi Coop.
- 2 PTIF's financial investment (BRL 371m) relates to ADR shares of Oi, which were prevented from alienation by an injunction rendered by the 7th Business Court of the State of Rio de Janeiro in charge of the RJ. This could hinder the realization of this asset, since Oi filed for protection under Chapter 15 in the USA. Furthermore, these ADR shares are included in the restructuring proposal for the Qualified Bondholders Unsecured Credits option provided by the RJ Plan. As a result, no recovery is attached to this asset in case of a bankruptcy of the Dutch companies solely.
- 3 Based on Timor Telecom's financial situation and according to Oi's financial analysis, a recovery of 50% on the loan to Timor Telecom was considered. As the loan is currently overdue, the company does not have enough cash balance to repay the debt immediately and there isn't any guarantee to be executed, therefore this debt might be restructured. Furthermore, Oi confirmed that the shareholders are not obliged to inject capital in order to allow Timor Telecom to honor its obligations.
- 4 In the scenario where PTIF is liquidated solely, PTIF creditors would only benefit from the unencumbered cash balances and the amount recovered on the loan to Timor Telecom.
- 5 The total costs of realization refers to the liquidator costs and legal expenses related to the liquidation process.

### Conclusion

In a theoretical liquidation scenario where Oi Coop and PTIF are liquidated solely, the recovery to PTIF's creditors would be sufficient to repay priority creditors in full and 0,4% of unsecured creditors' claims.

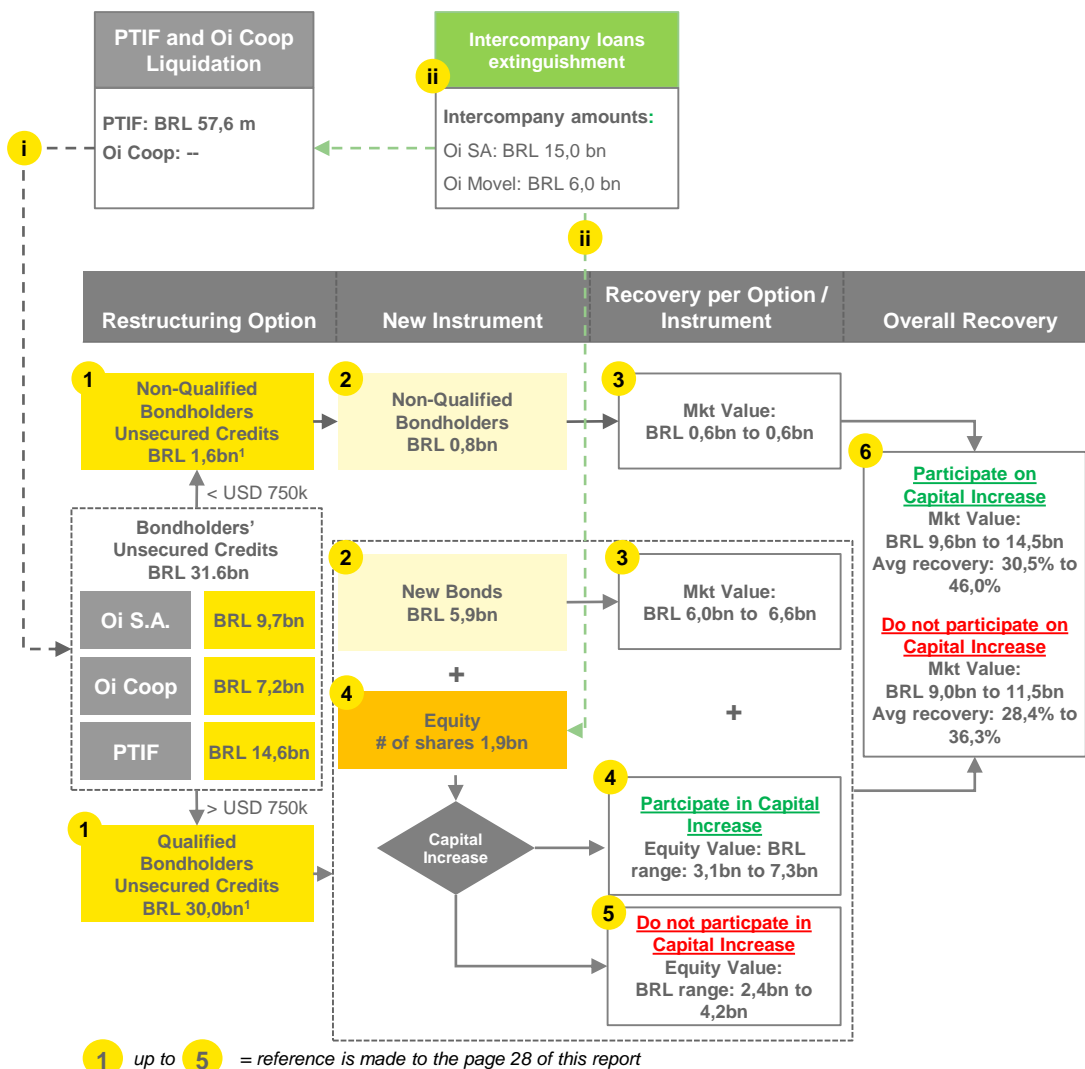
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## Present value of Bondholders options

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## Bondholders options present value – Overview



<sup>1</sup> The restructured amounts were deducted (economic impact) from the amounts received from the liquidation of Oi Coop and PTIF (see page 109).

Source: RJ Plan, Creditors List of the Bankruptcy Trustee dated May-2017.

Average Recovery Percentage = Average Recovery of the Bondholders' Unsecured Credit

## Scenario B – Going Concern Oi & Liquidation Oi Coop and PTIF

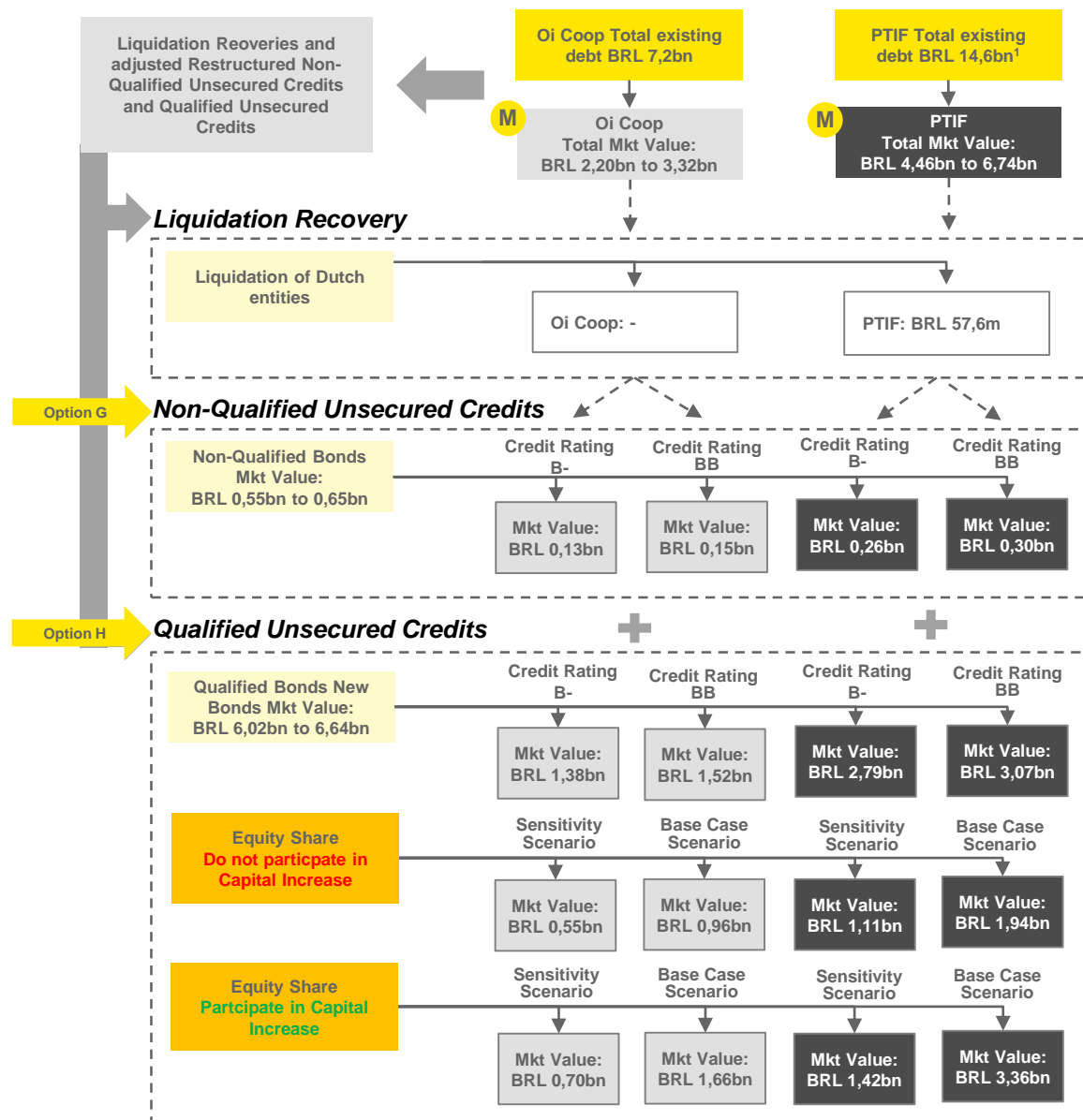
- i According to clause 11.1.1 of the RJ Plan, Oi is allowed to deduct from the amount that creditors are entitled to receive under the RJ Plan all amounts eventually received under or as result of any liquidation, disposal or enforcement against assets of the Oi Group (including Oi Coop and PTIF).
- ii A bankruptcy of PTIF and Oi Coop would lead to the extinguishment of the intercompany loans. This would trigger an additional corporate income tax at the level of Oi SA and Oi Móvel, which would decrease the equity value.
- 4 Based on the applicable conversion rate, the qualified bondholders are entitled to 1,9bn shares (some of which are held by PTIF as ADRs), assuming that they will participate in the capital increase keeping the 73,6% of the outstand shares, the value would range from BRL 3,1bn to BRL 7,3bn (based on the total equity value ranging from BRL 4,2bn to BRL 8,9bn pre-money).
- 5 In case the bondholders do not participate on the capital increase, they would be diluted to 31,5% of the outstanding shares, therefore its equity share would have a value range of BRL 2,4bn to 4,2bn (based on the total equity value ranging from BRL 7,6bn to BRL 13,3bn post-money).
- 6 The Average Recovery Percentage for the Bondholders' Unsecured Credits for Scenario B (considering the tax impact) amounts from 30,5% to 46,0%, assuming Bondholders participation in the equity increase and from 28,4% to 36,3% in case Bondholders are diluted in the equity increase.

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## Scenario B – Oi Coop and PTIF

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### Summary recovery Oi Coop and PTIF Bondholders

- On the previous page we have set-out the recovery values on Scenario B for Class III Unsecured Creditors eligible for Options G and H, which include the bondholders of Oi Coop and PTIF.
- Applying the same assumptions as used for when valuing Options G and H for all Class III Unsecured Creditors, the total Market Value range for Oi Coop and PTIF is the sum of the Non-Qualified Bondholders' Unsecured Credits Option (Option G) and the Qualified Bondholders' Unsecured Credits Option (Option H) as presented in the adjacent overview.
- In the hypothetical scenario where Oi Coop and PTIF are liquidated, the financial unsecured credits (Bondholders) of PTIF would have access to BRL 58m, reducing the bonds restructured according RJ Plan, while creditors of Oi Coop would not have access to any proceeds from the liquidation.
- For Oi Coop The Recovery Range Percentage is estimated from 33,7% to 39,2% for that part of the Bonds classified as Non-Qualified Unsecured Credit and from 28,1% to 36,1% for credits classified as Qualified Unsecured Credits, assuming that they do not participate in the capital increase and from 30,5% to 46,0% assuming they participate in the capital increase of BRL 0,57bn (present value [BRL 1,01 per share] applied to Oi shares [567m]).
- For PTIF The Recovery Range Percentage is estimated from 33,7% to 39,2% for that part of the Bonds classified as Non-Qualified Unsecured Credit and from 28,1% to 36,1% for credits classified as Qualified Unsecured Credits, assuming that they do not participate in the capital increase and from 30,5% to 46,0% assuming they participate in the capital increase of BRL 1,17bn (present value [BRL 1,01 per share] applied to Oi shares [1.162m]).
- The amount presented in **M** is the sum of recoveries for the Non-Qualified Bondholders Unsecured Credits and Qualified Bondholders Unsecured Credits, assuming they will participate in the Capital Increase.

<sup>1</sup> The amounts restructured were economically deducted from the amounts received from the liquidation of PTIF (see page 109).

# 1.6

## **Scenario C – Liquidation Analysis (Oi Group, Oi Coop and PTIF)**

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## Scenario C – Introduction / Key assumptions

### 1 Executive Summary

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3 Scenario A

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## Scenario C – Valuation under liquidation assumption

### General assumptions

- ▶ The aim of Oi Group's liquidation analysis is to consider potential implications in terms of returns to the Dutch creditors (in a group insolvency outcome analysis). The liquidation analysis comprises the estimation of stakeholder returns on a theoretical insolvency.
- ▶ The scope of work is based on the assumption that the liquidation of the RJ Debtors will be on a consolidated basis, meaning that the proceeds of the Oi Group's assets in a liquidation scenario will be distributed to the creditors on a consolidated basis only (not entity-by-entity). This assumption for our scope of work is supported by a third party legal opinion provided by Oi Group (hereafter: the "Legal Consolidation Opinion")<sup>1</sup>.
- ▶ Hence, other scenarios (i.e. a controlled insolvency scenario with only key holding companies being placed into an insolvency process to facilitate a controlled sale of underlying divisions) are not part of the analysis.
- ▶ The schedule of external debt/guarantee facilities, intercompany matrixes and consolidation schedule as at 30 June 2017, which form the basis of our liquidation analysis were provided by Oi management Group finance which we assume to be accurate and complete.
- ▶ We have not independently verified or audited any information provided to us and therefore make no representations as to its accuracy or completeness. Furthermore, in some cases, the information provided to us is in draft format and may be subject to (material) revisions which may have a significant impact on the outcome of our analysis.
- ▶ The liquidation analysis has been prepared on the assumption that there is no successful restructuring of the Group and all Group companies are placed into liquidation or equivalent proceedings. The key inputs and assumptions made are described below.
- ▶ Ranking of creditors in major jurisdictions and details of negative pledge, equal treatment or positive pledge clauses of the major credit/guarantee facilities have been provided by and discussed with Oi's legal advisors.

### Preferential claims

- ▶ We have been provided by Oi Group with a third party tax opinion regarding an analysis of the tax implications in Brazil of events occurring after a legal entity have been declared bankrupt, including the taxation over gains related to write-off of the liabilities that the bankruptcy estate could not meet (hereafter: the "Tax Opinion Liquidation")<sup>2</sup>. We have relied on this Tax Opinion Liquidation for our work and have not independently assessed the tax implications of the liquidation analysis.
- ▶ Each jurisdiction has its own bankruptcy law. We did not review these different laws and their potential impact on the liquidation analysis. We have relied on legal opinions provided by Oi legal advisers.

<sup>1</sup> Tavares Guerreiro, "Judicial Reorganization of the Oi Group. Bankruptcy decree of the companies Oi Coop and PTIF by the Dutch Court", September 2017.

BMA Advogados; Basilio Advogados; Rosman, Penalva, Souza Leão, Franco Advogados; "Bankruptcy Legal Waterfall according to Brazilian Law nº 11.101/2005", November 2017.

<sup>2</sup> BMA Advogados, "Sale of intercompany claims – legal and tax aspects in Brazil", August 2017.



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## Scenario C – Introduction / Key assumptions

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## Scenario C – Valuation under liquidation assumption

<b>Intercompany positions</b>	<ul style="list-style-type: none"> <li>▶ All intercompany relations between the RJ Debtors were disregarded, considering that all proceeds from these companies should be proportionally divided among its creditors. For the other companies of Oi Group, the conditions provided in the Brazilian Bankruptcy Law 11.101/05 were used.</li> </ul>
<b>Reporting vs. legal entities</b>	<ul style="list-style-type: none"> <li>▶ The RJ Debtors were analyzed on a consolidated basis while its subsidiaries were analyzed individually. Nevertheless, some of these subsidiaries' financial reports within the consolidation model may comprise multiple legal entities, which were not individually accessed in the liquidation analysis.</li> </ul>
<b>Other</b>	<ul style="list-style-type: none"> <li>▶ For Scenario C (i.e. a liquidation of the Oi Group), EY will estimate Oi Group's Net Realizable Value of the Assets in a liquidation scenario (hereafter: "Net Realizable Value of the Assets"). The Net Realizable Value of the Assets will subsequently be included in the liquidation waterfall, in order to estimate the liquidation proceeds for the entities (hereafter: the "Liquidation Waterfall Analysis"). This assumption for our scope of work is supported by a third party legal opinion provided by Oi Group to establish the priority rules for the Liquidation Waterfall Analysis (hereafter: the "Legal Waterfall Opinion")<sup>1</sup>.</li> <li>▶ Based on discussions with management and our own experience, we have made high-level assumptions on recovery rates for each asset/liability class as set (refer to the next pages). We did not take into account that the proceeds in a liquidation scenario might only be realized after some years (present value of proceeds might in some cases be lower).</li> <li>▶ Costs of asset realization are assumed to consist of liquidator costs and personnel expenses (incurred after insolvency). The liquidator costs are assumed to be 2,0% of the proceeds from sale of asset across the Group (BRL 38,3bn).</li> <li>▶ Post bankruptcy expenses were deducted from the realization of each assets class (e.g. cost of monetization of the legal deposits, related to lawyers).</li> <li>▶ According to Oi's legal advisor (Pereira Neto, Macedo Advogados), Oi would have its fixed telecom concessions forfeited and mobile licenses revoked in case of an insolvency of Oi Group. Furthermore, Management understands that it is likely that ANATEL would subrogate third-party contracts with service providers to guarantee the continuity of the services.<sup>2</sup> Therefore, it was not considered any recoverability for proceeds arising from intangible assets (e.g. sale of client portfolio).</li> </ul>

<sup>1</sup> BMA Advogados; Basilio Advogados; Rosman, Penalva, Souza Leão, Franco Advogados; "Bankruptcy Legal Waterfall according to Brazilian Law nº 11.101/2005", November 2017.

<sup>2</sup> Pereira Neto, Macedo Advogados; "Regulatory aspects applicable to a consolidated bankruptcy scenario of the Oi Group", November 2017.



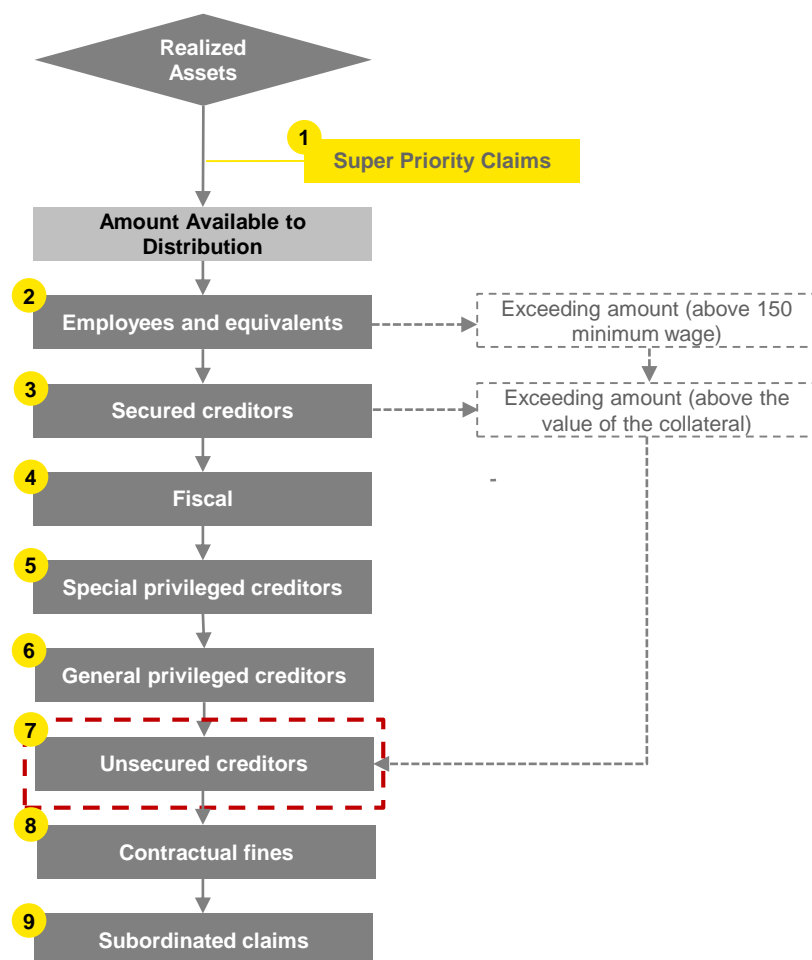
# 1 Executive Summary

The Brazilian Bankruptcy Law sets out the priority order of payments to creditors

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## Liquidation framework – Brazilian bankruptcy law



Unsecured creditors Bondholders (including Oi Coop and PTIF) are part of unsecured creditors

## Waterfall – Brazilian Bankruptcy Law

Under the Brazilian bankruptcy law, the realizable value of assets is allocated to creditors as follows:

- 1 **Super Priority Claims:** Restitutions, set-offs, expenses considered indispensable to the administration of the bankruptcy; claims for salary or wages up to 5 minimum wages owed up to three months prior to the bankruptcy order, fees and expenses of the judicial administrator, taxes and labor-law claims arising from acts after the bankruptcy decree, among others;
- 2 **Employees and equivalents:** (all employee work-related claims up to 150 monthly minimum wages per employee);
- 3 **Secured Creditors:** secured claims up to the value of the collateral;
- 4 **Fiscal:** tax claims and parafiscal claims;
- 5 **Special privilege claims:** those in favor of individual micro-entrepreneurs, micro-companies and small companies; those who have a retention right over what is given as a guarantee; those defined by article 964 of the Brazilian Civil Code; and those as defined in other civil and commercial laws;
- 6 **General privileged creditors:** unsecured claims subject to the judicial reorganization held by suppliers of goods and services who maintain the supply normally after the filing of the judicial reorganization request;
- 7 **Unsecured credits:** claims not covered by the product of sale of the asset securing the claim, claims under employment legislation that exceed the aforementioned limit, private pension funds and claims not provided for under the other items set out herein;
- 8 **Contractual fines:** contractual and monetary fines arising from infractions of criminal and administrative laws, including tax penalties;
- 9 **Subordinated claims:** claims held by partners or shareholders of the bankrupt company and by members of its management who are not employees and those established as such by law or contract.

It is only after all of the above have been paid that the partners of the bankrupt debtor can receive the outstanding amount – if any – in the same proportion as their shares in the social capital.

# 1 Executive Summary

## Oi Group – Liquidation analysis (1/2)

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### RJ Debtors<sup>1</sup> - Consolidated assets

Currency: BRL bn	Jun17A	Recovery (abs.)			Recovery (%)		
		Low	Base	High	Low	Base	High
Cash and Equivalents	7,3	7,3	7,3	7,3	100	100	100
Accounts Receivables	7,7	5,2	5,5	5,8	67	71	76
Inventories	0,2	0,0	0,1	0,1	20	24	27
Court Deposits	14,9	8,5	9,0	9,6	57	61	64
Tax	5,9	1,0	1,1	1,1	17	18	19
Investments	7,8	2,5	3,0	3,4	45	51	56
Reversible Assets	7,6	-	-	-	-	-	-
Non-reversible Assets	28,2	9,4	10,9	12,3	33	38	43
Borrowings	0,8	-	-	-	-	-	-
Other Credits	2,8	1,5	1,5	1,5	53	54	54
<b>Total assets</b>	<b>83,2</b>	<b>35,5</b>	<b>38,3</b>	<b>41,1</b>	<b>44</b>	<b>47</b>	<b>51</b>

Source: Oi Group. EY Analysis.

### Scenarios

- Our estimated outcome work is a theoretical exercise in respect to multiple domestic and foreign entities insolvency processes which are inherently uncertain;
- This Report considered a range of possible results divided in three scenarios – Base, Low and High. The base scenario is considered to be the most likely scenario by Management. The Low refers to a pessimistic scenario, whilst High refers to an optimistic one (i.e. account receivables, investments and others). All scenario assumptions were discussed and assumed together with Management.

### Oi Group Consolidated – Liquidation Assumptions

- Cash and Equivalents: Management has assumed full recovery for cash & cash equivalents since these are considered liquid investments with no penalties on withdrawals;
- Accounts Receivable: The accounts receivable from third parties average a recovery of 71% (BRL 4.759m) based on the expected recovery for each accounts receivable aging profile. Whilst, for the receivable from related parties, it is expected a recovery of 73% (BRL 749m) in the form of credits arising from set-offs of the RJ Debtors against the other companies of the Group;
- Inventories: Most of the RJ Debtors' inventory comprise materials required to operate the network (modems, cables, routers, etc.) and SIM cards, which would be sold at scrap value;
- Court Deposits: Management estimates recovery of 50% for deposits related to civil and labor, whilst 100% for regulatory and tax deposits. The recovery percentage considered the number of deposits and the cost to monetize it;
- Tax: Comprises Federal, State and Municipally tax credits with 60%, 23% and 0% recovery, respectively. It also includes deferred IT and SC with zero recovery.
- Investments: A forced sale discount to held-for-sale assets was applied, which are offshore investments with independent operations. For wholly-owned subsidiaries the liquidation value was calculated;
- Reversible Assets: The RJ Debtors estimate an amount of BRL 12.618m in obligations with Anatel, related to fines and contractual obligations, and the right to indemnification of BRL 7.678m, related to unamortized or non-depreciated assets, therefore there would be no recovery for reversible assets;
- Non-reversible Assets: A compulsory sale value was estimated for each of the non-reversible assets;
- Other Credits: Comprises mainly receivable credits (recovery of 73%), prepaid expenses (recovery of 18%) and advances to suppliers (recovery of 67%);
- As a result of this Analysis, it is expected a total recovery of proceeds and credits between BRL 35.467m and BRL 41.108m.

<sup>1</sup> The liquidation value of the entities of Oi Group outside the RJ Proceedings are considered as investments

# 1 Executive Summary

## Oi Group – Liquidation analysis (2/2)

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## RJ Debtors - Consolidated liabilities

Currency: BRL bn	Jun17A	Due			Recovery (abs.)		
		Low	Base	High	Low	Base	High
Anticipations	(0,0)	(0,0)	(0,0)	(0,0)	(0,0)	(0,0)	(0,0)
Compensations	(1,2)	(1,2)	(1,2)	(1,2)	(1,2)	(1,2)	(1,2)
<b>Credits regardless of legal priority</b>	<b>(1,2)</b>	<b>(1,2)</b>	<b>(1,2)</b>	<b>(1,2)</b>	<b>(1,2)</b>	<b>(1,2)</b>	<b>(1,2)</b>
Bankruptcy Administrator	-	(0,7)	(0,8)	(0,8)	(0,7)	(0,8)	(0,8)
Liquidation Taxes	-	(3,7)	(3,4)	(3,1)	(3,7)	(3,4)	(3,1)
Severance / Termination Costs	(0,3)	(0,3)	(0,3)	(0,3)	(0,3)	(0,3)	(0,3)
Post-petition Suppliers	(3,5)	(3,5)	(3,5)	(3,5)	(3,5)	(3,5)	(3,5)
<b>Credits outside Reorganization proceedings</b>	<b>(3,8)</b>	<b>(8,2)</b>	<b>(8,0)</b>	<b>(7,7)</b>	<b>(8,2)</b>	<b>(8,0)</b>	<b>(7,7)</b>
Employees and equivalents	(1,0)	(1,7)	(1,4)	(1,1)	(1,7)	(1,4)	(1,1)
Secured Creditors	(3,7)	(2,3)	(2,4)	(2,6)	(2,3)	(2,4)	(2,6)
Fiscal	(3,6)	(17,0)	(14,5)	(12,3)	(17,0)	(14,5)	(12,3)
Special privileged creditors	(0,1)	(0,1)	(0,1)	(0,1)	(0,1)	(0,1)	(0,1)
General privileged creditors	(2,6)	(3,0)	(2,8)	(2,6)	(3,0)	(2,8)	(2,6)
PTIF	(15,5)	(15,5)	(15,5)	(15,5)	(0,5)	(1,9)	(3,3)
Oi Coop	(7,6)	(7,6)	(7,6)	(7,6)	(0,2)	(0,9)	(1,6)
Other unsecured creditors	(34,1)	(40,2)	(41,1)	(41,6)	(1,3)	(5,1)	(8,7)
<b>Unsecured creditors</b>	<b>(57,2)</b>	<b>(63,4)</b>	<b>(64,3)</b>	<b>(64,7)</b>	<b>(2,0)</b>	<b>(7,9)</b>	<b>(13,6)</b>
(Sub)unsecured creditors	(1,6)	(7,4)	(6,1)	(5,0)	-	-	-
Post-bankruptcy interest	-	-	-	-	-	-	-
<b>Pre-petition Credits</b>	<b>(69,8)</b>	<b>(94,8)</b>	<b>(91,6)</b>	<b>(88,3)</b>	<b>(26,0)</b>	<b>(29,1)</b>	<b>(32,2)</b>
<b>Total liabilities</b>	<b>(74,8)</b>	<b>(104,2)</b>	<b>(100,8)</b>	<b>(97,2)</b>	<b>(35,5)</b>	<b>(38,3)</b>	<b>(41,1)</b>

Source: Oi Group. EY Analysis.

The proceeds of the liquidation must be paid to creditors as soon as the cash enters the account of the bankrupt companies in the order of preference demonstrated in the adjacent table, according to the Brazilian Bankruptcy Law 11.101/05.

As stated before, this Report considered a range of possible results divided in three scenarios – Base, Low and High. The scenario which Management understands to most likely occur was considered as the Base. The Low refers to a pessimistic scenario, whilst High refers to an optimistic one (i.e. lawsuits disputes outcome, guarantees related to receivables, and others). All adjustments assumptions were discussed and assumed together with Management in these three different scenarios.

At the base scenario of the group-wide liquidation, the proceeds arising from the liquidation of assets would be sufficient to repay the credits regardless of legal priority, credits outside reorganization proceedings and pre-petition credits up until general privileged creditors in full, totalizing BRL 30,4bn. The remainder of BRL 7,9bn would be allocated to the unsecured creditors (including PTIF and Oi Coop Bondholders). Sub-unsecured creditors (contractual fines and subordinated claims) would not have any payments.

### Conclusion

The proceeds available for PTIF and Oi Coop unsecured credits, amounting to BRL 1,9bn and BRL 0,9bn, would repay 12,9% of the Creditors List amounts, ranging from 3,4% to 22,0% at low and high scenarios.

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## Scenario C – Liquidation Analysis of Oi Coop

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### Oi Coop – Liquidation analysis

Currency: BRL m		Jun17A	Recovery	Recovery %
Loan - Oi SA		13.830,7	-	0,0%
Loan - Oi Móvel SA		5.858,8	-	0,0%
<b>Non-current assets</b>		<b>19.689,5</b>	<b>-</b>	<b>0,0%</b>
Interest receivable and other related to Debtors		1.022,2	-	0,0%
<b>1</b> Prepaid expenses		11,1	-	0,0%
Cash & Equivalents		5,3	5,3	100,0%
Loan - Oi SA		788,8	-	0,0%
Loan - Oi Móvel SA		450,9	-	0,0%
<b>Current assets</b>		<b>2.278,3</b>	<b>5,3</b>	<b>0,0%</b>
<b>Total Proceeds and Credits</b>		<b>21.967,8</b>	<b>5,3</b>	<b>0,0%</b>

Currency: BRL m		Oi Coop
Proceeds from sale of unencumbered assets		-
Unencumbered cash balances		5,3
Other proceeds		-
<b>Net realisable assets</b>		<b>5,3</b>
<b>2</b> Less costs of realisation		<b>(5,3)</b>
<b>Available for priority creditors</b>		<b>-</b>
Less settlement of priority creditors		-
<b>Available for unsecured creditors</b>		<b>-</b>
Less return to unsecured creditors		-
<b>Excess cash after settlement of unsecured creditors</b>		<b>-</b>
<b>Recovery bondholders</b>		<b>-</b>

### Oi Coop – Scenario C

This estimated outcome work is a theoretical exercise on the assumption that the liquidation of the RJ Debtors will be on a consolidated basis, meaning that the proceeds of the RJ Debtors' assets in a liquidation scenario will be distributed to the creditors on a consolidated basis. The proceeds and obligations between the Debtors were disregarded.

The proceeds generated from Oi Coop are exclusively related to the cash & equivalents balance.

- 1** With regards to the prepaid expenses, Oi and its legal advisors believe that these amount would not be recoverable in a bankruptcy.
- 2** The total costs of realization refers to the liquidator costs and personnel expenses related to the liquidation process.

As a consolidated liquidation process, Oi Coop's creditors would benefit from the proceeds collected from all Debtors on a consolidated basis and based on the waterfall priorities explained on the previous pages.

### Conclusion

The recovery for the bankruptcy estate is estimated to be nil, while its unsecured creditors would be entitled to receive a recover of BRL 934,9m through the RJ Debtors.

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## Scenario C – Liquidation analysis of PTIF

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### PTIF – Liquidation Analysis

Currency: BRL m		Jun17A	Recovery	Recovery %
	Loan to Oi Coop	8.663,9	-	0,0%
1	Financial Investments (Oi shares)	371,2	-	0,0%
	<b>Non-current Assets</b>	<b>9.035,2</b>	<b>-</b>	<b>0,0%</b>
2	Loan to Timor Telecom	68,1	34,1	50,0%
	Loan to Oi Coop	5.591,8	-	0,0%
	Other taxation	11,7	-	0,0%
	Interest receivable and other related to Debtors	913,9	-	0,0%
	Cash & Equivalents & other receivables	41,5	41,5	99,9%
	<b>Current assets</b>	<b>6.627,0</b>	<b>75,6</b>	<b>1,2%</b>
	<b>Total Proceeds and Credits</b>	<b>15.662,2</b>	<b>75,6</b>	<b>0,5%</b>

Currency: BRL m		PTIF
	Proceeds from sale of unencumbered assets	-
	Unencumbered cash balances	41,5
	Other proceeds	34,1
	<b>Net realisable assets</b>	<b>75,6</b>
3	Less costs of realisation	(12,0)
	<b>Available for priority creditors</b>	<b>63,6</b>
	Less settlement of priority creditors	(6,0)
	<b>Available for unsecured creditors</b>	<b>57,6</b>
	Less return to unsecured creditors	(57,6)
	<b>Excess cash after settlement of unsecured creditors</b>	<b>-</b>
	<b>Recovery bondholders</b>	<b>0,4%</b>

### PTIF – Scenario C

This estimated outcome work is a theoretical exercise on the assumption that the liquidation of the RJ Debtors will be on a consolidated basis, meaning that the proceeds of the RJ Debtors' assets in a liquidation scenario will be distributed to the creditors on a consolidated basis. The proceeds and obligations between the Debtors were disregarded.

- 1 PTIF's financial investment (BRL 371m) are related to ADR shares of Oi, which will be liquidated and on the current scenario no amount would be recovered.
- 2 Based on Timor Telecom's financial situation and according to Oi's financial analysis, a recovery of 50% on the loan to Timor Telecom was considered. As the loan is currently overdue, the company does not have enough cash balance to repay the debt immediately and there isn't any guarantee to be executed, therefore this debt might be restructured. Furthermore, Oi confirmed that the shareholders are not obliged to inject capital in order to allow Timor Telecom to honor its obligations.
- 3 The total costs of realization refers to the liquidator costs and personnel expenses related to the liquidation process.

As a consolidated liquidation process, PTIF's creditors would benefit from the proceeds collected from all Debtors on a consolidated basis and based on the waterfall priorities explained on the previous pages.

### Conclusion

The recovery for the unsecured credits through the bankruptcy estate is estimated to be BRL 57,6m, while its unsecured creditors would be entitled to receive BRL 1.910,9m, being BRL 1.853,3m through the RJ Debtors.

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## Conclusion

# 1 Executive Summary

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## Oi Coop and PTIF – Recovery per Scenario for Bondholders and Bankruptcy Estate

Currency: BRL bn	Option*	Oi Coop		PTIF	
		Bondholder Recovery**	Bankruptcy Estate Recovery (1)	Bondholder Recovery**	Bankruptcy Estate Recovery (1)
A) Going Concern Oi Group	1	2,5 – 3,6	2,5 – 3,6	5,1 – 7,4	5,1 – 7,4
	2	2,2 – 2,7	2,2 – 2,7	4,4 – 5,6	4,4 – 5,6
B) Going Concern Oi, Liquidation Dutch SPV's	1	2,2 – 3,3	0,0	4,5 – 6,7	0,1
	2	2,0 – 2,6	0,0	4,2 – 5,3	0,1
C) Liquidation Oi Group	N.A.	0,2 – 1,6	0,0	0,5 – 3,3	0,1

Creditors List Recovery	Option*	Oi Coop		PTIF	
		Bondholder Recovery**	Bankruptcy Estate Recovery (1)	Bondholder Recovery**	Bankruptcy Estate Recovery (1)
A) Going Concern Oi Group	1	34% - 50%	34% - 50%	34% - 50%	34% - 50%
	2	30% - 38%	30% - 38%	30% - 38%	30% - 38%
B) Going Concern Oi, Liquidation Dutch SPV's	1	31% - 46%	-	31% - 46%	0,4%
	2	29% - 36%	-	29% - 36%	0,4%
C) Liquidation Oi Group	N.A.	3% - 22%	-	3% - 22%	0,4%

Source: EY Analysis

\*) Option 1 = Oi Coop / PTIF Bondholders participate in the Capital Increase of BRL 4,0bn  
 Option 2 = Oi Coop / PTIF Bondholders do not participate in the Capital Increase of BRL 4,0bn  
 N.A. = Capital Increase is not applicable in Scenario C as it is assumed that Oi Group will file for bankruptcy

\*\*) The amounts considers sum of the recovery from the Qualified Unsecured Bondholders Credits and Non-Qualified Unsecured Bondholders Credits.

(1) In case of Scenario A, the Bondholders will receive New Notes and shares issued by Oi S.A. The new debt may be novated directly with Oi S.A. or with the original debtors (in this case Oi Coop and PTIF). In case of Scenarios B, the Bondholders will receive their instruments directly from Oi S.A. In case of Scenario C, the Bondholders will receive their rights from the liquidation estate in Brazil.

## Conclusion

- To support the approval of the Dutch Composition Plan for Oi Coop and PTIF, EY was asked to prepare three scenarios in order to substantiate the hypothesis that the offer made by Oi Coop and PTIF pursuant to the respective Composition Plan, represents a better recovery (Scenario A) than under a liquidation scenario (Scenarios B and C) or at least a substantially similar recovery.
- Our analysis demonstrates that the offer made by PTIF and Oi Coop to its Bankruptcy Estate ("Bankruptcy Estate Recovery") and Bondholders ("Bondholders Recovery") as a result of the Composition Plan (Scenario A) would provide a better recovery than either a Group wide liquidation (Scenario C) or a liquidation of Oi Coop and PTIF only (Scenario B).
- As shown in the adjacent table, for Scenario A it is estimated that Oi Coop and PTIF Bondholder Recovery equals Oi Coop and PTIF Bankruptcy Estate Recovery.
- For Scenario B it is assumed that the Bankruptcy Estate Recovery for Oi Coop will be nil and PTIF 0,4% as it is assumed that the Intercompany Claims of Oi Coop and PTIF would not be enforceable in Brazil. However, in Scenario B Oi Coop and PTIF Bondholders are still entitled to their share under the Brazilian RJ Plan.
- We note that Oi Coop and PTIF's Bondholders Recovery in Scenario B is not only slightly lower compared to Scenario A due to a tax impact. Scenario B also includes an additional sensitivity as the Dutch Composition Plan is not approved, which might potentially increase the implementation risk of the RJ Plan and thus the recovery under Scenario B.
- For Scenario C it is assumed that the Bankruptcy Estate Recovery for Oi Coop will also be nil and PTIF 0,4%, since the liquidation process will be enforceable in Brazil and controlled by the liquidation estate in Brazil.
- The liquidation of the entire Oi Group (Scenario C), does not just have the lowest recovery for Oi Coop and PTIF's Bondholders, but also brings a lot of uncertainties, since it is usually a long process, where the proceedings distribution would likely be made over a long period of time.

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## Introduction

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## 2 Introduction

### Introduction

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Creditors List	May17 BRL m
<b>Class I: Labour</b>	<b>912</b>
<b>Class II: Secured</b>	<b>3.327</b>
Unsecured Others	2,483
Anatel	11,093
Other Loans	13.639
Oi S.A. – Bondholders	9.749
PTIF – Bondholders	14.799
Oi Coop – Bondholders	7.226
<b>Class III: Unsecured</b>	<b>58.989</b>
<b>Class IV: Small Business</b>	<b>68</b>
<b>Total</b>	<b>63.297</b>

Source: Creditors List of the Bankruptcy Trustee dated May-2017.

## Background

Oi S.A. is a switched fixed-line telephony services concessionaire that provides telecommunication services in Brazil.

Oi S.A. was founded in 1963 and is headquartered in Rio de Janeiro, Brazil. It was formerly known as Brasil Telecom S.A. and changed its name to Oi S.A. in February 2012. The company started as a provider of fixed-line services in Brazil and in the past years, the company, following the demand for technology, started an expansion through mobile phone, internet and TV services, among others.

Oi Group is now the largest fixed-line service provider in Brazil and one of the largest in Latin America, with 13,4 million lines in operation, representing a market share of 34,1% of the country, providing services to residences, companies and telephony of public use. In addition, it is one of the largest conglomerates in the mobile segment, with a market share of 17,4%.

Oi Group offers fixed telephony services, including voice, data communication, and pay TV services; local and intraregional long-distance carrier services; domestic and international long-distance services; mobile telecommunications and corporate solutions; and installation, maintenance, and repair services. It also provides data traffic, call center and telemarketing, Internet, network and Wi-Fi Internet services; and financial, payment and credit system services. In addition, the company engages in property investments; purchase and sale of real estate; and investment management activities, as well as raising funds in the international market. It serves residential, subscription and prepaid, mobile broadband, small, medium-sized, and large corporate customers.

On 20 June 2016, Oi, along with the RJ Debtors, filed a judicial reorganization request before the Capital District of the State of Rio de Janeiro for the restructure of BRL 63,3 billion debt, as detailed in the adjacent table, according to last Public Notice published by the Company in May 2017.

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### Overview and timeline of Oi's judicial reorganization proceeding

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### Judicial Reorganization

#### June/16

Judicial reorganization request

#### July/16

Recognition of the proceeding in Brazil, England and USA

#### August/16

Suspension of payments - Oi Coop

#### September/16

Presentation of the plan

#### October/16

Suspension of payments - PTIF

#### April/17

Conversion of the suspension of payments proceedings

#### October/17

Submission of the new version of the plan

#### November/17

Resignation and appointment of a new CEO

#### December/17

Submission of the last version of the plan and its approval with adjustments.

#### January-February/18

Ratification of the RJ Plan and publication of the decision

Source: Oi Group.

On 20 June 2016, Oi, along with the RJ Debtors, filed a judicial reorganization request before the Capital District of the State of Rio de Janeiro for the restructuring of BRL 63,3 billion, according to the last Public Notice published by the Company in May 2017.

The processing of the judicial reorganization proceeding was accepted by the Brazilian court on 29 June 2016. Additionally, the proceeding was recognized for certain RJ Debtors in England and Wales as a foreign main proceeding on 23 June 2016 and in the United States on 21 July 2016.

On 9 August 2016 and 3 October 2016, the Court of Amsterdam granted the requests of Oi Coop and PTIF, respectively, for the commencement of a suspension of payments proceeding, in order to ensure compatibility in that jurisdiction with the judicial reorganization proceeding in Brazil. A judicial administrator was nominated for each of the Dutch companies to oversee the suspension of payments in the Netherlands.

Oi presented the first version of the RJ Plan on 5 September 2016, establishing the terms and conditions proposed to overcome the Company's financial situation, however, the first version of the plan received objections from the creditors.

On 19 April 2017, PTIF and Oi Coop had their bankruptcies declared by the Dutch Court, which was later confirmed by the Dutch Supreme Court. This decision, however, was not subject to any recognition request in Brazil, where the Dutch companies remain under the judicial reorganization proceeding.

On 11 October 2017, Oi presented the new version of the RJ Plan, establishing the new terms and conditions proposed to overcome the Company's financial situation, the RJ Plan included, among others: (i) implied and explicit debt discount, (ii) the swap of regulatory fines for new investments, (iii) capital increases and (iv) the possible disposal of fixed assets.

On 19 October 2017 and then on 20, 23, 24 October 2017, the Company discussed the terms with the Bondholder's and representatives of the IBC, AHG, ECA's and their legal advisors (Class III) reaching no agreement. The Brazilian Court had initially ordered that the General Meeting of Creditors be held on 9 October 2017 (first call) or 23 October 2017 (second call), but the date was postponed to 23 October 2017 (first call) or 27 November 2017 (second call), then later to 6 November 2017 (first call) or 27 November 2017 (second call), later to 10 November 2017 (first call) or 27 November 2017 (second call), later to 7 December 2017 (first call) or 1 February 2018 (second call), and finally to 19 December 2018 (first call) or 1 February 2018 (second call).

On 24 November 2017, Marco Schroeder presented his resignation as CEO and, on 27 November 2017, Oi's Board elected Eurico Teles to occupy the position.

On 12 December 2017, a new version of the RJ Plan was submitted and then approved, along with some adjustments, on the General Meeting of Creditors held on 19 and 20 December 2017.

On 08 January 2018, the RJ Plan was ratified and the decision was published on 05 February 2018.

## 2 Introduction

### Legal Structure - Oi Group

1 Executive Summary

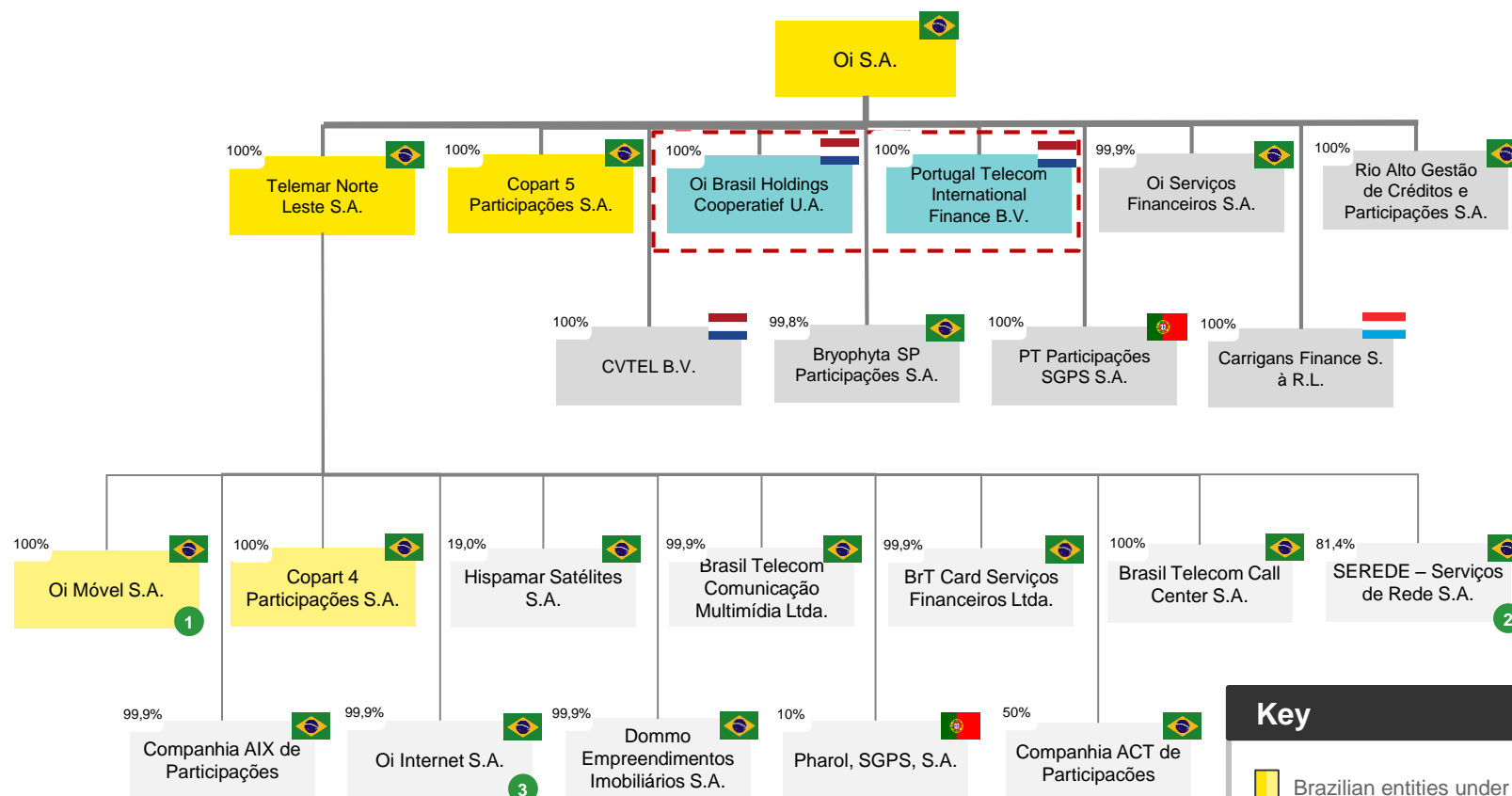
**2 Introduction**

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1 Paggo Empreendimentos S.A., Paggo Administradora de Crédito Ltda., Paggo Acquirer Gestão de Meios de Pagamentos Ltda. and Paggo Soluções e Meios de Pagamentos S.A., direct or indirect subsidiaries of Oi Móvel S.A.

2 SEREDE – Serviços de Rede S.A. has one direct subsidiary, Rede Conecta Serviços De Rede S.A..

3 Pointer Networks S.A., Vex Wifi Canadá Ltd., Pointer Peru S.A.C. (company in liquidation), Vex Venezuela C.A., Vex USA Inc., Limited Liability Company "Vex Ukraine", CDF – Central de Funcionamento, Tecnologia e Participações S.A., Montpellier Participações S.A., Tectotal Tecnologia sem Complicações S.A., directly or indirectly related to Oi Internet S.A.

#### Key

- Brazilian entities under Judicial Reorganization
  - Netherlands entities under Judicial Reorganization
  - Other entities of Oi Group that are not under Judicial Reorganization
  - Bondholders
- Simplified legal structure of Oi Group.

Source: Oi Group.

## 2 Introduction

### Introduction – Oi Coop and PTIF

1 Executive Summary

**2 Introduction**

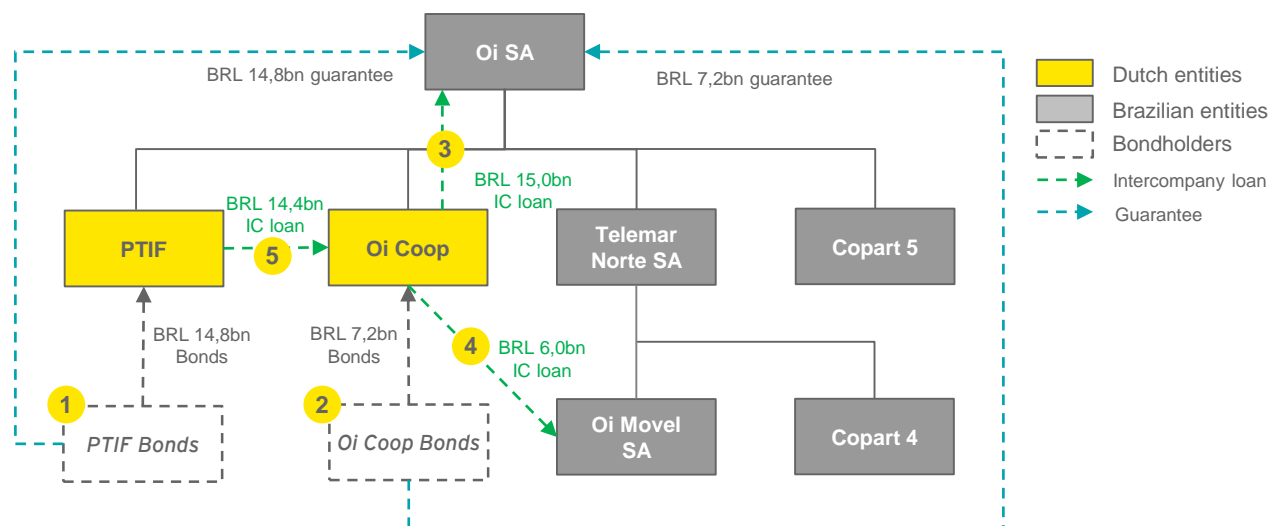
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### Oi Coop and PTIF – Financing structure



Source: Oi Group.

### Oi Coop and PTIF – Bonds

	EUR bn	BRL bn
Retail Bonds 2016, 6,25%	0,2	0,9
Bonds 2017, 4,375%	0,4	1,5
Bonds 2017, 5,242%	0,3	1,0
Bonds 2018, 5,875%	0,8	2,9
Bonds 2019, 5,00%	0,8	2,9
Bonds 2020, 4,625%	1,0	3,8
Bonds 2025, 4,5%	0,5	1,9
<b>1 Subtotal PTIF Bonds</b>	<b>3,9</b>	<b>14,8</b>
Finco Bonds 2021, 5,75%	0,6	2,4
Finco Bonds 2022, 5,75%	1,3	4,8
<b>2 Subtotal Oi Coop Bonds</b>	<b>1,9</b>	<b>7,2</b>
<b>Total PTIF and Oi Coop Bonds</b>	<b>5,8</b>	<b>22,0</b>

Source: Creditors List of the Bankruptcy Trustee dated May-2017.

PTIF Bonds are governed by English law and in addition the Retail Notes are also subject to Portuguese Law.

Oi Coop Bonds are ruled by US New York law.

### Oi Coop and PTIF – Introduction

- ▶ Oi Group is partly financed through the Dutch legal entities Oi Coop and PTIF.
- ▶ PTIF and Oi Coop do not generate own revenues and are fully dependent on the operating companies within the Oi Group to fulfil its obligations (interest and redemption).
- ▶ Both Oi Coop and PTIF have issued a series of Bonds on the international capital markets as listed in the adjacent table below.
- ▶ The financing provided by the Bondholders essentially (and indirectly) financed the Oi Group. As such the total amount in intercompany loans were granted to operating companies of Oi Group:
  - 3** Aug12A Oi Coop funded USD 1,5bn to Oi S.A., Feb16A EUR 0,14bn and Mar16A EUR 2,5bn;
  - 4** Mar16A Oi Coop funded EUR 1,6bn to Oi Móvel;
  - 5** Mar16A PTIF funded EUR 3,8bn to Oi Coop.
- ▶ The Bonds are all unsecured and are guaranteed by Oi. Under the Oi guarantee, the Bondholders have a claim on Oi.
- ▶ On 19 April 2017, the suspension of payments proceedings of Oi Coop and PTIF were converted into a bankruptcy. This decision, however, was not subject to any recognition request in Brazil, where both companies remain under the judicial reorganization process.

## 2 Introduction

### Introduction – Oi Coop and PTIF

1 Executive Summary

**2 Introduction**

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#### Oi Coop – Balance Sheet

	Jul16 EUR m	Jun17 EUR m	Jun17 BRL m
<b>3</b> Loan - Oi SA	3.986	3.664	13.831
<b>4</b> Loan - Oi Móvel SA	1.552	1.552	5.859
<b>Non-current assets</b>	<b>5.538</b>	<b>5.216</b>	<b>19.690</b>
Interest receivable and other debtors	94	271	1.022
Prepaid expenses	1	3	11
Cash	4	1	5
<b>3</b> Loan - Oi SA	-	209	789
<b>4</b> Loan - Oi Móvel SA	-	120	451
<b>Current assets</b>	<b>99</b>	<b>604</b>	<b>2.278</b>
<b>Assets</b>	<b>5.637</b>	<b>5.820</b>	<b>21.968</b>
<b>Equity</b>	<b>(160)</b>	<b>(215)</b>	<b>(812)</b>
Intercompany account - Oi SA	4	3	10
<b>5</b> Loan - PTIF	3.776	2.295	8.664
<b>Non-current liabilities</b>	<b>3.780</b>	<b>2.298</b>	<b>8.674</b>
<b>1</b> Oi Coop - Bonds	1.963	2.013	7.599
<b>5</b> Loan - PTIF	-	1.481	5.591
Oi Coop – Bonds Interest	54	242	914
<b>Current liabilities</b>	<b>2.017</b>	<b>3.737</b>	<b>14.106</b>
<b>Equity and liabilities</b>	<b>5.637</b>	<b>5.820</b>	<b>21.968</b>

Source: Oi Group  
Currency Exchange: BRL 3,775/ EUR

**1** up to **5** = reference is made to the previous page of this report

#### PTIF – Balance Sheet

	Jul16 EUR m	Jun17 EUR m	Jun17 BRL m
<b>5</b> Loan - Oi Coop	3.776	2.295	8.664
<b>6</b> Financial Investments (Oi shares and others)	112	98	371
<b>Non-current Assets</b>	<b>3.888</b>	<b>2.393</b>	<b>9.035</b>
Loan - Timor Telecom	19	18	68
<b>5</b> Loan - Oi Coop	-	1.481	5.592
Other taxation	3	3	12
Interest receivable and other debtors	56	242	914
Cash	10	11	41
<b>Current assets</b>	<b>88</b>	<b>1.755</b>	<b>6.627</b>
<b>Assets</b>	<b>3.976</b>	<b>4.148</b>	<b>15.662</b>
<b>Equity</b>	<b>46</b>	<b>32</b>	<b>122</b>
<b>2</b> PTIF – Bonds	3.857	3.859	14.568
Corporate income tax	0	2	6
Other payables	0	1	3
PTIF – Bonds Interest	74	255	963
Accrued expenses	0	0	0
<b>Non-current liabilities</b>	<b>3.930</b>	<b>4.116</b>	<b>15.540</b>
<b>Equity and liabilities</b>	<b>3.976</b>	<b>4.148</b>	<b>15.662</b>

Source: Oi Group  
Currency Exchange: BRL 3,775/ EUR

#### Oi Coop and PTIF – Intercompany Claims

- ▶ As Oi Coop and PTIF were established as pure financing entities, their most important assets are intercompany claims against other Oi entities as highlighted in the respective company balance sheets opposite. (items **3** and **4**).
- ▶ The Brazilian bankruptcy court decided that the Trustees of Oi Coop and PTIF will not obtain any voting rights for the Intercompany Claims during the RJ Proceedings and based on section 4.6.1 and 4.6.2 of the RJ Plan the total repayment period for the Intercompany Claims was set to 50 years.
- ▶ Additionally, there might be the issuance of the new financial instruments to the Bondholders, which will be reflected into new intercompany obligations from Oi Coop and PTIF to Oi.
- ▶ Furthermore, according to Brazilian law, a sale of the Intercompany Claims is not allowed unless approved by the management of Oi preventing the Dutch Trustees to sell these claims to a 3rd party.

#### PTIF – ADRs

- 6** Section 4.3.3.4 of the RJ Plan stipulates that the RJ Debtors intend to use the ADRs held by PTIF to partially comply with their obligations by offering them to Qualified Bondholders (bondholders with claims exceeding USD 750.000).

## 2 Introduction

### Decision Tree of RJ Plan Implementation

1 Executive Summary

**2 Introduction**

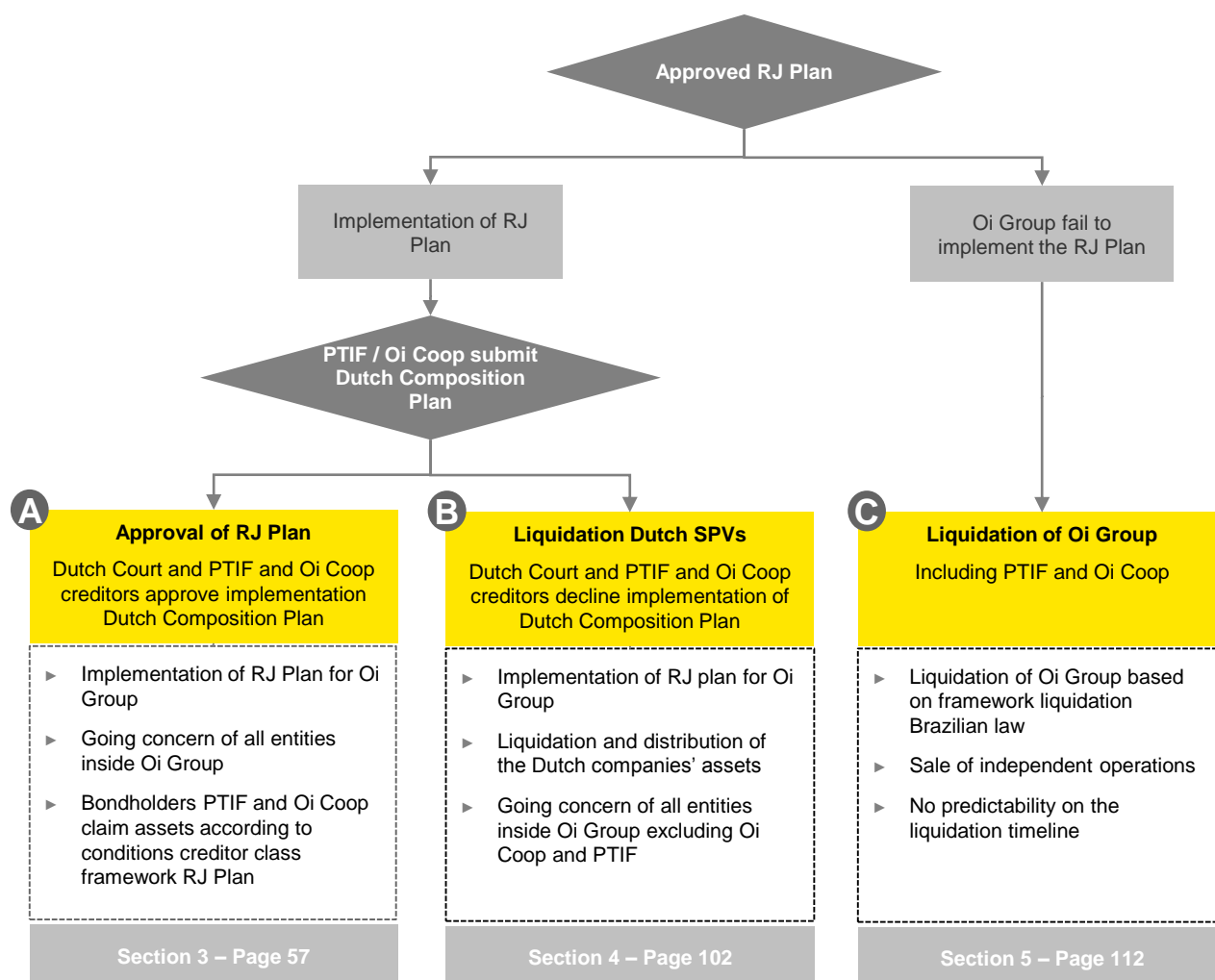
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### Oi Coop and PTIF – Decision tree implementation RJ Plan



### Oi Coop and PTIF – Dutch Composition Plan

- On 9 August 2016 and 3 October 2016, the District Court of Amsterdam granted Coop's and PTIF's suspension of payments, respectively. The suspension of payments proceedings of PTIF and Coop were converted into a bankruptcy on 19 April 2017 by the District Court of Amsterdam, which subsequently appointed the mr. J.R. Berkenbosch and mr. J.L.M. Groenewegen as the bankruptcy trustees of respectively Oi Coop and PTIF (together the "Dutch Trustees").
- To date, these Dutch proceedings, however, have not been recognized in Brazil.
- As a consequence, Oi Coop and PTIF are subject to two separate (coexisting) judicial reorganization procedures: the Brazilian RJ (subject to Brazilian law) and the Dutch bankruptcy (subject to Dutch law).
- In order to ensure the proper implementation of the RJ Plan in the Netherlands (and in other European member states that do not recognize the RJ Proceedings and the RJ Plan) for Oi Coop and PTIF, a composition plan (hereafter "Dutch Composition Plan") - which mirrors and is consistent in all material respects with the RJ Plan - will need to be offered to the creditors of Oi Coop and PTIF and put to the vote at the verification meeting.
- If the Dutch Composition Plans are approved by the creditors, homologated by the Dutch Court and if no appeals have been filed, the Dutch Composition Plans will be effective and PTIF and Oi Coop will exit bankruptcy.
- In order for the Dutch Composition Plan to be approved by the creditors and comply with Dutch bankruptcy laws, the offer made by PTIF and Oi Coop pursuant to the respective composition plans must represent a better recovery than under a liquidation scenario (or at a minimum a substantially similar recovery).
- As a result, these procedures will have three potential outcomes for Oi Coop and PTIF as shown in the adjacent decision tree.

## 2 Introduction

### Scope of Work

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### Scope of Work

For the Purpose of this engagement the following three scenarios have been identified for the work to be performed:

Scenario	PTIF / Oi Coop	Oi Group (excluding PTIF and Oi Coop)
<b>A - Going Concern Oi Group</b>	Going Concern (= RJ Plan)	Going Concern (= RJ Plan)
<b>B - Going Concern Oi, Liquidation Dutch SPVs</b>	Liquidation (exclusively in the Netherlands)	Going Concern (= RJ Plan)
<b>C - Liquidation Oi Group</b>	Liquidation	Liquidation

#### Scenario A

The realizable value of the assets of each of the Dutch legal entities (PTIF and Oi Coop) in case the RJ Plan will be implemented, i.e. the distribution of the assets to creditors and shareholders which are governed by the rights of the PTIF / Oi Coop's creditors/shareholders under the RJ Plan (i.e. as a going concern).

#### Scenario B

A liquidation value analysis of each of the Dutch legal entities (PTIF and Oi Coop) in case the remaining Oi Group continues as a going concern as a result of the implementation of the RJ Plan, whilst the Dutch legal entities are liquidated exclusively in the Netherlands, i.e. the distribution of the assets to its creditors (and sole member) which are governed by the rights of PTIF / Oi Coop's creditors/member under insolvent conditions.

#### Scenario C

A liquidation value analysis of each of the Dutch legal entities (PTIF and Oi Coop) in case the entire Oi Group goes into liquidation. This analysis addresses the distribution of the Dutch assets to its creditors which are governed by the rights of PTIF / Oi Coop's creditors under insolvent conditions (and any surplus would go to its sole member Oi S.A.).



## 2 Introduction

### Scope of Work

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### Scope of Work

#### Avoidance Procedure / Claim

- ▶ We note that the liquidator of Oi Coop in the Netherlands has filed an Avoidance Claim against Oi Movel and Oi S.A. in relation to funds that were transferred from Oi Coop to Oi S.A. shortly before the Dutch bankruptcy of Oi Coop;
- ▶ The possible impact of the Avoidance Claim is not part of the EY scope but Oi management has performed a high-level legal assessment of the theoretical effect of the Avoidance Proceedings initiated by the Trustee of Oi Coop against Oi;
- ▶ According to Oi's Brazilian legal advisors, the Dutch bankruptcy decision must first be confirmed by the Brazilian Superior Court ("STJ") to allow the Dutch award on the avoidance proceeding to be effective and enforceable in Brazil;
- ▶ So far, the STJ has not confirmed the acknowledgement of the Dutch bankruptcies and hence to date, the claim has not been accepted by the STJ;
- ▶ Should, in a theoretical situation, the Brazilian Superior Court accept the bankruptcy decision and the avoidance proceedings by the Dutch court, the legal advisers argue that the claim in result thereof, including the torts claim, would be, according to Dutch law, a monetary claim against Oi and Oi Móvel, without any priority status for repayment;
- ▶ The legal opinion from the Dutch legal advisors confirms the above, stating that "under the Dutch law, the tort claim does not create any preference". This means that claims rank pari passu with other non-secured and non-preferred claims;
- ▶ Limited to the information available so far and the legal opinions provided by Oi's legal counsels and also based on Oi's management estimates that the value of an avoidance claim of Oi Coop would have the same recoveries as the intercompany claims and will follow the same waterfall as detailed in our analysis, our preliminary understanding of the position aforementioned indicates that there would not be any additional recovery value for creditors in case of a hypothetical scenario where the avoidance procedure would be accepted by the Brazilian STJ;
- ▶ While EY has not separately assessed the financial impact of the theoretical situation in which the Avoidance Claim is acknowledged by the STJ, there is a possibility that the outcome of our analysis could change as a result of this.

#### Sources:

Loyens & Loeff N.V., "Avoidance Proceedings – Dutch law issues", March 2018.

BMA Advogados; Rosman, Penalva, Souza Leão, Franco Advogados; "Avoidance Proceeding and the expected legal effects of the award on the Brazilian Judicial Reorganization Proceeding of the Oi Group", March 2018.



# 3

## Scenario A – Going Concern Valuation

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Valuation of Oi Equity Value Methodology	68
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# 3.1

## Going Concern Introduction and Key Assumptions

### 3 Scenario A – Going Concern Valuation

#### Scenario A – Introduction / Key assumptions

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#### RJ Plan Restructuring Options per Creditor Class

RJ Plan Restructuring Option	Creditor Classes				Equity
	I	II	III	IV	
A) General Rule Labor Claims					No
B) Fundação Atlântico Labor Credit					No
C) Secured Credits proposal					No
D) Linear payment of unsecured credits					No
E) Restructuring Option 1					No
F) Restructuring Option 2					No
G) Non-Qualified Bondholders' Unsecured Credits					No
H) Qualified Bondholders' Unsecured Credits					Yes
I) General Payment Method					No
J) Court deposit payment of unsecured credits					No
K) Regulatory Agencies Pre-Petition Credits					No
L) Strategic supplier Creditors					No

Source: RJ Plan

#### High Level Summary RJ Plan Restructuring Options – Reference is made to RJ Plan

- G** Non-Qualified Bondholders' Unsecured Credits (maximum value up to USD 0,75m):
- ▶ The total of credits to be restructured under this option will be limited to USD 500 million;
  - ▶ 50% discount on the credit amount. Hence, the amount of principal of the restructured credits will be limited to USD 250 million;
  - ▶ 6-year grace period for principal and interest payments and 6-year amortization (total payment period of 12 years).
- H** Qualified Bondholders' Unsecured Credits (value above USD 0,75m):
- ▶ Common shares, issued by Oi and held by PTIF, as ADRs;
  - ▶ A package with (i) New Bonds with a limit of BRL 6,3bn, (ii) New Common Shares (as ADRs), and (iii) Subscription Bonus, to be issued by Oi;
  - ▶ 7-year grace period for principal payments and a single instalment on the 84<sup>th</sup> month after the Issuance Date of the New Bonds (total payment period of 7 years).
- I** General Payment Method: Bondholders who do not fit in the other offers will have a 20-year grace period and 5-year equal instalments (total payment period of 25 years).

#### Introduction

- ▶ In the adjacent table the RJ Plan Restructuring Options are summarized and allocated per Credit Class. Each Restructuring Option includes an explanation of the payment terms and other conditions for which reference is made to the RJ Plan.
- ▶ Unsecured Creditors (excluding Bondholders, Regulatory Agencies, Court deposit creditors and strategic suppliers) may opt for having their Unsecured Credit paid or restructured according to the Restructuring Options D, E, F or I. Once the limit of a Restructuring Option is reached, the remaining balance will (pro rata) be allocated to the Restructuring Option I (General Payment Method).
- ▶ The Non-Qualified and Qualified Bondholders' Unsecured Credits (including Oi Coop and PTIF Bonds) are entitled for the Restructuring Options G, H and I.
- ▶ As shown in the adjacent table the Restructuring Option H (Qualified Bondholders' Unsecured Credits) is entitled to receive equity shares of Oi. The other Restructuring Options are not entitled to a financial equity instrument.

#### Going Concern Valuation

- ▶ As a consequence of the above, the calculation of the going concern value of the Restructuring Options G, H and I to which Oi Coop and PTIF Bondholders are entitled to, EY has to perform the following valuations:
  - ▶ Calculate the present value of the instalment payments based on Restructuring Options G, H and I (value X);
  - ▶ Calculate the equity value of Oi Group based on the RJ Plan and allocate the equity value to the equity instrument of Restructuring Option H (value Y).
- ▶ Based on the sum of value X and Y the calculated going concern value needs to be allocated to the Oi Coop and PTIF Bondholders.

### 3 Scenario A – Going Concern Valuation

#### Scenario A – Introduction / Key assumptions

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#### Scenario A – Valuation under going concern assumptions

The going concern valuation was prepared for the purpose of estimating the fair value of the Restructured Options G, H and I, presented on previous page, to which Oi Coop and PTIF Bondholders are entitled to. The going concern valuation Scenario A assumes that Oi's RJ Plan will follow the terms that were accepted by the creditors meeting on 12/19/2017. The main assumptions to estimate the fair value of the Restructured Options are described below:

##### **General key assumptions:**

- ▶ Standard value: Fair Value;
- ▶ Valuation date<sup>1</sup>: 30 June 2017;
- ▶ Currency: Reais (R\$), in nominal terms;

##### **Assumptions for the valuation of instalment payments based on Restructuring Options G, H and I**

- ▶ The valuation approach consists on the discounted cash flow ("DCF method") of each Restructured Option. The cash flows underlying the valuation were based on the Restructuring Options prepared by Oi;
- ▶ Specific assumptions: Forecast based on information provided by Oi. Macroeconomic assumptions were based on BACEN projections;

##### **Assumptions for the valuation of equity value of Oi based on Restructuring Options H**

- ▶ The valuation approach consists on the DCF method in a consolidated group-wide basis. The cash flows underlying the valuation were based on the business plan prepared by Oi;
- ▶ Forecasted period: 18 (eighteen) years and 6 months, from 30 June 2017 to 31 December 2035, and perpetuity;
- ▶ Perpetuity growth rate: Equivalent to long-term Brazilian inflation of 4,1%, forecasted by the Brazilian Central Bank (BACEN);
- ▶ Discount rate: Implied constant discount rate of 15,9%, in reais (R\$) and nominal terms, according to the CAPM methodology;
- ▶ Adjustments: Non-operational assets and liabilities were not considered in the cash-flow projection. They were treated separately and added/ subtracted to the present value of cash-flows and perpetuity, impacting the value of Oi's equity; and
- ▶ Specific assumptions: Forecast based on information provided by Oi, historical financial information. Macroeconomic assumptions were based on BACEN projections.

<sup>1</sup> In order to maintain consistency with the liquidation analysis, we used June 30, 2017 as the valuation date. The terms and conditions approved by the Creditors on December 20, 2017 in the GCM are fully incorporated in our cash-flow analysis.

# 3.2

## Valuation of Instalment Payment Restructuring Option G, H and I

### 3 Scenario A – Going Concern Valuation

#### Valuation of Instalment Payment Restructuring Option G, H and I

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#### Overview

According to the Brazilian Bankruptcy Law 11.101/05 and based on the characteristics and conditions of the debt held by Oi Coop and PTIF Bondholders, Oi Coop and PTIF Bondholders were classified as unsecured creditors. The conditions offered by Oi to the unsecured creditors in the RJ Plan are presented in Class III credits. As discussed in the previous section, Class III credits have a few different types of restructuring options. Oi Coop and PTIF Bondholders are allowed to select one of the offers within Class III credits.

The valuation of the instalment payments of Restructuring Options G, H and I was prepared for the purpose of estimating the potential financial recoverability for Oi Coop and PTIF Bondholders based on a going concern scenario which is related to the terms presented by Oi in the RJ Plan.

Labor credits, secured credits a related parties credits mentioned in earlier section of this Report were not analyzed as Oi Coop and PTIF creditors are not qualified to select any of the offers from these credits and only from Class III offerings.

On the table below we present the Class III credits that were valued in this section:

Debt	Maximum Value	Oi's Estimated structured balance	Rate	Maturity	Bucket	Valuation Approach
• Restructuring option 1 – BRL	BRL 10 billion	BRL 8,3 billion	80% of CDI	31/12/2034	Class 3 - Offer 1	Discounted Free Cash Flow
• Restructuring option 1 – USD	USD 1,2 billion	USD 0,9 billion	1,75% p.a.	31/12/2034	Class 3 – Offer 1	Discounted Free Cash Flow
• Restructuring option 2 – USD	USD 0,9 billion	USD 0,7 billion	1,25% p.a.	31/12/2034	Class 3 – Offer 2	Discounted Free Cash Flow
• Non-Qualified bondholders' unsecured credits	USD 0,5 billion	USD 0,3 billion	6,0% p.a.	31/12/2029	Class 3 – Offer 3	Discounted Free Cash Flow
• Qualified bondholders' unsecured credits	BRL 6,3 billion	BRL 5,9 billion	12,0% p.a. up until the 3rd year with 8% p.a cash and 4% PIK and interest of 10% p.a. from the 4th year onwards	30/06/2025	Class 3 – Offer 3	Discounted Free Cash Flow
• General Payment	BRL 70 billion <sup>1</sup>	BRL 0,27 billion	TR (Reference Rate)	31/12/2042	Class 3 – Offer 4	Discounted Cash Flow

<sup>1</sup> Deducted the amount of Pre-Petition Credits restructured by another method under the JRP.

### 3 Scenario A – Going Concern Valuation

#### Valuation Methodology

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## Methodology

There are different approaches to value the instalment payments of Restructuring Options G, H and I, but, the widely used approach is the Income Approach.

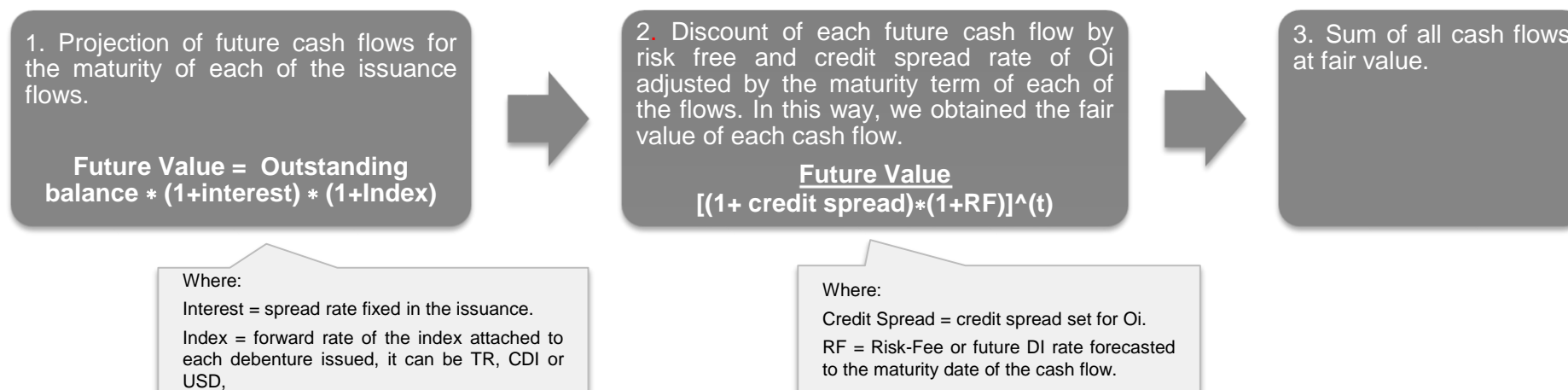
For the instalment payments of Restructuring Options G, H and I valuation, the Income Approach was adopted, through the DCF Method. According to the DCF method, the value of a financial instrument is equal to the present value of the expected cash flow available to the owners of the debt of the business. In the valuation of the instalment payments of Restructuring Options G, H and I, the value drivers are developed by discounting free cash flows available to their present value at the rate that represents the return required by the market and the risk inherent to a specific investment.

### *Class III credits*

#### Income Approach

The Income Approach focuses on the income-producing capability of the identified asset or business. The underlying premise of this approach is that the value of an asset or debt can be measured by the present worth of the net economic benefit (cash receipts less cash outlays) to be received over its life. The steps followed in applying this approach include estimating the expected after-tax cash flows attributable to the asset or business over its life and converting these after-tax cash flows to present value through 'discounting'. In the valuation of a debt, the value drivers are developed by discounting free cash flows available to their present value at the rate that represents the return required by the market and the risk inherent to a specific investment. Finally, the present value of the after-tax cash flows over the life of the asset is totaled to arrive at an indication of value.

► The steps are presented below:



## 3 Scenario A – Going Concern Valuation

### Valuation Methodology

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### Methodology (cont.)

#### *Class III credits*

Our approach took into consideration the following assumptions:

- ▶ The projection of future cash flows for each offering took into consideration the estimated initial structured balance for each offer based on Management expectations, which was estimated in negotiations with debt holders and has a high level of uncertainty.
- ▶ Our analysis does not take into consideration any additional costs the debt holders may have incurred or that will be incurred associated with the issuance of the new debt.
- ▶ The discount rate for the debt instruments take into consideration a risk-free rate for Brazil (CDI) plus a credit risk rate for Oi, more details are presented in this Report.
- ▶ CDI is a common reference for risk-free in Brazil and is calculated considering the following standards:
  - ▶ It's valid for business days only - weekends are not included in the day-counting process, and one year is considered to have 252 business days
  - ▶ The calculation formula uses compounded interest calculation, differently from the international market where linear interest calculation is the common standard. Consequently, the calculation of financial instruments indexed to CDI tend to follow the same standards.



### 3 Scenario A – Going Concern Valuation Inputs

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#### Inputs

##### *Class III credits*

The next two pages describes the inputs used in the debt instrument fair value.

**1) Credit risk assumptions:** Considering that Oi S.A. is a listed company, its credit rating of “D” was obtained from Standard & Poor's at the valuation date of 30 June 2017.

However, in the going concern analysis it was considered that with the RJ Plan approval, Oi's credit rating should be affected.

Based on the statement above, Oi's credit spread was calculated based on the estimate of Oi's credit rating, taking into consideration projected financial information for 2017-2019.

In order to estimate Oi's credit rating, an ordered logistics regression model (oLogit) was used. This methodology assess the relationship between certain financial metrics of a broad list of companies and its respective credit ratings. The data-base used in the model was gathered from Bloomberg and the ratings follow Standard & Poors (S&P) standards.

The results obtained for 30 June 2017 indicate that the “BB -” global rating is likely to be the most appropriate for Oi given the positive outcome of the RJ Plan. Additionally a different sensitivity scenarios were performed using a range of ratings from “B –” to “BB” given that the probability the Company falls under one of these ratings is higher than 70%.

#### oLogit model assumptions (USD million)

Assumption	Metric	2017P	2018P	2019P
Total Assets	Size	25.131	24.932	25.122
Total Debt	Leverage	24.809	26.130	28.082
Net revenue	Operational	7.372	7.282	7.498
EBIT	Operational margin	1,6	33,3	113,5
Net income	Performance	-312,5	-1.326,8	-690,5

#### Estimated ratings probability

Rating	2017P	2018P	2019P
BB	18,0%	13,5%	14,1%
BB -	24,1%	23,8%	24,1%
B +	15,2%	20,1%	19,6%
B	12,2%	20,2%	19,1%
B -	2,9%	5,5%	5,1%

### 3 Scenario A – Going Concern Valuation Inputs

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#### Inputs (cont.)

##### *Class III credits (cont.)*

##### *Credit Spread calculation (the oLogit model)*

In order to estimate the credit risk the analysis started with the credit spread of global companies with similar credit rating, taking into consideration the OAS metric (option-adjusted spread). The OAS is a spread over Treasury spot-rate, which takes into account the adjustment of an embedded option. In case there is no option in the issuance, the OAS presents the metric equivalent to the Z-spread.

It was also taking into consideration the longevity of the Class III credits given that the OAS metric calculates different credit curves given the selected maturity of the analysis. Since in this case the RJ Plan offers instruments with different maturities two different credit curve were estimated to determine the most appropriate credit risk associated with each Class III credit.

The analysis considered the median of the available sample for each credit rating considered relevant by oLogit model. Also, sample bonds in maturing in 11 and 13 years were considered following features of the debt instruments evaluated. In order to obtain additional number of samples for credit spread, debt instruments maturing in a range from 4 to 5 years were also considered.

Credit Curve – 11 years			Credit Curve – 13 years		
Rating	Bonds (#)	Median	Rating	Bonds (#)	Median
BB	65	221	BB	40	229
BB-	78	232	BB-	35	235
B+	73	274	B+	27	266
B	50	335	B	14	328
B-	45	381	B-	14	397

Source: EY. Data obtained from Bloomberg  
Credit spreads in basis points

#### 2) Macroeconomic assumptions:

- ▶ Brazilian risk-free rate Selic: Projections according to Brazilian Central Bank “Boletim Focus” on 30 June 2017.
- ▶ Brazilian interbank deposits rate DI (CDI): It was considered a historical percentage of the rate in relation to the Selic rate of 98%.
- ▶ FX BRL/USD: Projections according to BCB “Boletim Focus” on 30 June 2017
- ▶ TR reference rate: Projections according to Portal Brasil on 30 June 2017.

### 3 Scenario A – Going Concern Valuation

#### Valuation results

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#### Recovery rates

As analyzed previously, Management assumed that the Company will have sufficient cash flow in order to repay the restructured debt under the conditions of the JR Plan. Thus, we estimated the recovery rate for each offering of Class III creditors in accordance to the methodology described in this section. It is worth noting that the estimated recovery rate applies to any creditors, including Oi Coop and PTIF creditors.

The table below represent the estimated fair value and recovery rate calculated for each offering for Class III creditors:

Pure Class III credits	Restructured amount (BRL million)	Credit risk range		Fair value range (BRL million)		Recovery range	
		Rating B -	Rating BB	Rating B -	Rating BB	Rating B -	Rating BB
• Restructuring option 1 – BRL	8.300	4,0%	2,3%	4.496	5.350	54%	64%
• Restructuring option 1 – USD	3.117	4,0%	2,3%	1.177	1.421	38%	46%
• Restructuring option 2 – USD	2.221	4,0%	2,3%	789	953	36%	43%
• Non-Qualified bondholders' unsecured credits	827	3,8%	2,2%	558	649	34%	39%
• Qualified bondholders' unsecured credits*	30.120	3,8%	2,2%	6.055	6.672	20%	22%
• General payment	264	4,00%	2,3%	21	31	8%	12%

Source: Oi/EY

\*It's important to note that, for the instruments comparison, the Qualified bondholders' unsecured credits recovery range are not considering the equity shares. The equity value of Oi Group is presented in the following section of this report. Additionally, as mentioned before the BRL 30,1bn converted into New Notes of BRL 5,9bn plus equity shares.

# 3.3

**Valuation of Oi equity value  
Methodology**

### 3 Scenario A – Going Concern Valuation

#### Valuation Methodology

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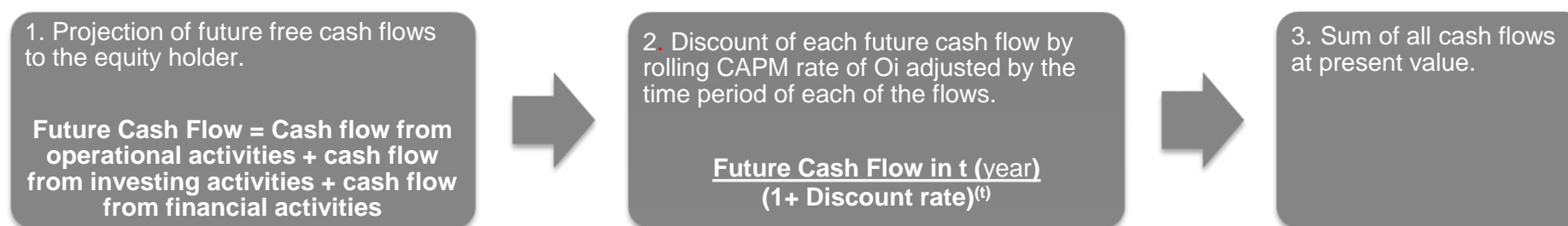
#### Methodology

There are different approaches to evaluate a company, but, the widely used approach chosen is the Income Approach. The Income Approach was adopted, through the use of the DCF Method. According to the DCF method, the value of a company is equal to the present value of the expected cash flow available to the owners of the capital. In the valuation of Oi Group, the economic value is derived by discounting free cash flows available to the shareholders to its present value at the rate that represents the required return by an hypothetical market participant and the risk inherent to a specific investment. The DCF method is described below.

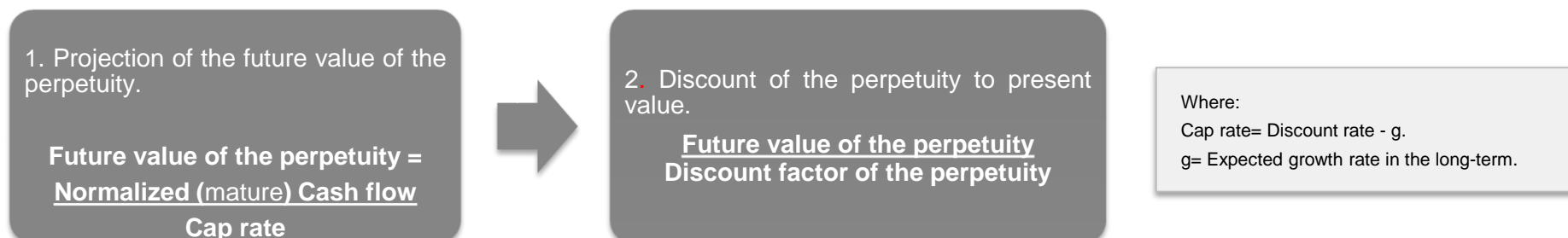
#### DCF Method – Income Approach

The Income Approach focuses on the revenue-producing capacity of the identified asset or business. The underlying premise of this approach is that the value of an asset or a business can be measured by the present value of the net economic benefit (cash inflow minus cash outflow) to be received during its lifetime. Steps to follow in applying this approach include estimating the after-tax cash flow attributed to the asset or business during its life time and translating these after-tax cash flows into present value through the "discount." The discount process uses a rate of return that accounts for both the time value of money and investment risk factors. Finally, the present value of after-tax cash flows during the life time of the business is totaled, reaching an indication of value.

► The steps are presented below:



After the explicit forecast period a terminal value was added, this value was estimated calculating a perpetuity obtained by the *Gordon growth model* as shown below:



# 3.4

## Industry overview and Historical financial analysis

### 3 Scenario A – Going Concern Valuation

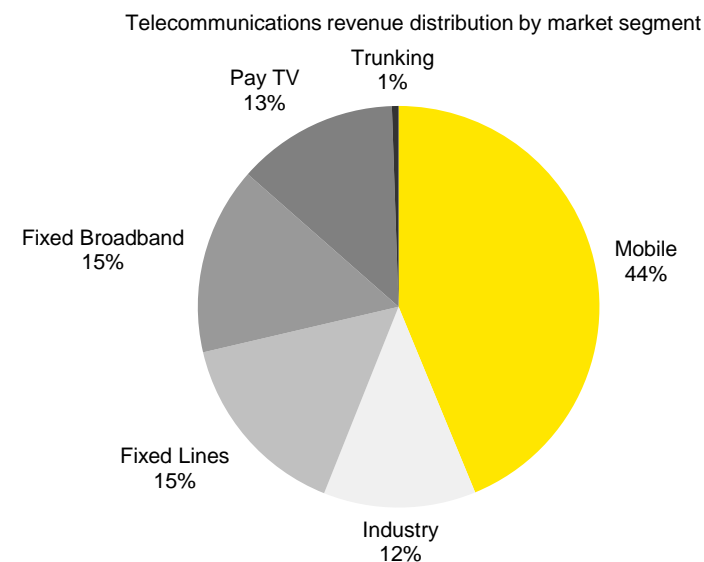
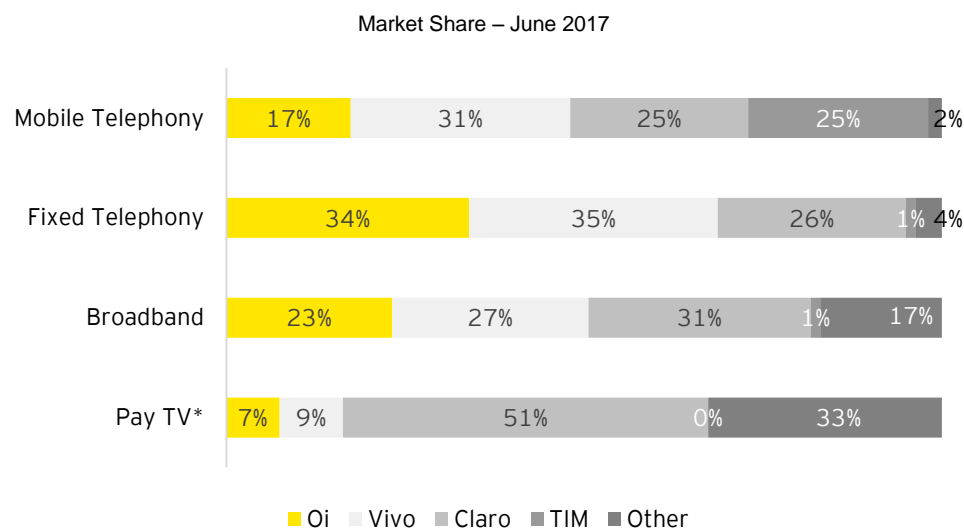
#### Market and Historical Analysis

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#### Telecommunications market analysis

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

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



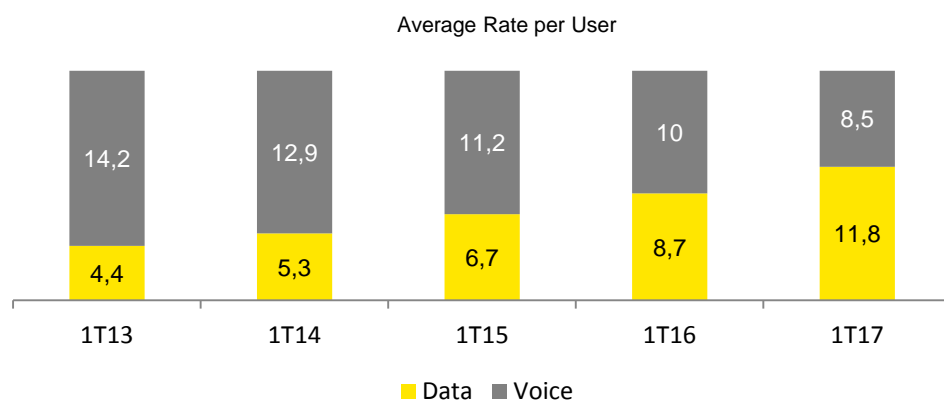
Due to this revenue composition, operators keep focused on driving resources to maintain competitiveness on the mobile market. However, this service requires large investment needs, since it has gone through constant technological changes in the past few years. The following graph shows the growth of the mobile communication, according to the number of active users, and the development of new technologies.

### 3 Scenario A – Going Concern Valuation

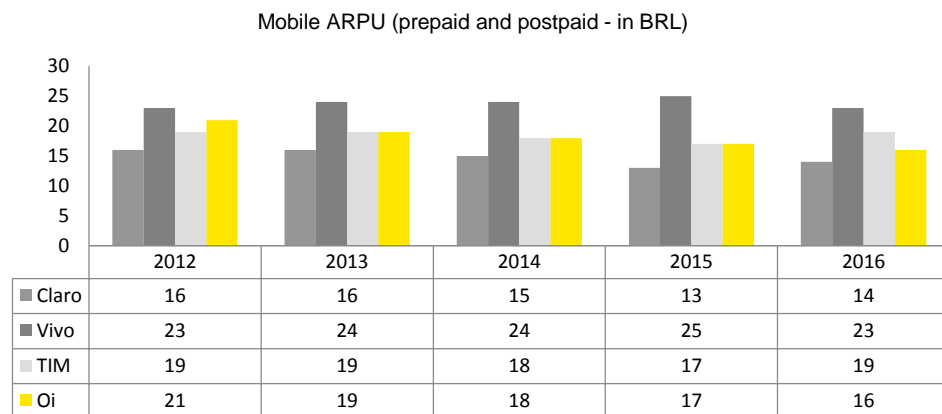
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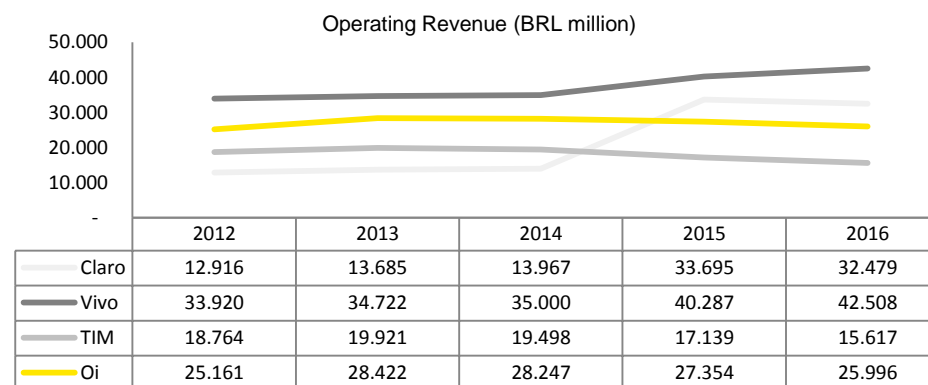
These technological advances encourages and stimulates changes in the users' consumption patterns, whose use of mobile telephony services is driven to a higher consumption of data compared to voice services, as shown in the chart below:



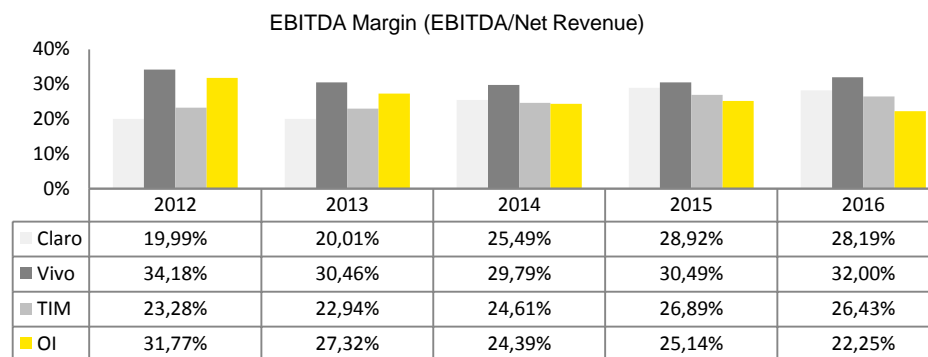
In recent years, the market presented a decrease in the ARPU, with the exception of Vivo, as shown below:



In the mobile comparison below, Oi holds an average revenue of BRL 27 billion from 2012 to 2016. Claro's revenue increase from 2014 to 2015 results from its group's corporate restructuring, in which Claro incorporated the operations of Net, and Embratel.



The operating margins presented by Oi have decreased over the past few years, in line with the ARPU reductions, increased penetration in less profitable products bases and increased competition, leading to higher expenses for customer acquisition and maintenance



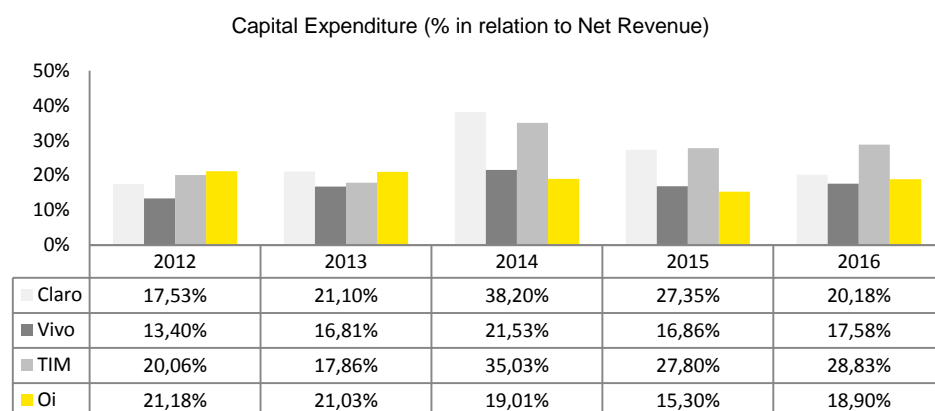


### 3 Scenario A – Going Concern Valuation

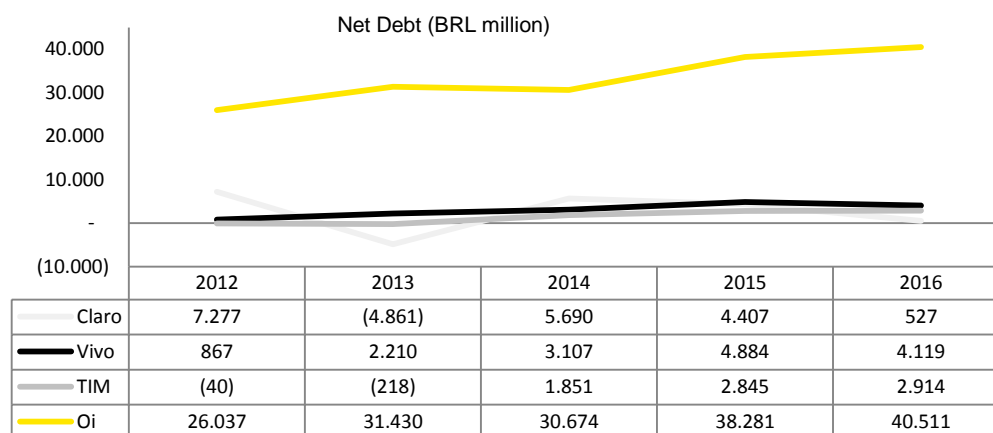
#### Market and Historical Analysis

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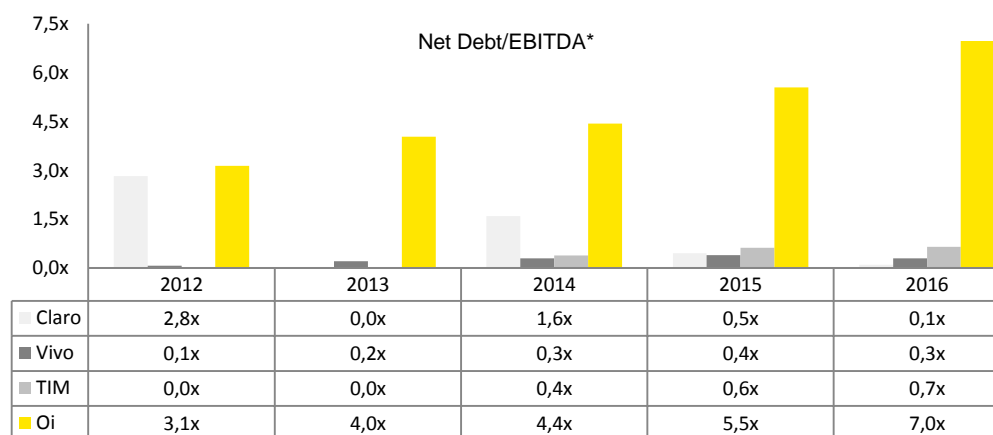
Shown below is the percentage, in relation to revenue, of the investments in physical and intangible assets (Capital Expenditure) carried out by operators in the last few years:



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



Important note: Oi is the unique pure Brazilian company among its main competitors and the part of the debt of the other players are with their headquarters, not accounted for as debt in the balance sheet but rather as intercompany balances.



### 3 Scenario A – Going Concern Valuation

#### Equity Research – Oi Analyst Report

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#### Equity Research - Oi Analyst Reports

For Oi in specific, recent market reports have been analyzed. See BTG Pactual Oi report from 08 February 2018, Credit Suisse Oi report from 01 February 2018 and 14 December 2017, Barclays Oi report from 06 October 2017 and 14 December 2017. Specific assumptions such as Revenue, EBITDA, EBITDA margins and CAPEX forecasts were analyzed.

#### Revenue

Overall, the analyst reports are expecting Oi to maintain its revenue level from 2017 to 2019 with an average expected net revenues figures of BRL 24bn. The revenue forecasted by analyst reports and Oi's forecast were compared. The revenue comparison shows that the revenue forecasted by Oi is in line with the average of analyst reports. Please the table below:

Revenue (values in BRL bn)	2017E	2018E	2019E
BTG Pactual	24,1	23,8	24,1
Credit Suisse – 1 Feb 2018	23,8	23,3	23,4
Barclays – 14 Dec 2017	24,0	23,2	22,8
Credit Suisse - 14 Dec 2017	24,0	24,0	24,4
JP Morgan	23,8	23,1	22,7
Barclays – 6 Oct 2017	23,7	22,7	22,2
<b>Analyst Report Average</b>	<b>23,9</b>	<b>23,3</b>	<b>23,3</b>
<b>Oi Management</b>	<b>24,0</b>	<b>23,7</b>	<b>24,4</b>

#### EBITDA margins

Source: Oi/Analyst reports

For EBITDA margins, a rebound is already expected starting in 2017 in comparison to 2016 results. Margins from 2017 to 2019 are expected to stay in the 27% to 28% range with steady growth for the period after, in line with Management projected EBITDA margin growth. The EBITDA margin forecasted by Oi is below the average of the analyst report, please see the following table.

EBITDA Margin (%)	2017E	2018E	2019E
BTG Pactual	27,2%	27,4%	27,8%
Credit Suisse – 1 Feb 2018	26,8%	27,2%	27,6%
Barclays – 14 Dec 2017	27,8%	28,6%	28,0%
Credit Suisse - 14 Dec 2017	27,3%	27,6%	28,1%
JP Morgan	28,1%	28,0%	28,1%
Barclays – 6 Oct 2017	28,6%	28,5%	27,6%
<b>Analyst Report Average</b>	<b>27,6%</b>	<b>27,9%</b>	<b>27,9%</b>
<b>Oi Management</b>	<b>25,4%</b>	<b>26,0%</b>	<b>26,4%</b>

Source: Oi/Analyst reports

#### Capex

According to the analyst reports is expect an incremental capital expenditures, from Oi to fulfill a technologic gap Oi has compared to the market competitors. Management's capex forecast is higher when compared to analyst reports expectations. Please see the table below:

CAPEX (values in BRL bn)	2017E	2018E	2019E
BTG Pactual	(5,4)	(7,0)	(7,1)
Credit Suisse – 1 Feb 2018	(5,3)	(5,3)	(7,0)
Barclays – 14 Dec 2017	(5,1)	(4,9)	(4,5)
Credit Suisse - 14 Dec 2017	(5,3)	(7,1)	(7,1)
JP Morgan	(5,0)	(4,1)	(4,1)
Barclays – 6 Oct 2017	(5,0)	(4,8)	(4,4)
<b>Analyst Report Average</b>	<b>(5,2)</b>	<b>(5,6)</b>	<b>(5,7)</b>
<b>Oi Management</b>	<b>(5,3)</b>	<b>(7,1)</b>	<b>(7,0)</b>

Source: Oi/Analyst reports

#### Local competitors

Additionally, recent market reports for two local competitors were analyzed in order to understand if Oi expectations were trailing behind or in line with its Brazilian peers.

The following reports were analyzed for Tim and Telefonica Brasil. TIM: Itau BBA report from 5 February 2018; JPMorgan report from 29 January 2018; and Credit Suisse report from 23 January 2018. Telefonica Brasil: Itau BBA sector flash of January and February 2018; UBS report from 10 January 2018; JPMorgan report from 05 December 2017; and Barclays report from 26 October 2017.

For both companies net revenues are expected to continue its upwards trend of the past couple years without any year of decline. While Tim is more focused on mobile services, Telefonica has a broader range of products including internet and TV services that are more comparable to Oi segments. EBITDA margins for both companies are expected to keep rising with revenue growth and cost savings. Tim margin is expected to reach 37%-38% levels in 2018/2019 while Telefonica Brasil margins are projected at 36%-37% for the same period.

It is worth noting that Tim's expectations for capital expenditures are expected to be around the 22% of net revenues levels while Telefonica projections are slightly lower, around 16,5%, for the period of 2017-2020. With the RJ Plan Oi expects to invest heavily in the first three projected years (2018-2020) with an average of 28,4% of net revenues and maintaining a level of 17,4% after, in line with Telefonica.

### 3 Scenario A – Going Concern Valuation

#### Macroeconomic

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#### Macroeconomic assumptions

The following table presents the macroeconomic assumptions used by Oi as basis for the financial forecast:

Description	Unit	Source	Date	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
IPCA	% p.a.	BCB	jun/17	6,39%	3,44%	4,26%	4,25%	4,18%	4,12%	4,12%	4,12%	4,12%	4,12%	4,12%	4,12%
CPI	% p.a.	BMI	jun/17	1,27%	2,15%	1,94%	1,96%	1,95%	1,99%	2,00%	2,01%	2,00%	2,03%	2,03%	2,03%
HICP	% p.a.	European Central Bank	jun/17	0,20%	1,50%	1,40%	1,60%	1,50%	1,60%	1,80%	1,80%	1,80%	1,80%	1,80%	1,80%
EUR (year average)	BRL	Oxford Economics	jul/17	3,86	3,65	4,09	4,28	4,39	4,51	4,62	4,73	4,84	4,95	5,06	5,09
USD (year average)	BRL	BCB	jun/17	3,48	3,25	3,38	3,43	3,48	3,55	3,62	3,7	3,78	3,85	3,93	4,01
TR	% p.a.	Portal Brasil	jun/17	2,01%	1,55%	1,55%	1,55%	1,55%	1,55%	1,55%	1,55%	1,55%	1,55%	1,55%	1,55%
Selic	% p.a.	BCB	jun/17	14,08%	10,21%	8,26%	8,44%	8,41%	8,34%	8,34%	8,34%	8,34%	8,34%	8,34%	8,34%
TJLP	% p.a.	Receita Federal do Brasil	jun/17	7,50%	7,00%	7,00%	7,00%	7,00%	7,00%	7,00%	7,00%	7,00%	7,00%	7,00%	7,00%
Libor	% p.a.	Capital IQ	jun/17	1,54%	1,74%	1,74%	1,74%	1,74%	1,74%	1,74%	1,74%	1,74%	1,74%	1,74%	1,74%
Libor 6 m	% p.a.	Capital IQ	jun/17	1,23%	0,46%	0,46%	0,46%	0,46%	0,46%	0,46%	0,46%	0,46%	0,46%	0,46%	0,46%
Euribor 3 m	% p.a.	Capital IQ	jun/17	-0,30%	-0,33%	-0,33%	-0,33%	-0,33%	-0,33%	-0,33%	-0,33%	-0,33%	-0,33%	-0,33%	-0,33%
Euribor 6 m	% p.a.	Capital IQ	jun/17	-0,19%	-0,27%	-0,27%	-0,27%	-0,27%	-0,27%	-0,27%	-0,27%	-0,27%	-0,27%	-0,27%	-0,27%
INPC	% p.a.	IBGE / BCB	jun/17	6,85%	3,93%	4,21%	4,19%	4,17%	4,22%	4,22%	4,22%	4,22%	4,22%	4,22%	4,22%

# 3.5

**Prospective Financial Information of  
Oi**

### 3 Scenario A – Going Concern Valuation

#### Cash flow overview

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#### Oi's consolidated cash flow

This section presents the most recent economic-financial forecast of Oi, which considers the macroeconomic, operational and financial assumptions adopted by Oi in the context of the RJ Plan.

The expected cash flows for the valuation of equity value of Oi are still subject to eventual changes as the debt holders can opt from the different restructured offers, this Report takes into consideration Management expected allocation between the offerings which may be different. In addition to the uncertainties inherent in this forecast, there are other factors that can impact the future cash flows of the business, such as accounting practices to be adopted, tax planning due to the tax treatment of the transactions underlying the RJ Plan, regulatory understandings, legal interpretations, the non-consummation of anticipated capital injections and third party financing, as well as the profile of debts derived from the creditors meeting in a going concern scenario.

All assumptions presented in this Report were based on expected scenarios forecasted exclusively by Oi, its advisors and further service providers hired to develop the RJ Plan and were not subject of independent investigation by EY, which is not part of the scope of work, to propose or judge any aspects related to such events. The conclusions of EY contained in this Report assume, therefore, the basic assumption that, when forecasting scenarios, Oi observed all legal, regulatory and tax aspects. It is important to note that Oi's understanding and view of the forecast may be different from the understanding of its creditors, tax authorities, legal authorities and regulatory agencies and we advise any reader of this report to run their own independent analysis regarding the Oi Group's ability to repay its debts.

Additionally to the base case scenario, EY ran a sensitivity analysis considering a higher discount rate. The result of this sensitivity scenario can be seen on Page 99 of this Report.

Since the companies that are part of Oi Group have a significant economic and operational interconnection, the forecast was prepared on a consolidated basis, including the assumptions and figures of the RJ Debtors, as well as Oi Group's other subsidiaries, with the exception of the companies operating in Africa, which are considered as assets available for sale and have an independent operation. The sale of these assets were not considered in the forecasted cash flow, but instead their estimated liquidation value were summed to the value of Oi Group in accordance with the value recorded in Company's financial statements.

It is important to mention that since there is no positioning from the Supreme Court (Superior Tribunal de Justiça) that ratifies the decisions of the Dutch Supreme Court regarding the bankruptcy of the Dutch companies, the going concern scenario A considered the continuity of Oi Coop and PTIF for the judicial reorganization purposes.

From Oi Group's business plan, EY analyzed the operating assumptions and future results estimated by the Company. Therefore, the following activities were performed:

- Discussions with the Company in order to understand the projections;
- Identification, through the information made available by Oi, of the most relevant assumptions;
- Comparison between historical and estimated results, as well as market research;
- Comparative analysis of comparable firms indicators, obtained through S&P Capital IQ.<sup>1</sup>

<sup>1</sup>The Capital IQ provides information about public companies, or not, audited data, M&A transactions, IPOs, etc. This comparison provides the diagnosis points for analysis.

### 3 Scenario A – Going Concern Valuation

#### Revenue

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#### Net Revenue

Oi revenues are segregated into fixed lines, mobile, broadband, data transmission, pay-tv, value added services and public use terminals, sales, interconnection and other revenues.

Oi recognizes that telecom is a changing market, especially in the technological field, which justifies some of the expected changes over the forecasted period. Reductions are expected in revenues from fixed lines. On the other hand, a larger representation of the revenues stemming from mobile network and broadband is expected.

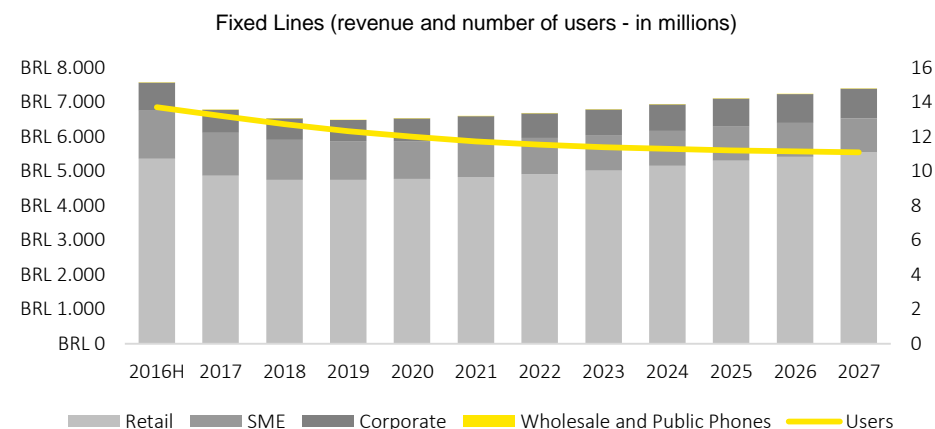
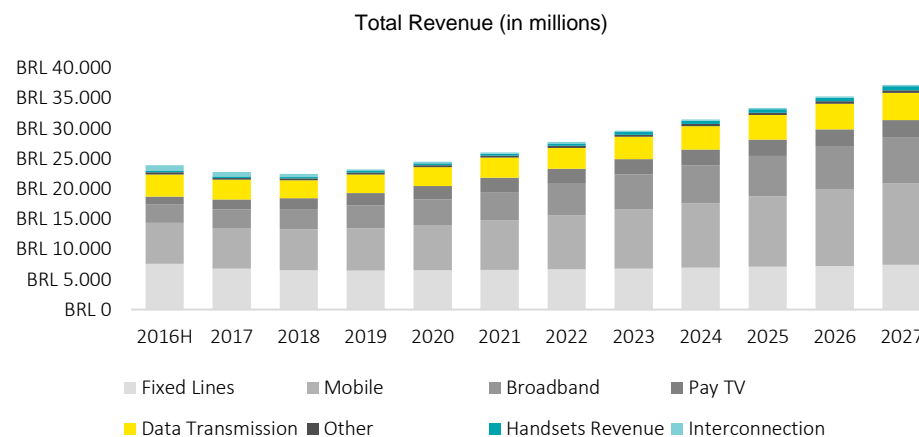
Revenue from fixed-lines will lose relevance in range of Oi's products, while mobile, broadband and pay TV are gaining ground. This dynamic arises from the current market conditions and users' patterns of preferences, which include the switch of fixed telephony communication to mobile and increase of data services compared to voice.

Additionally, it is worth mentioning that, from 2016 to 2017, revenues arising from business-to-business segments suffered impacts due to the macroeconomic scenario and Oi's reorganization process. Oi forecasts a recovery of this segment throughout the next years. Below are presented the projections of the Oi Group's sources of revenue.

#### Fixed Lines

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

The decline in revenue of these services is mainly explained by a change in users' consumption patterns in nearly all of Oi's operating segments regarding fixed telephony. However, Oi estimates a growth of the average revenue per user, motivated by greater commercial efforts in the sale of packages containing several products ("bundles").



### 3 Scenario A – Going Concern Valuation

#### Revenue

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#### Mobile

Mobile includes prepaid, postpaid, VAS (Value-Added Services) and mobile broadband to retail, wholesale, corporate and SME customers. The chart on the right shows the changes in the number of customers for this service, as well as the projected revenues.

In the end of 2016, Oi conducted the disconnection of approximately 4,7 million of inactive prepaid lines, which reduces the customer base, aiming to reduce regulatory costs. Additionally, Oi estimates a reduction of the number of revenue generating units in the business/corporate segment (*business-to-business*), as a consequence of the macroeconomic scenario deterioration and a drop in the quantity of prepaid products to retail in the first year of the projection.

Oi estimates a revenue growth of postpaid products, along with the strategy of strengthening the bundles offer.

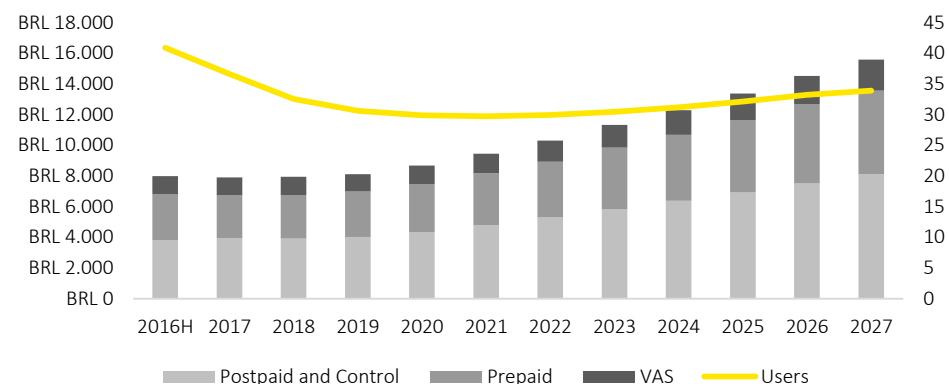
The VAS line refers to complementary activities to the telecommunication services, such as text messages and applications for mobile phones.

#### Broadband

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

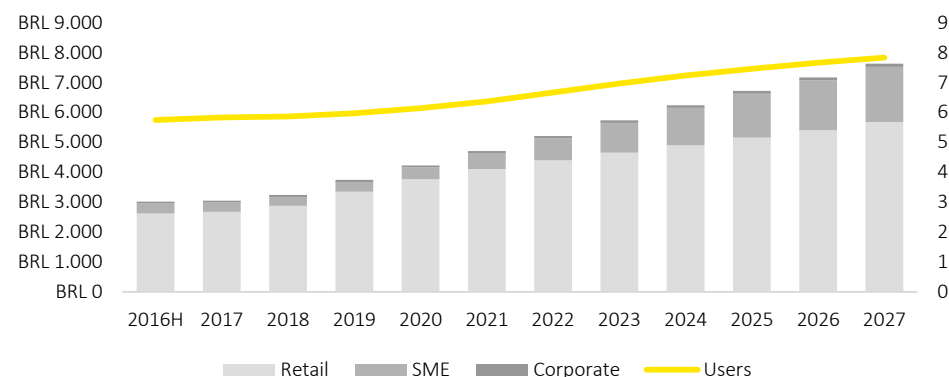
The expected growth of broadband internet and bundled services is demonstrated on the chart aside. Through initiatives such as network improvement investments, selected price increases and bundles sales, the Company expects to reach a level of approximately BRL 7,6 billion in this revenue line by 2027. According to Oi, this strategy involves both market penetration in order to regain market share, as well as the development of existing customers.

Mobile (revenue and number of users - in millions)



Source: Oi

Broadband (revenue and number of users - in millions)



Source: Oi

### 3 Scenario A – Going Concern Valuation

#### Revenue

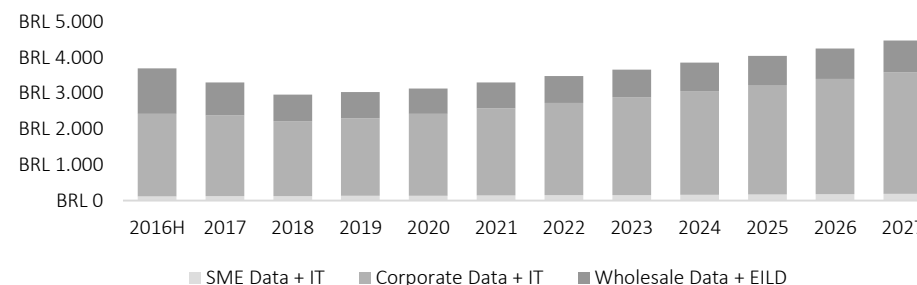
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#### Data Transmission

Refers to corporate/business services regarding data transmission, including Industrial Exploitation of Dedicated Lines ("EILD"), Dedicated Line Services ("SLD") and IP services. The chart on the right shows the revenue of Data Transmission estimated by Oi.

This line gathers products of opposing trends. The EILD is regulated by ANATEL, and Oi estimates a decrease in its revenue in the first years of the forecast. On the other hand, regarding the data service in the SME and corporate segments, the Company expects growth tied to investments in network infrastructure.

Data Transmission (revenue - in millions)



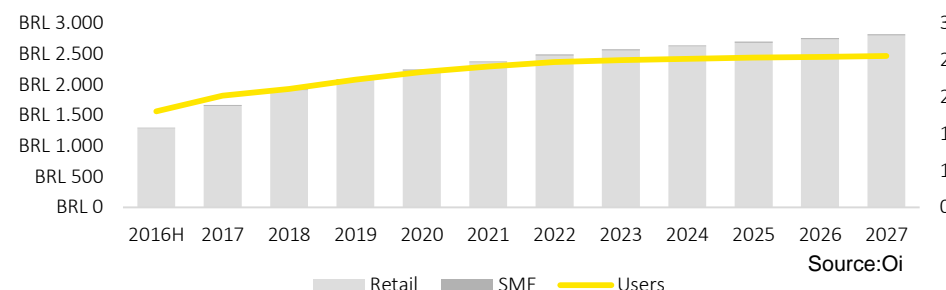
Source:Oi

#### Pay Television

Refers to subscription-based television services to retail and SME customers. The chart aside shows the changes in the number of customers, as well as pay-tv revenue, both forecasted by Oi.

The chart aside demonstrates expectation of increase in revenues and number users in the mid and long term. This growth, already observed in the first semester of 2017, is explained mainly by Oi's commercial initiatives, including digital media focused investments and the bundled services sales strategy.

Pay Television (revenue and number of users - in millions)



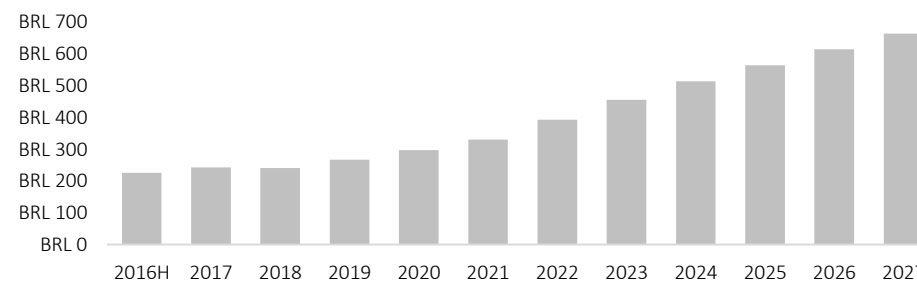
Source:Oi

#### Handsets

This line represents the sale of telecommunications equipment to retail customers, corporate, SME. The chart below demonstrates the changes of the handsets revenue estimated by Oi.

Oi expects that its strategic positioning focusing on an increased penetration of postpaid and control products, lined with increased investments on 4G technology, results in higher revenues arising from handsets sales.

Handsets Revenue (revenue - in millions)



Source:Oi



### 3 Scenario A – Going Concern Valuation

#### Revenue

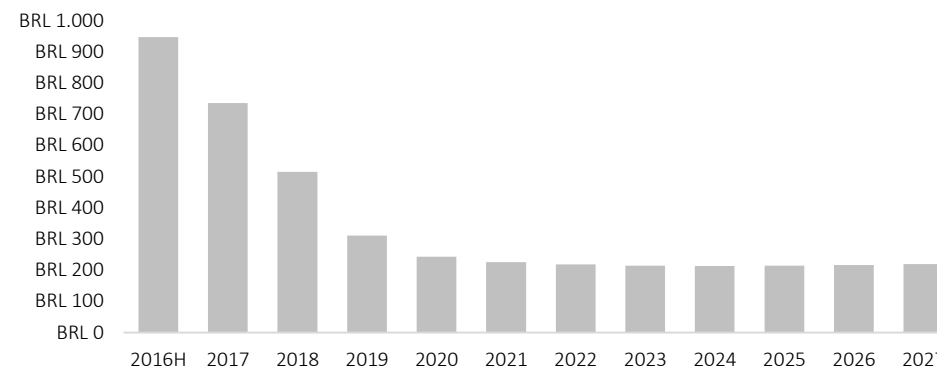
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#### Interconnection

Revenue from interconnection arises from the fees charged by Oi for the use of its network by other operators. The chart on the right shows the changes in revenue, as estimated by Oi.

Due to the regulatory framework, Oi expects that the interconnection rates will suffer sharp falls.

Interconnection (revenue - in millions)

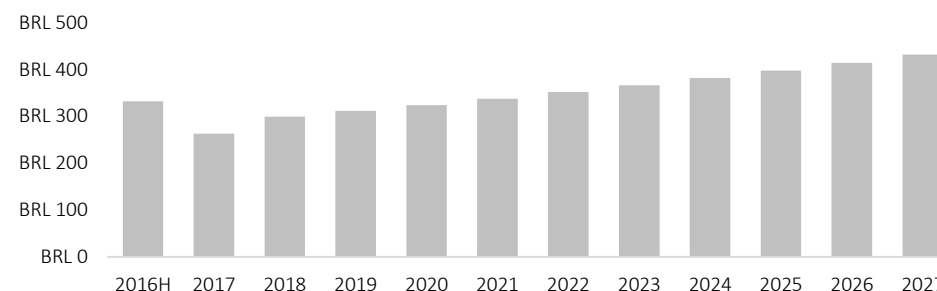


Source: Oi

#### Other revenue

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

Other Revenues (revenue - in millions)



Source: Oi

### 3 Scenario A – Going Concern Valuation

#### Costs and Expenses

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#### Costs and Expenses

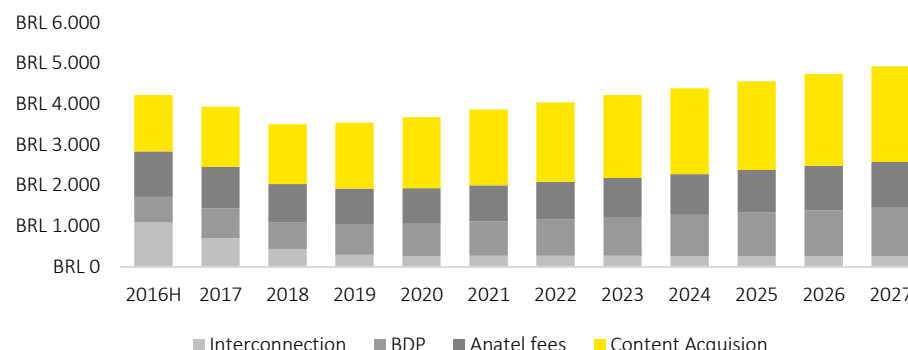
Costs and expenses were projected by Oi and specified as follows: expenses related to revenues, network expenses, commercial expenses, SG&A expenses and other expenses.

##### Expenses Related to Revenue

Expenses related to revenue include interconnection expenses, expenses with BDP, ANATEL fees and content acquisition, as shown on the right.

These expenses projected by Oi suffered minor variations throughout the projection period, with the exception of interconnection expenses, which will have their tariffs reduced by ANATEL. Thus, the Company expects a worsening of the BDP expenses, from 2016 to 2017, as a result of the current macroeconomic context.

Expenses Related to Revenue (costs and expenses - in millions)



Source: Oi

##### Network Expenses

Network expenses involves network maintenance, transmission infrastructure, telecom infrastructure, revenue from infrastructure rental, customer services, collection, post and billing and electricity, as shown on the right.

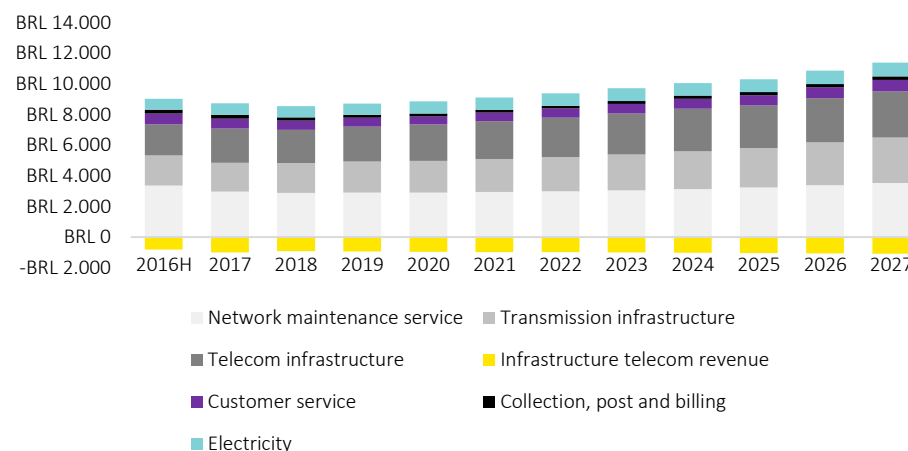
The cost of network maintenance decreases due to new investments driven to network and remote troubleshooting. Another important initiative includes the creation of a team dedicated to reduce the electricity costs.

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

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

The aforementioned initiatives can be observed in the results presented by Oi, referring to the first semester of 2017.

Network Expenses (costs and expenses - in millions)



Source: Oi

### 3 Scenario A – Going Concern Valuation

#### Costs and Expenses

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#### Commercial Expenses

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

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

#### SG&A Expenses

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

In addition to the reduction of these expenses, already presented in the first semester of 2017, the Company expects a growth lined to the inflation for the following years. This forecast demonstrates the expectations of a continuity of the initiatives related to increasing operating efficiency, highlights are the process of integrating network service providers, as well as an increase in the workforce productivity.

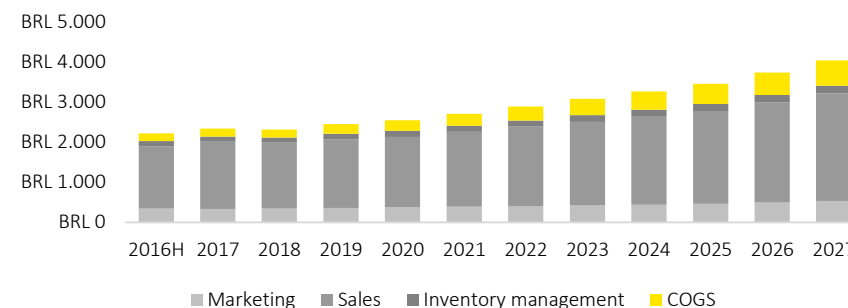
#### Other Expenses

Other expenses contemplate contingencies, legal and tax obligations, as shown on the right.

Oi estimates an improvement in their customer service and execution of agreements, leading to a decrease in costs regarding legal proceedings. Promptly in 2017, the decline in these expenses are explained by a lower volume of lawsuits arising from the Special Civil Court ("JEC"), due an operational improvement and the Company's reorganization process.

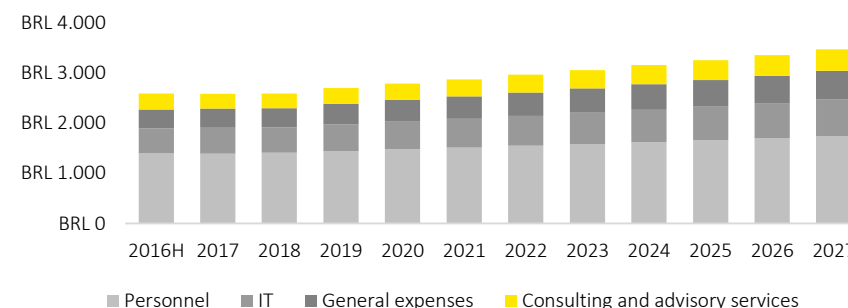
The tax obligations are mainly represented by the tax generated in transactions with other companies of the group.

Commercial Expenses (costs and expenses - in millions)



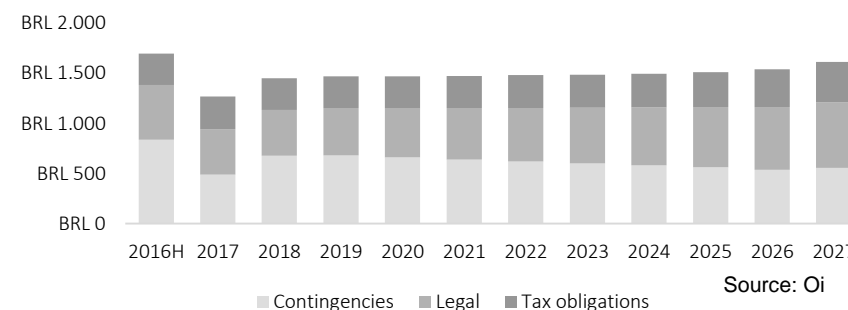
Source: Oi

SG&A Expenses (costs and expenses - in millions)



Source: Oi

Other Expenses (costs and expenses - in millions)



Source: Oi

### 3 Scenario A – Going Concern Valuation

## EBITDA

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### EBITDA

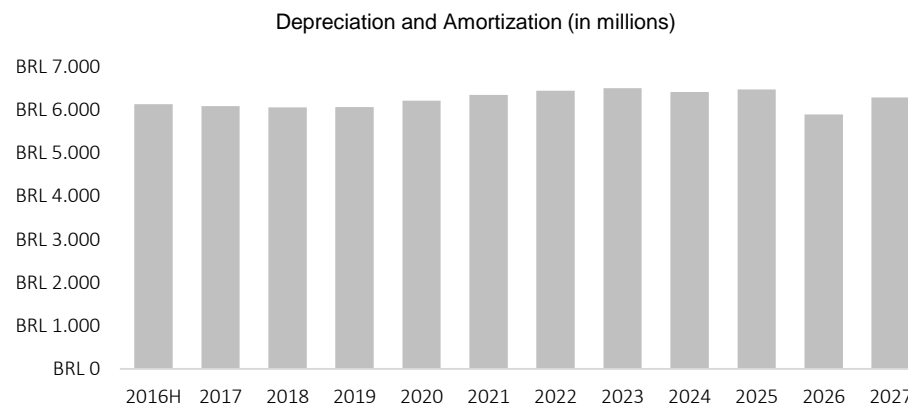
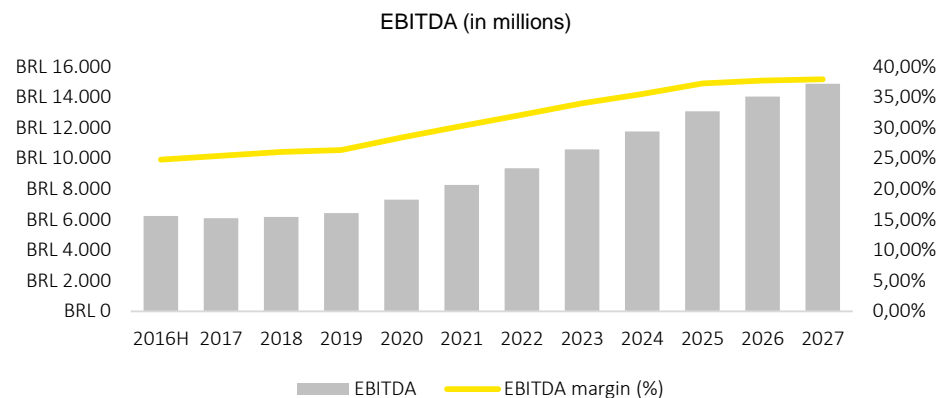
Considering the accounts above, the chart on the right shows the EBITDA changes in the current projection.

Oi projects an increase in its EBITDA margin from 2017 onward. This gain is guided by changes in the products profile, increasing its added value, and the implementation of optimization measures regarding costs and expenses. Despite the EBITDA margins of 2027 (last years of the projected period) being above the current market margins, the Company believes that this growth is in line with the expected market development. We checked expected margin for the competitors, as projected by IB market analysts, and concluded that the long term margin projected by Oi is close to those projected by the IBs to Oi's competitors in the next few years.

### Depreciation & Amortization

On the right are presented the depreciation and amortization projected by Oi. The depreciation calculation methodology was revised and the average depreciation rate for new investments considered by the Company was 8,9%. For further assets, it was considered the depreciation projected by the Company

The Company made adjustments in its 2015 financial statements, with the purpose of presenting, retrospectively, from the added value of TmarPart in the amount of BRL 9,1 billion. In this sense, there is a yearly average increase of BRL 0,9 billion up to 2025, in the depreciation and amortization forecasted by the Company, from these adjustments.



### 3 Scenario A – Going Concern Valuation

#### Financial result and Income tax

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#### Financial results

The financial result in the income statement relates to financial income and expenses by the Company without including the interest on the restructured debt approved in the RJ Plan as these are presented separately in the cash flow. The breakdown of the financial result is as follows:

- ▶ Financial income includes Management forecast on overdue customers on interest related to customers that have not paid their bill on time and are charged extra interest. Additionally, Oi Group cash and cash equivalents were considered as a reserve cash for the negative cash flows of the first years of the projection generating additional financial income calculated as 100% of the projected Selic.
- ▶ Financial expenses include interest paid on the two new debt that is forecast to be issued in 2019 and 2020 as presented on the RJ Plan. (BRL 2,5 billion in 2019 and BRL 2,0 billion in 2020).
- ▶ Other financial income and expenses include expected payments relating to insurance, banking and commission bail, judicial recovery expenses, indirect taxes on intercompany loans and tributary impact on RJ Plan.

#### Income Tax and Social Contribution

- ▶ This line includes Income and Social Contribution Taxes (IT and SC, respectively) on earnings before taxes, as well as all of the IT withheld in favor of third parties related to financial operations. IT & SC were calculated individually on each company level taking into consideration intercompany loans and investment within each company.
- ▶ The rate of the IT is equivalent to 15% of the earnings before tax (EBT) on the actual profit tax system (Lucro Real), plus an additional 10% on the amount above BRL 240 thousand (annual). The SC rate was projected at 9% of the taxable income. Additionally, if there are accumulated losses over the projection, these balances reduce the direct taxes calculation basis up to 30%, limited by the remaining balance of the accumulated losses.
- ▶ Company estimates that the tax gains arising from the renegotiation with creditors will be entirely absorbed by the RJ Debtors' current and accumulated fiscal losses.
- ▶ In 2018, the amount regarding the direct taxes is impacted mainly by the IT collection on behalf of third parties, tied to the interest due as of the Judicial Reorganization's approval.
- ▶ It should be stressed that particular corporate reorganizations, provided in the RJ Plan, were addressed in the projections in order to optimize the Group's tax structure. They are: (i) the incorporation of Oi Internet S.A. into Oi Móvel, (ii) incorporation of Copart 4 into Telemar and (iii) incorporation of Copart 5 into Oi.

### 3 Scenario A – Going Concern Valuation

#### Cash Flow Assumptions

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#### Cash flow

The consolidated cash flow was calculated from the net profit including the depreciation, changes in working capital, investments, amortization, payment plan to creditors and other expenditures that have effect on cash over the projection, further detailed below.

#### Working Capital

The working capital needs were projected based on the operational accounts in Oi balance sheet on the reference date considering historic drivers as shown on the table below. The accounts that were not included in the working capital were treated as non operating assets and liabilities.

Account	Driver	2014	2015	2016	2017 (June)	Assumption
<b>Uses</b>						
Accounts receivable	Days of net revenue	97,1	114,1	119,4	130,0	119,4
Inventory	Days of COGS	N/A	N/A	661,9	850,4	756,1
Current and recoverable taxes	Days of net revenue	14,3	12,5	18,9	8,8	13,6
Other taxes	% of net revenue	4%	3%	5%	12%	4,1%
Prepaid expenses	Days of net revenue	3,9	4,0	4,2	10,9	4,0
<b>Resources</b>						
Accounts payable	Days of Opex	N/A	N/A	121,0	147,8	121,0
Salaries and social benefits	Days of salaries	N/A	N/A	182,2	N/A	182,2
Obligations and taxes payable	Days of taxes	N/A	N/A	19,2	N/A	19,2
Taxes payable	% of net revenue	6,0%	5,9%	7,2%	15,1%	6,4%
Government taxes payable	% of net revenue	0,3%	0,3%	0,4%	2,2%	0,4%
Other accounts payable	Days of other expenses	N/A	439,9	333,0	280,5	386,4

Source: Oi/EY

#### Non-recurring Operations

For Report elaboration purposes, the Company considered that the Capital Increase – New Funds, Additional Financing Manners, as well as further fundraising will come to fruition, representing a gross cash injection in the amount of BRL 8,5 billion between 2018 and 2027. In relation to the Capital Increase – New Funds, the Company received from a group of creditors the document “Subscription and Commitment Agreement” containing the capital increase commitment in the amount of BRL 4 billion, bound to the fulfillment of certain conditions precedent, as described in the document.

In this Report, we considered that the Capital Increase Strategic Creditors of BRL 4 billion will come to fruition and are projected in this line on the year of 2018.

### 3 Scenario A – Going Concern Valuation

#### Cash Flow Assumptions

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#### Cash Flow from Investment Activities

Currently, Oi targets CAPEX primarily towards the improvement of its existing structure and the Company aims to improve the quality of the service and to maintain competitiveness in the telecom market. In this context, Oi has initiatives to maintain CAPEX enough to satisfy the growing demand for data and broadband. Additionally, the Company is targeting its investments in order to prioritize the information technology segment, focusing on areas where there is a greater potential for growth and selecting strategic locations to expand its cables and fibers. The Company projects resources of approximately BRL 6,1 billion per year (average of 21,1% of the net revenue over the projection) with an average of BRL 6,9 billion in 2018, 2019 and 2020.

#### Cash flow from Financial Activities

The cash flow of financial activities include the following:

- ▶ Payment to the RJ Creditors as agreed on the approved RJ Plan.
- ▶ The flow of payments to creditors, forecasted by Oi, contemplates the use of Court Deposits balances and, in cases where the deposited amounts are higher than its obligations, the surplus is made available to the Company.
- ▶ The new issued debts will remain tied to their respective original debtors, with the exception of PTIF and Oi Coop debts, from which the credit holders will be now Oi creditors. The credit holders of Copart 4, which will be merged into Telemar, and of the credit holders of Copart 5, which will be merged into Oi, which will become Telemar's and Oi's creditors, respectively.
- ▶ The values used as basis for the projections include, in addition to the creditors recognized in the Creditor's List of the Bankruptcy Trustee presented by the Debtors, creditors in litigation not yet recognized in the Creditors' List of the Bankruptcy Trustee.
- ▶ The disbursement and amortization of the new debts of BRL 4,5 billion, being: (i) BRL 2,5 billion in 2019, interest rate equal to 130% of the CDI, half-yearly interest payments and amortization of the principal at the end of the 10th year; and (ii) BRL 2 billion in 2020, issued in US Dollars, interest rate equal to Libor + 2%, half-yearly interest payments and amortization of the principal at the end of the 10th year.
- ▶ Additionally as the Company pays its debts, the debt to equity ratio is expected to fall below peer company levels. A revolver debt line was estimated in order to maintain market levels of debt to equity ratio. The revolver debt was project at a cost of 130% of the CDI and amortization on the following year of the disbursement. Additional debt was also considered at the same cost for years that the projected cash balance falls below zero.

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# 3.6

Oi's equity value valuation



### 3 Scenario A – Going Concern Valuation

#### Income Statement

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#### Consolidated Income Statement

Considering the numbers and assumptions described on the prior pages, follow below table with the consolidated income statement of the Group. The financial results are calculated according to the JRP terms and conditions, explained during intro.

Income statement	2017 (6m)	2018	2019	2020	2021	2022	2023	2024	2025	2026
<b>Net Revenue</b>	<b>12.104</b>	<b>23.669</b>	<b>24.371</b>	<b>25.698</b>	<b>27.337</b>	<b>29.143</b>	<b>31.126</b>	<b>33.088</b>	<b>35.128</b>	<b>37.203</b>
% revenue growth	2,1%	-2,2%	3,0%	5,4%	6,4%	6,6%	6,8%	6,3%	6,2%	5,9%
<b>Costs and expenses</b>	<b>(9.300)</b>	<b>(17.504)</b>	<b>(17.938)</b>	<b>(18.388)</b>	<b>(19.059)</b>	<b>(19.775)</b>	<b>(20.540)</b>	<b>(21.331)</b>	<b>(22.038)</b>	<b>(23.157)</b>
Expenses related to revenue	(1.607)	(3.505)	(3.543)	(3.674)	(3.861)	(4.034)	(4.218)	(4.385)	(4.556)	(4.734)
Network expenses	(5.169)	(7.646)	(7.781)	(7.917)	(8.151)	(8.405)	(8.704)	(9.035)	(9.261)	(9.792)
Commercial expenses	(1.096)	(2.315)	(2.446)	(2.543)	(2.702)	(2.890)	(3.077)	(3.261)	(3.455)	(3.735)
SG&A expenses	(1.252)	(2.589)	(2.699)	(2.786)	(2.873)	(2.964)	(3.058)	(3.155)	(3.255)	(3.358)
Other expenses	(176)	(1.449)	(1.468)	(1.469)	(1.472)	(1.482)	(1.484)	(1.495)	(1.512)	(1.538)
<b>EBITDA</b>	<b>2.804</b>	<b>6.165</b>	<b>6.433</b>	<b>7.310</b>	<b>8.278</b>	<b>9.367</b>	<b>10.586</b>	<b>11.757</b>	<b>13.089</b>	<b>14.046</b>
EBITDA margin	23,17%	26,05%	26,40%	28,45%	30,28%	32,14%	34,01%	35,53%	37,26%	37,75%
Depreciation and amortization	(3.201)	(6.057)	(6.065)	(6.219)	(6.349)	(6.448)	(6.506)	(6.416)	(6.475)	(5.895)
<b>EBIT</b>	<b>(397)</b>	<b>108</b>	<b>369</b>	<b>1.091</b>	<b>1.928</b>	<b>2.919</b>	<b>4.079</b>	<b>5.340</b>	<b>6.615</b>	<b>8.150</b>
EBIT margin	-3,3%	0,5%	1,5%	4,2%	7,1%	10,0%	13,1%	16,1%	18,8%	21,9%
Financial results	15	(765)	(8)	(183)	(240)	(254)	(269)	(289)	(238)	(678)
<b>EBT</b>	<b>(382)</b>	<b>(657)</b>	<b>360</b>	<b>908</b>	<b>1.689</b>	<b>2.665</b>	<b>3.810</b>	<b>5.051</b>	<b>6.376</b>	<b>7.472</b>
Income tax and social contribution	(366)	(978)	(120)	(228)	(409)	(837)	(1.185)	(1.570)	(1.748)	(1.766)
<b>Net profit</b>	<b>(748)</b>	<b>(1.635)</b>	<b>241</b>	<b>681</b>	<b>1.280</b>	<b>1.828</b>	<b>2.625</b>	<b>3.482</b>	<b>4.628</b>	<b>5.706</b>

Source: Oi/EY

### 3 Scenario A – Going Concern Valuation

#### Income Statement (cont.)

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#### Consolidated Income Statement

Considering the numbers and assumptions described on the prior pages, follow below table with the consolidated income statement of the Group. The financial results are calculated according to the JRP terms and conditions, explained during intro.

Income statement	2027	2028	2029	2030	2031	2032	2033	2034	2035	PPT
<b>Net Revenue</b>	<b>39.236</b>	<b>40.853</b>	<b>42.536</b>	<b>44.288</b>	<b>46.113</b>	<b>48.013</b>	<b>49.991</b>	<b>52.051</b>	<b>54.195</b>	<b>56.428</b>
% revenue growth	5,5%	4,1%	4,1%	4,1%	4,1%	4,1%	4,1%	4,1%	4,1%	4,1%
<b>Costs and expenses</b>	<b>(24.347)</b>	<b>(25.350)</b>	<b>(26.395)</b>	<b>(27.482)</b>	<b>(28.614)</b>	<b>(29.793)</b>	<b>(31.021)</b>	<b>(32.299)</b>	<b>(33.630)</b>	<b>(35.015)</b>
Expenses related to revenue	(4.923)	(5.126)	(5.337)	(5.557)	(5.785)	(6.024)	(6.272)	(6.530)	(6.799)	(7.080)
Network expenses	(10.305)	(10.729)	(11.171)	(11.632)	(12.111)	(12.610)	(13.129)	(13.670)	(14.234)	(14.820)
Commercial expenses	(4.034)	(4.200)	(4.373)	(4.554)	(4.741)	(4.937)	(5.140)	(5.352)	(5.572)	(5.802)
SG&A expenses	(3.473)	(3.617)	(3.766)	(3.921)	(4.082)	(4.250)	(4.426)	(4.608)	(4.798)	(4.995)
Other expenses	(1.612)	(1.678)	(1.748)	(1.820)	(1.895)	(1.973)	(2.054)	(2.138)	(2.227)	(2.318)
<b>EBITDA</b>	<b>14.889</b>	<b>15.503</b>	<b>16.141</b>	<b>16.806</b>	<b>17.499</b>	<b>18.220</b>	<b>18.970</b>	<b>19.752</b>	<b>20.566</b>	<b>21.413</b>
EBITDA margin	37,95%	37,95%	37,95%	37,95%	37,95%	37,95%	37,95%	37,95%	37,95%	37,95%
Depreciation and amortization	(6.288)	(6.565)	(6.636)	(6.684)	(6.809)	(6.998)	(7.290)	(7.589)	(7.864)	(7.864)
<b>EBIT</b>	<b>8.601</b>	<b>8.938</b>	<b>9.506</b>	<b>10.122</b>	<b>10.689</b>	<b>11.221</b>	<b>11.680</b>	<b>12.163</b>	<b>12.701</b>	<b>13.548</b>
Financial results	(680)	(696)	(581)	(420)	(390)	(406)	(423)	(441)	(452)	(4.251)*
<b>EBT</b>	<b>7.921</b>	<b>8.242</b>	<b>8.925</b>	<b>9.701</b>	<b>10.299</b>	<b>10.815</b>	<b>11.257</b>	<b>11.722</b>	<b>12.249</b>	<b>9.296</b>
Income tax and social contribution	(1.929)	(2.102)	(2.273)	(2.456)	(2.642)	(2.803)	(2.926)	(3.048)	(3.178)	(3.160)
<b>Net profit</b>	<b>5.992</b>	<b>6.140</b>	<b>6.652</b>	<b>7.245</b>	<b>7.657</b>	<b>8.011</b>	<b>8.329</b>	<b>8.672</b>	<b>9.070</b>	<b>6.135</b>

Source: Oi/EY

\* Includes revolver interest expenses

### 3 Scenario A – Going Concern Valuation

#### Operating Cash Flow

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The consolidated cash flow, projected from the assumptions provided by Oi, includes the operating and investing activities and is presented below:

Cash Flow	2017 (6m)	2018	2019	2020	2021	2022	2023	2024	2025	2026
<b>(=) Net profit</b>	<b>(748)</b>	<b>(1.635)</b>	<b>241</b>	<b>681</b>	<b>1.280</b>	<b>1.828</b>	<b>2.625</b>	<b>3.482</b>	<b>4.628</b>	<b>5.706</b>
(+) Depreciation	3.201	6.057	6.065	6.219	6.349	6.448	6.506	6.416	6.475	5.895
(+/-) Working capital	(436)	184	(121)	(336)	(366)	(453)	(504)	(470)	(505)	(394)
(+/-) Non core operations	-	4.000	-	-	-	-	-	-	-	-
<b>(=) Operating Cash Flows</b>	<b>2.017</b>	<b>8.605</b>	<b>6.184</b>	<b>6.564</b>	<b>7.263</b>	<b>7.823</b>	<b>8.628</b>	<b>9.428</b>	<b>10.598</b>	<b>11.207</b>
(-) Capex – ICMS	(285)	(602)	(772)	(755)	(880)	(527)	(557)	(586)	(614)	(642)
(+) Capex – ICMS credit	100	385	573	764	763	720	683	656	680	712
(-) Capex – ICMS free	(2.643)	(7.074)	(6.961)	(6.902)	(5.074)	(5.348)	(5.614)	(5.879)	(6.152)	(6.452)
<b>(=) Cash Flow from Investment Activities</b>	<b>(2.829)</b>	<b>(7.290)</b>	<b>(7.160)</b>	<b>(6.894)</b>	<b>(5.192)</b>	<b>(5.155)</b>	<b>(5.488)</b>	<b>(5.810)</b>	<b>(6.086)</b>	<b>(6.381)</b>

Source: Oi/EY

### 3 Scenario A – Going Concern Valuation

#### Operating Cash Flow (cont.)

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The consolidated cash flow, projected from the assumptions provided by Oi, includes the operating and investing activities and is presented below:

Cash Flow	2027	2028	2029	2030	2031	2032	2033	2034	2035	PPT
<b>(=) Net profit</b>	<b>5.992</b>	<b>6.140</b>	<b>6.652</b>	<b>7.245</b>	<b>7.657</b>	<b>8.011</b>	<b>8.329</b>	<b>8.672</b>	<b>9.070</b>	<b>6.135</b>
(+) Depreciation	6.288	6.565	6.636	6.684	6.809	6.998	7.290	7.589	7.864	7.864
(+/-) Working capital	(321)	(154)	(156)	(162)	(171)	(176)	(183)	(191)	(199)	(207)
(+/-) Non core operations	-	-	-	-	-	-	-	-	-	-
<b>(=) Operating Cash Flows</b>	<b>11.960</b>	<b>12.551</b>	<b>13.131</b>	<b>13.768</b>	<b>14.296</b>	<b>14.883</b>	<b>15.436</b>	<b>16.071</b>	<b>16.735</b>	<b>13.793</b>
(-) Capex – ICMS	(676)	(705)	(733)	(764)	(795)	(828)	(862)	(897)	(934)	(792)
(+) Capex – ICMS credit	745	778	811	844	879	915	953	992	1.033	792
(-) Capex – ICMS free	(6.718)	(6.995)	(7.283)	(7.583)	(7.896)	(8.221)	(8.560)	(8.912)	(9.280)	(7.864)
<b>(=) Cash Flow from Investment Activities</b>	<b>(6.650)</b>	<b>(6.922)</b>	<b>(7.206)</b>	<b>(7.502)</b>	<b>(7.812)</b>	<b>(8.134)</b>	<b>(8.469)</b>	<b>(8.817)</b>	<b>(9.181)</b>	<b>(7.864)</b>

Source: Oi/EY

### 3 Scenario A – Going Concern Valuation

#### Consolidated cash flow

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

Cash Flow	2017 (6m)	2018	2019	2020	2021	2022	2023	2024	2025	2026
<b>(=) Cash Flow before Creditors Plan</b>	<b>(812)</b>	<b>1.315</b>	<b>(977)</b>	<b>(330)</b>	<b>2.071</b>	<b>2.668</b>	<b>3.139</b>	<b>3.618</b>	<b>4.511</b>	<b>4.826</b>
Mediation	(211)	-	-	-	-	-	-	-	-	-
Class I	-	(506)	(334)	(232)	(141)	(65)	(241)	(117)	(126)	(157)
Class II	-	-	-	-	-	(463)	(463)	(649)	(630)	(612)
Class III	-	562	(1.073)	(1.124)	(1.253)	(903)	(2.465)	(2.644)	(10.739)	(2.091)
Class IV	-	(30)	(5)	(5)	(5)	-	-	-	-	-
<b>(=) Cash Flow after Creditors Plan</b>	<b>(1.023)</b>	<b>1.342</b>	<b>(2.390)</b>	<b>(1.691)</b>	<b>672</b>	<b>1.238</b>	<b>(29)</b>	<b>208</b>	<b>(6.983)</b>	<b>1.966</b>
(+/-) Additional Financing	-	-	2.500	2.000	-	-	-	-	604	(670)
<b>(=) Cash Flow after Additional Financing</b>	<b>(1.023)</b>	<b>1.342</b>	<b>110</b>	<b>309</b>	<b>672</b>	<b>1.238</b>	<b>(29)</b>	<b>208</b>	<b>(6.379)</b>	<b>1.296</b>

Source: Oi/EY

### 3 Scenario A – Going Concern Valuation

#### Consolidated cash flow (cont.)

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

Cash Flow	2027	2028	2029	2030	2031	2032	2033	2034	2035
<b>(=) Cash Flow before Creditors Plan</b>	<b>5.310</b>	<b>5.629</b>	<b>5.926</b>	<b>6.265</b>	<b>6.484</b>	<b>6.699</b>	<b>6.968</b>	<b>7.253</b>	<b>7.555</b>
Mediation	-	-	-	-	-	-	-	-	-
Class I	(177)	(185)	-	-	-	-	-	-	-
Class II	(593)	(575)	(1.300)	(1.208)	(1.115)	(1.022)	(0)	-	-
Class III	(2.328)	(3.819)	(3.864)	(3.425)	(3.379)	(3.334)	(3.460)	(3.546)	(1.295)
Class IV	-	-	-	-	-	-	-	-	-
<b>(=) Cash Flow after Creditors Plan</b>	<b>2.211</b>	<b>1.050</b>	<b>761</b>	<b>1.633</b>	<b>1.990</b>	<b>2.343</b>	<b>3.507</b>	<b>3.707</b>	<b>6.259</b>
(+/-) Additional Financing	2.410	2.381	3.722	2.156	2.139	1.700	556	431	(1.577)
<b>(=) Cash Flow after Additional Financing</b>	<b>4.622</b>	<b>3.431</b>	<b>4.483</b>	<b>3.788</b>	<b>4.129</b>	<b>4.043</b>	<b>4.064</b>	<b>4.139</b>	<b>4.682</b>

Source: Oi/EY

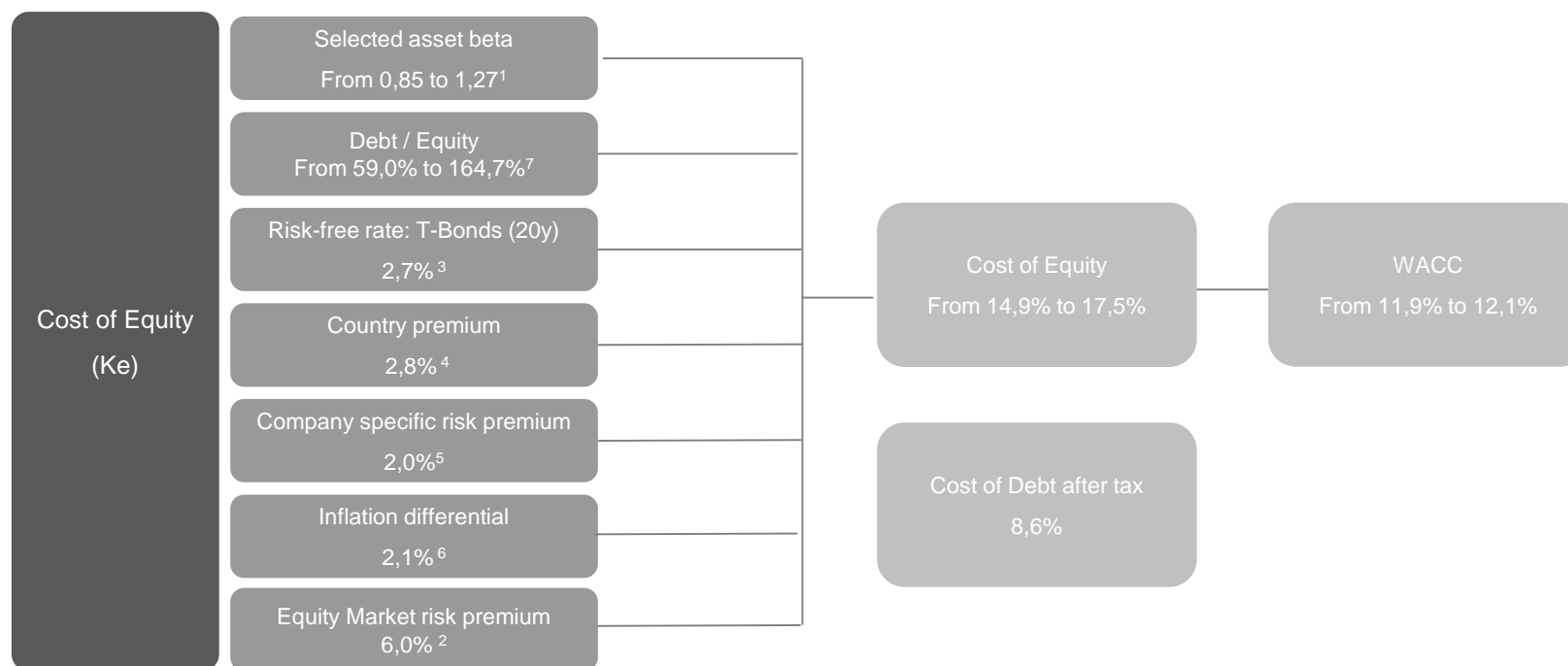
### 3 Scenario A – Going Concern Valuation

#### Discount Rate | Moving CAPM

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#### Rolling CAPM

The discount rate calculated for Oi Group take into consideration the inputs as presented below for a stable level of CAPM. Since the Company is expected to reduce its debt levels on the next following years as detailed in the RJ Plan a rolling discount rate was calculated taking into consideration the debt/equity ration for each year.



#### Bonds:

[1] Based on comparable companies average. Source: Capital IQ.

[2] Source: EY LLP - Equity market risk premium is based on historical risk premium and forward-looking premium estimate.

[3] Source: Federal Reserve ( 6 months historical average of 20 years T-bonds).

[4] Source: JP Morgan EMBI + (6 months historical average).

[5] Taking into account the company's cash flow intrinsic risk (Revenue growth and EBITDA margins achievement).

[6] Source: Brazilian Central Bank and Oxford Economics.

[7] Source: From estimated Debt to Equity for Oi during the projected years.

### 3 Scenario A – Going Concern Valuation

#### Non operating asset and liabilities

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#### Non operating assets and liabilities

The accounts of Oi Group balance sheet that were not included in the working capital in the cash flow were added separately composing the total equity value of Oi Group. These accounts were examined by Oi and are not expected to be recovered fully, thus, it was applied the expected recovery rate, based on the expectation of Oi, on the total book value in order to estimate the total non operating assets and liabilities value as demonstrated below:

Non operating assets	Book Value	Recovery	Fair Value
<b>Account</b>			
Court deposits*	764	22%	172
Pension fund assets	4	0%	-
Other assets kept for sale	1	20%	0
Other assets	1.542	64%	992
Differed and recoverable taxes	3.562	54%	1.928
Other taxes – long term	752	100%	752
Court deposits – long term*	14.328	22%	3.222
Assets related to pension funds – long term	117	0%	-
Other assets – long term	221	76%	169
Prepaid expenses – long term	24	100%	24
Investments	139	70%	97
<b>Total</b>	<b>21.455</b>		<b>7.357</b>

**Court deposits:** Part of the court deposits (BRL 6,3bn) are forecasted in Creditors Plan Cash Flow and the percentage recovery represents the remaining amount Oi expects to receive from the total recoverable court deposits.

Non operating liabilities	Book Value	Amounts due	Fair Value
<b>Account</b>			
Provisions*	(578)	65%	(377)
Pension fund provisions*	(172)	53%	(92)
Dividends and interest on equity	(6)	100%	(6)
Concessions payable	(12)	100%	(12)
Taxes payable - long term*	(852)	52%	(439)
Provisions - long term*	(4.562)	29%	(1.331)
Pension fund provisions - long term*	(442)	53%	(236)
Concessions payable - long term	(4)	100%	(4)
Government taxes payable - long term	(740)	100%	(740)
Other accounts payable - long term*	(2.337)	100%	(2.328)
<b>Total</b>	<b>(9.705)</b>		<b>(5.564)</b>

**Provisions, Pension fund provisions and Other accounts payable:** Part of these liabilities are considered in the Creditors Plan Cash Flow, the percentage due represents the remaining amount that are not captured in the cash flow. The estimated percentage due was given by Oi.

**Taxes payable:** According to Oi, the Company has experienced a discount of approximately 50% on REFIS, based on renegotiations with the Brazilian Government



### 3 Scenario A – Going Concern Valuation

#### Non operating asset and liabilities

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#### Non operating assets and liabilities

Additionally to non operating assets, Oi Group has non-controlling interest in some companies located in Africa and Southeast Asia that are classified as assets kept for sale in the balance sheet. The total estimated recovery value, based on Oi's expectations, was applied to the net sale value of the investment as shown on the table below.

Africa operation	Book Value	Recovery	Fair Value
<b>Account</b>			
Assets kept for sale	4.964	50%	2.482
Liabilities associated with assets kept for sale	(673)	50%	(336)
Non controlling stake holders (Africa operation)	(343)	50%	(172)
<b>Total</b>	<b>3.949</b>		<b>1.974</b>

### 3 Scenario A – Going Concern Valuation

#### Valuation results

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#### Sensitivity

As a sensitivity analysis we discounted the base case cash flow utilizing a fixed and higher discount rate considering an additional specific risk. In order to estimate this premium on the discount rate the operational assumptions of Management's base case were stressed locking in the EBITDA margin from 2022 until the end of the explicit period.

To lock-in the EBITDA margin the three main lines of costs and expenses projected in the base case were increased by the same rate as shown on the table below:

Cost and expenses	2023	2024	2025	2026	2027	2028-2035
Network expenses	4%	8%	12%	13%	14%	14%
SG&A expenses	4%	8%	12%	13%	14%	14%
Other expenses	4%	8%	12%	13%	14%	14%

By stressing the operational assumptions as described above the equity value was impacted by BRL (5,8) billion. Thus, resulting on the following equivalent discount rates for the base case cash flow:

Discount rates	Implied discount rate	Sensitivity discount rate
Scenario A	15,9%	22,3%

### 3 Scenario A – Going Concern Valuation

#### Summary RJ Plan

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	Indication of Value (BRL million) – Scenario A	Sensitivity	Base Case
1	Σ present value of cash flows	3.382	7.619
2	Present value of debt cash flow after 2035	(378)	(471)
3	Present value of perpetuity	2.326	3.877
	<b>Equity value before non operating assets and liabilities</b>	<b>5.331</b>	<b>11.026</b>
4	Cash and cash equivalents	-	-
5	Tax benefit – perpetuity	64	126
6	PTPT – Africa Operation	1.974	1.974
7	Non operating assets and liabilities	1.792	1.792
	<b>Equity value</b>	<b>9.163</b>	<b>14.919</b>

#### Sensitivity

- Sensitivity analysis considers a stress test on the operational assumptions of the base case model, locking-in the EBITDA margin at 32,1% from 2022 until the end of the projected period.

- 1 Sum of the present value of the cash flows projected of explicit period starting in 1 July 2017 until 31 December 2035. Takes into consideration the capital increase commitment of BRL 4 billion in 2018.
- 2 Corresponds to Anatel and Lawsuits (iliquid) present value cash flows projected after the explicit period starting in 1 January 2036 until 31 December 2042 when the last RJ Plan debt is paid.
- 3 Present value of the perpetuity considering the operation of Oi Group after 2035. Estimated by the Gordon Growth methodology using Brazil's long term inflation of 4,1% as growth in the long term.
- 4 Cash and cash equivalents accounts of Oi Group balance sheet on the reference date were considered in the cash flow as a reserve cash for negative cash flows in the first projected years.
- 5 Present value of the non utilized tax deductions (income tax and social contribution) of Oi Group in after the explicit period.
- 6 Oi Group non-controlling interest in some companies located in Africa and Southeast Asia that are classified as assets kept for sale on the balance sheet. Considers a recoverability rate of 50% estimated by Management on top of the book value.
- 7 Oi Group balance sheet non operating assets and liabilities that were not considered in the working capital calculations. Each individual account considers a recoverability rate estimated by Management on top of the book value.

# 3.7

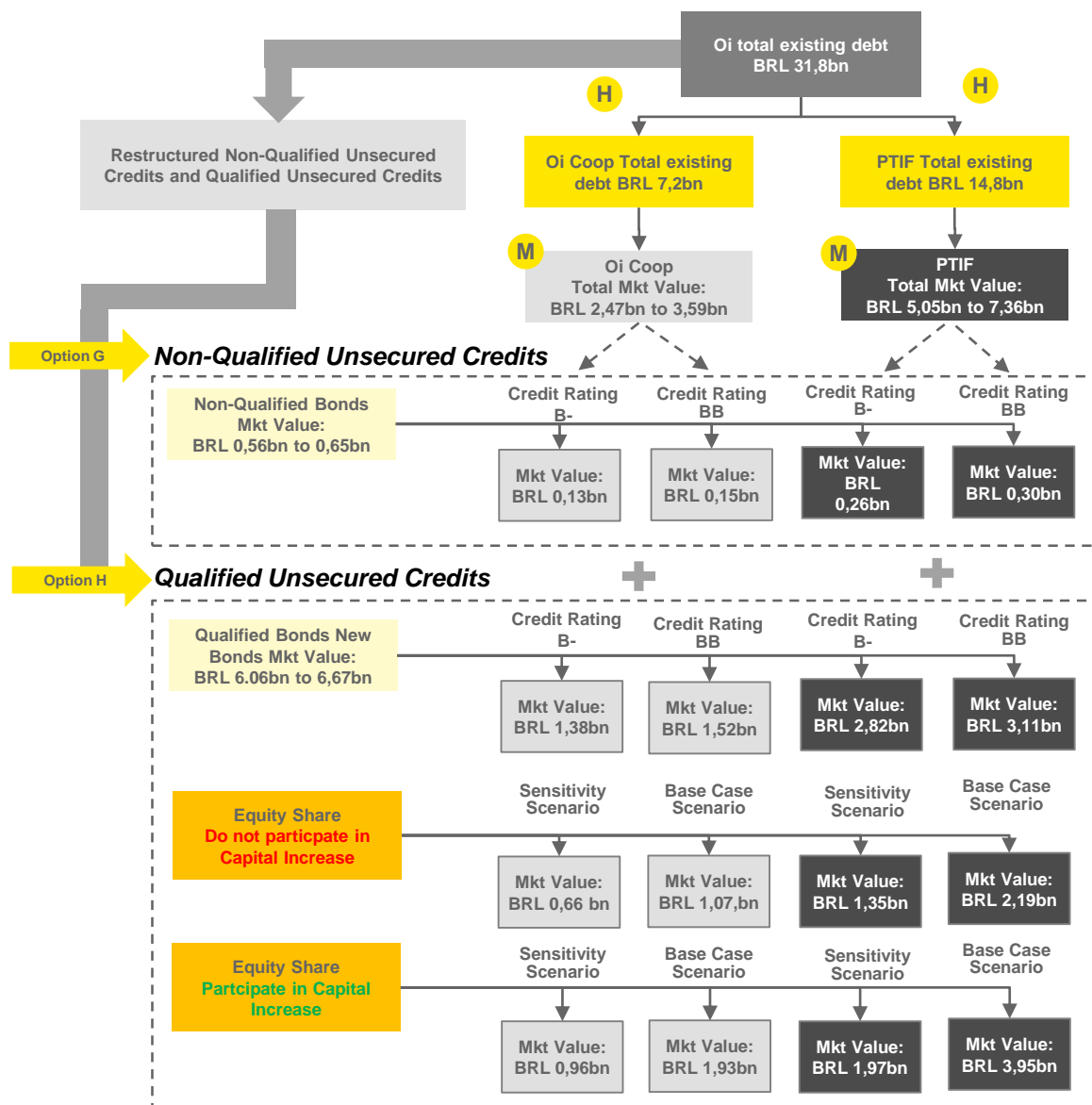
## Scenario A Conclusion

### 3 Scenario A – Going Concern Valuation

#### Scenario A – Oi Coop and PTIF

#### 1 Executive Summary

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#### Summary recovery Oi Coop and PTIF Bondholders

- On page 28 we have set-out the recovery values for Class III Unsecured Creditors eligible for Options G and H, which include the bondholders of Oi Coop and PTIF.
- With PTIF and Oi Coop holding respectively 46,6% and 22,7% of the total Bondholder Unsecured Credits of BRL 31,8bn, the total Bondholder Unsecured Credits allocated to PTIF and Oi Coop amount to BRL 14,8bn and BRL 7,2bn (see item **H**).
- Applying the same assumptions as used for when valuing Options G and H for all Class III Unsecured Creditors, the total Market Value range for Oi Coop and PTIF is the sum of the Non-Qualified Bondholders' Unsecured Credits Option (Option G) and the Qualified Bondholders' Unsecured Credits Option (Option H) as presented in the adjacent overview.
- For Oi Coop The Recovery Range Percentage is estimated from 33,7% to 39,2% for that part of the Bonds classified as Non-Qualified Unsecured Credit and from 29,7% to 37,8% for credits classified as Qualified Unsecured Credits, assuming the they do not participate on the capital increase and from 34,1% to 49,7% assuming they participate in the capital increase of BRL 0,57bn (present value [BRL 1,01 per share] applied to Oi shares [567m]).
- For PTIF The Recovery Range Percentage is estimated from 33,7% to 39,2% for that part of the Bonds classified as Non-Qualified Unsecured Credit and from 29,7% to 37,8% for credits classified as Qualified Unsecured Credits, assuming the they do not participate in the capital increase and from 34,1% to 49,7% assuming they participate in the capital increase of BRL 1,17bn (present value [BRL 1,01 per share] applied to Oi shares [1.162m]).
- The amount presented in **M** is the sum of recoveries for the Non-Qualified Bondholders Unsecured Credits and Qualified Bondholders Unsecured Credits, assuming they will participate in the Capital Increase.

# 4

## Scenario B – Liquidation of Dutch Companies

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## 4 Scenario B – Liquidation of Dutch Companies

### Introduction and Key Assumptions

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Scenario B aims to provide a liquidation value analysis of each of the Dutch legal entities (PTIF and Oi Coop) in case the remaining Oi Group continues as a going concern as a result of the implementation of the RJ Plan, whilst the Dutch companies are liquidated exclusively in the Netherlands, as well as the analysis of the potential implications on the returns for Oi Coop and PTIF creditors under these conditions.

Hence, this section assumes a theoretical liquidation of Oi Coop and PTIF under Dutch bankruptcy law, taking into consideration an estimate of the liquidation costs that are expected for this kind of proceeding. Additionally, tax implications arising from the extinguishment of intercompany obligations are considered in the analysis of the expected returns for Oi Coop and PTIF creditors. Furthermore, this section estimates what would be the recovery from the liquidation analysis added to the return under the RJ Plan.

We have been provided by Oi Group with a third party tax opinion regarding an analysis of the tax implications in Brazil for the bankruptcy of the Dutch financing entities (Oi Coop and PTIF) and/or a potential write down on the intercompany claims of Oi Coop against Oi Móvel and Oi S.A. as part of a plan or liquidation<sup>1</sup>.

The Dutch entities bankruptcy, per se, would not jeopardize the RJ Plan, nevertheless it may cause limited damages to the enforcement of the RJ Plan according to Oi and its legal advisors (BMA).

Below are presented some relevant assumptions provided by Oi and its legal advisors (BMA):

1. The RJ Plan provides that Oi Group is allowed to deduct from the amount that creditors are entitled to receive under the RJ Plan all amounts eventually received by them under or as result of any liquidation, disposal or enforcement against assets of Oi Group, and particularly of PTIF and Oi Coop, in foreign jurisdictions;
2. In case of difficulties to access the shares issued by Oi and held by PTIF in the form of American Depositary Receipts, Oi Group will be able to take the necessary measures in order to ensure an equivalent economic result for the creditors;
3. In order for the Dutch Bankruptcy and any consequences and acts deriving thereof to produce effects in the Brazilian territory, it would be necessary for the foreign decision converting the SoPs into bankruptcy to be firstly confirmed by the Brazilian Superior Court of Justice, which has not happened up to the date of this Report and, according to Oi legal advisors, it is unlikely to happen<sup>2</sup>.
4. A transfer of the intercompany loans, held by PTIF and Oi Coop, could also be considered void or ineffective as per Brazilian law, as all intercompany loan agreements provide that their assignment, transfer and sub-rogation shall only be allowed if authorized by the other contracting part<sup>1</sup>.

It is important to note that this assessment does not include an eventual review of the RJ Plan, in face of new obligations that could be generated by the bankruptcy of the Dutch companies.

<sup>1</sup> BMA Advogados, "Sale of intercompany claims – legal and tax aspects in Brazil", August 2017.

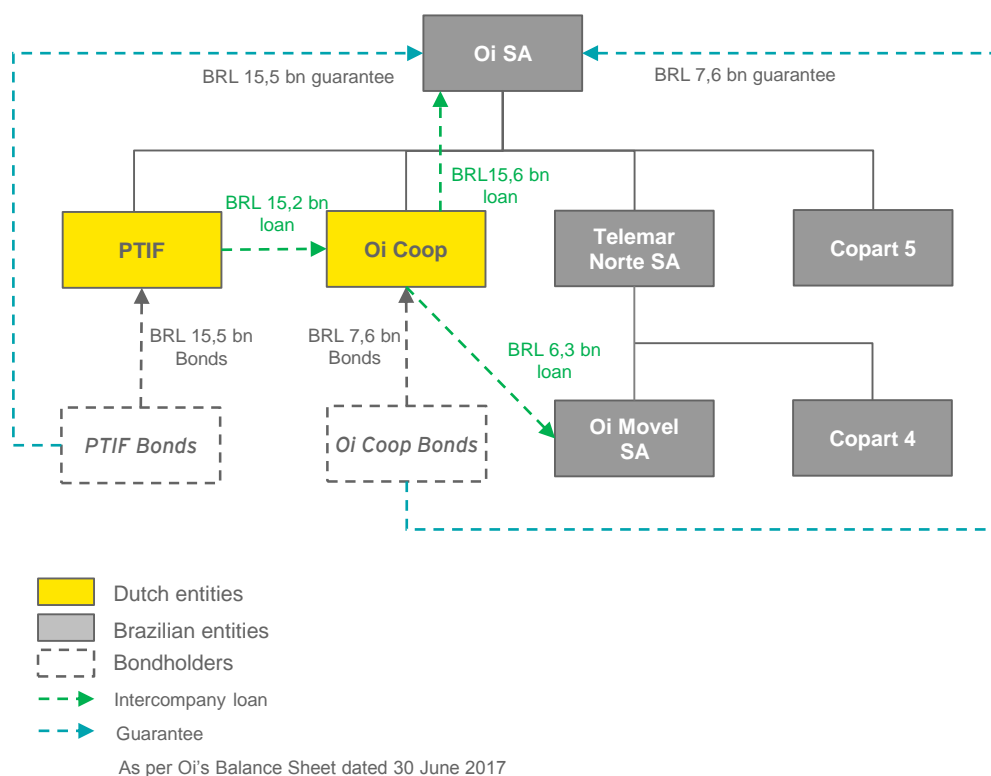
<sup>2</sup> Tavares Guerreiro, "Judicial Reorganization of the Oi Group. Bankruptcy decree of the companies Oi Coop and PTIF by the Dutch Court", September 2017.

## 4 Scenario B – Liquidation of Dutch Companies

### Introduction – PTIF and Oi Coop

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#### Bonds issued by PTIF and Oi Coop:



Source: Oi Group.

- ▶ Oi Coop and PTIF operate as financing entities for Oi Group and existing loans are guaranteed by Oi S.A via a parent company guarantee. The proceeds of the bonds issued by PTIF have been on-lent to Oi Coop and the proceeds of the bonds issued by Oi Coop, together with the proceeds borrowed from PTIF, have been on-lent to Oi S.A. and Oi Móvel. Values are presented on the left.
- ▶ In this scenario, where the Dutch entities go into bankruptcy and the Oi Group Creditors are restructured according to the RJ Plan, the conflicts resulting from the application of the laws of two different jurisdictions would create a mismatch according to Oi and its legal advisers, as detailed below<sup>1</sup>:
  - If the Dutch trustees were to try and succeed in assigning the intercompany loan agreements, to a new creditor, such transfer would not be automatically recognized in Brazil. The intercompany loan agreements provide that their assignment, transfer and sub-rogation would only be allowed if authorized by the other contracting party.
  - From a Brazilian legal perspective the obligation of Oi S.A. and Oi Móvel would still be owed to Oi Coop and would be considered subject to the RJ Plan, while from a Dutch legal perspective Oi Coop would no longer have a claim against the Brazilian companies, since the intercompany would have been transferred to a third party.
  - If, as a matter of Brazilian law, Oi and Móvel would not recognize the assignees as the new creditors of the intercompany loans, whereas under Dutch law, Oi Coop would no longer be able to enforce the payment of the (intercompany) claims and supposedly would cease to exist at the end of bankruptcy proceedings, the obligations under the (intercompany) loans would be considered restructured by the RJ Plan and eventually prove not to be enforceable at all, thus causing them to be written-off from the financial statements of the Brazilian companies.
  - In practice, from a Brazilian standpoint the end result would be equal to that of a waiver or forgiveness of the debts at the level of Oi S.A. and Oi Móvel.

<sup>1</sup> BMA Advogados, "Sale of intercompany claims – legal and tax aspects in Brazil", August 2017.

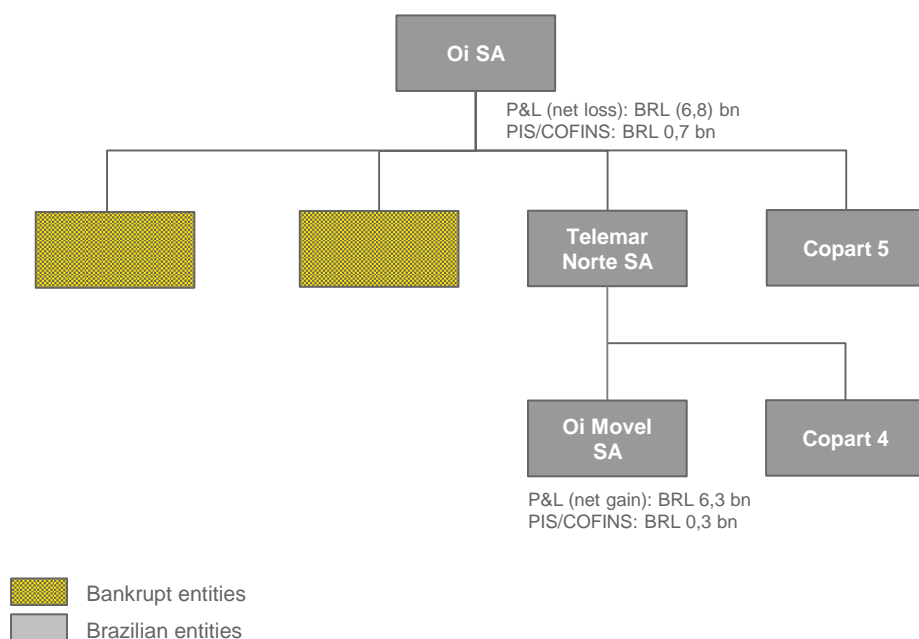


## 4 Scenario B – Liquidation of Dutch Companies

### Tax obligations at the RJ Debtors level

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#### Tax implications arising from a liquidation of the Dutch companies:



Source: Oi and its legal advisors. EY Analysis.

- ▶ The write-off of the obligations under the intercompany loans would be recognized in the Profit and Losses (P&L) Statements of Oi S.A. and Oi Móvel, thus giving rise to corporate income taxes (IRPJ/CSLL) at the combined rate of 34%, but also social contributions on gross revenues (PIS/COFINS) at the combined rate of 4,65%.
- ▶ Given the write-off of the obligations under the intercompany loans, Oi S.A. would recognize a gain of BRL 16 billion, while Oi Móvel would recognize a gain of BRL 6 billion.
- ▶ However, as a guarantor of the bonds issued by the Dutch companies, Oi S.A. would also recognize a loss of BRL 23 billion (comprising BRL 15,5bn from PTIF Bonds and BRL 7,6bn from Oi Coop Bonds), which will be restructured under the RJ Plan.
- ▶ It is important to note that PIS/COFINS contributions are collected on revenue, therefore, both Oi S.A. and Oi Móvel would be required to pay the combined rate of 4,65% over the full amount of the gains, while IRPJ/CSLL tax is collected on profit.
- ▶ Also note that in Brazil there is no exemption or any other kind of relief from taxation available for gains resulting from the release or write-off of debt obligations, not even for companies under RJ Proceedings.
- ▶ The new tax obligations are expected to negatively impact the Company's equity value in an amount of approximately BRL 1,6bn.

## 4 Scenario B – Liquidation of Dutch Companies

### Liquidation Analysis – Oi Coop

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#### Oi Coop – Liquidation analysis

Currency: BRL m		Jun17A	Recovery	Recovery %
1	Loan - Oi SA	13.830,7	-	0,0%
1	Loan - Oi Móvel SA	5.858,8	-	0,0%
	<b>Non-current assets</b>	<b>19.689,5</b>	<b>-</b>	<b>0,0%</b>
1	Interest receivable and other related to Debtors	1.022,2	-	0,0%
2	Prepaid expenses	11,1	-	0,0%
	Cash & Equivalent	5,3	5,3	100,0%
1	Loan - Oi SA	788,8	-	0,0%
1	Loan - Oi Móvel SA	450,9	-	0,0%
	<b>Current assets</b>	<b>2.278,3</b>	<b>5,3</b>	<b>0,0%</b>
	<b>Total Proceeds and Credits</b>	<b>21.967,8</b>	<b>5,3</b>	<b>0,0%</b>

Currency: BRL m		Oi Coop
	Proceeds from sale of unencumbered assets	-
	Unencumbered cash balances	5,3
	Other proceeds	-
	<b>Net realisable assets</b>	<b>5,3</b>
3	Less costs of realisation	(5,3)
	<b>Available for priority creditors</b>	<b>-</b>
	Less settlement of priority creditors	-
	<b>Available for unsecured creditors</b>	<b>-</b>
4	Less return to unsecured creditors	-
	<b>Excess cash after settlement of unsecured creditors</b>	<b>-</b>
	<b>Recovery bondholders</b>	<b>-</b>

Source: Oi Group. EY Analysis.

#### Oi Coop – Scenario B

- As detailed on the previous page, unless the Brazilian Superior Court of Justice acknowledges the bankruptcy of the Dutch companies within the Brazilian legal proceedings, the payment of Intercompany Claims of Oi Coop with the Brazilian companies would not be enforceable in Brazil<sup>1</sup> as they are subject to restructuring under the JRP. The account Interest receivable and other debtors are also related to Oi SA and Oi Móvel SA.
- With regards to the prepaid expenses, Oi and its legal advisors believe that these amount would not be recoverable in a bankruptcy.
- In the scenario where Oi Coop is liquidated solely, Oi Coop creditors would only benefit from the unencumbered cash balances present within Oi Coop in the Netherlands. However, the total amount recovered would be used to pay the costs with the liquidation, such as liquidator costs and personnel expenses related to the liquidation process.
- The bondholders would be entitled to their share (Options G, H and I) under the Brazilian RJ Plan, but according to Oi's legal advisors no value would come from the Intercompany Claims nor from the parent company guarantee when liquidating Oi Coop within the Dutch bankruptcy framework.

#### Conclusion

In a theoretical liquidation scenario where Oi Coop and PTIF are liquidated solely, the recovery to Oi Coop's creditors would be nil.

<sup>1</sup> BMA Advogados, "Sale of intercompany claims – legal and tax aspects in Brazil", August 2017.

## 4 Scenario B – Liquidation of Dutch Companies

### Liquidation Analysis – PTIF

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#### PTIF – Scenario B

Currency: BRL m		Jun17A	Recovery	Recovery %
1	Loan to Oi Coop	8.663,9	-	0,0%
2	Financial Investments (Oi shares)	371,2	-	0,0%
<b>Non-current Assets</b>		<b>9.035,2</b>	-	0,0%
3	Loan to Timor Telecom	68,1	34,1	50,0%
1	Loan to Oi Coop	5.591,8	-	0,0%
	Other taxation	11,7	-	0,0%
1	Interest receivable and other related to Debtors	913,9	-	0,0%
	Cash & Equivalents & other receivables	41,5	41,5	99,9%
<b>Current assets</b>		<b>6.627,0</b>	<b>75,6</b>	<b>1,2%</b>
<b>Total Proceeds and Credits</b>		<b>15.662,2</b>	<b>75,6</b>	<b>0,5%</b>

Currency: BRL m		PTIF
	Proceeds from sale of unencumbered assets	-
	Unencumbered cash balances	41,5
	Other proceeds	34,1
4	<b>Net realisable assets</b>	<b>75,6</b>
5	Less costs of realisation	(12,0)
	<b>Available for priority creditors</b>	<b>63,6</b>
	Less settlement of priority creditors	(6,0)
	<b>Available for unsecured creditors</b>	<b>57,6</b>
6	Less return to unsecured creditors	(57,6)
	<b>Excess cash after settlement of unsecured creditors</b>	<b>-</b>
	<b>Recovery bondholders</b>	<b>0,4%</b>

Source: Oi Group. EY Analysis.

#### PTIF – Scenario B

A bankruptcy of PTIF would follow the same framework as described for Oi Coop on the previous page.

- As described on the previous page, Oi Coop would not recover any amount after its liquidation and consequently would not pay any amount to PTIF. The account interest receivable and other debtors also refers to the loan to Oi Coop.
- PTIF's financial investment (BRL 371m) relates to ADR shares of Oi, which were prevented from alienation by an injunction rendered by the 7th Business Court of the State of Rio de Janeiro in charge of the RJ. This could hinder the realization of this asset, since Oi filed for protection under Chapter 15 in the USA. Furthermore, these ADR shares are included in the restructuring proposal for the Qualified Bondholders Unsecured Credits option provided by the RJ Plan. As a result, no recovery is attached to this asset in case of a bankruptcy of the Dutch companies solely.
- Based on Timor Telecom's financial situation and according to Oi's financial analysis, a recovery of 50% on the loan to Timor Telecom was considered. As the loan is currently overdue, the company does not have enough cash balance to repay the debt immediately and there isn't any guarantee to be executed, therefore this debt might be restructured. Furthermore, Oi confirmed that the shareholders are not obliged to inject capital in order to allow Timor Telecom to honor its obligations.
- In the scenario where PTIF is liquidated solely, PTIF creditors would only benefit from the unencumbered cash balances and the amount recovered on the loan to Timor Telecom.
- The total costs of realization refers to the liquidator costs and legal expenses related to the liquidation process.

#### Conclusion

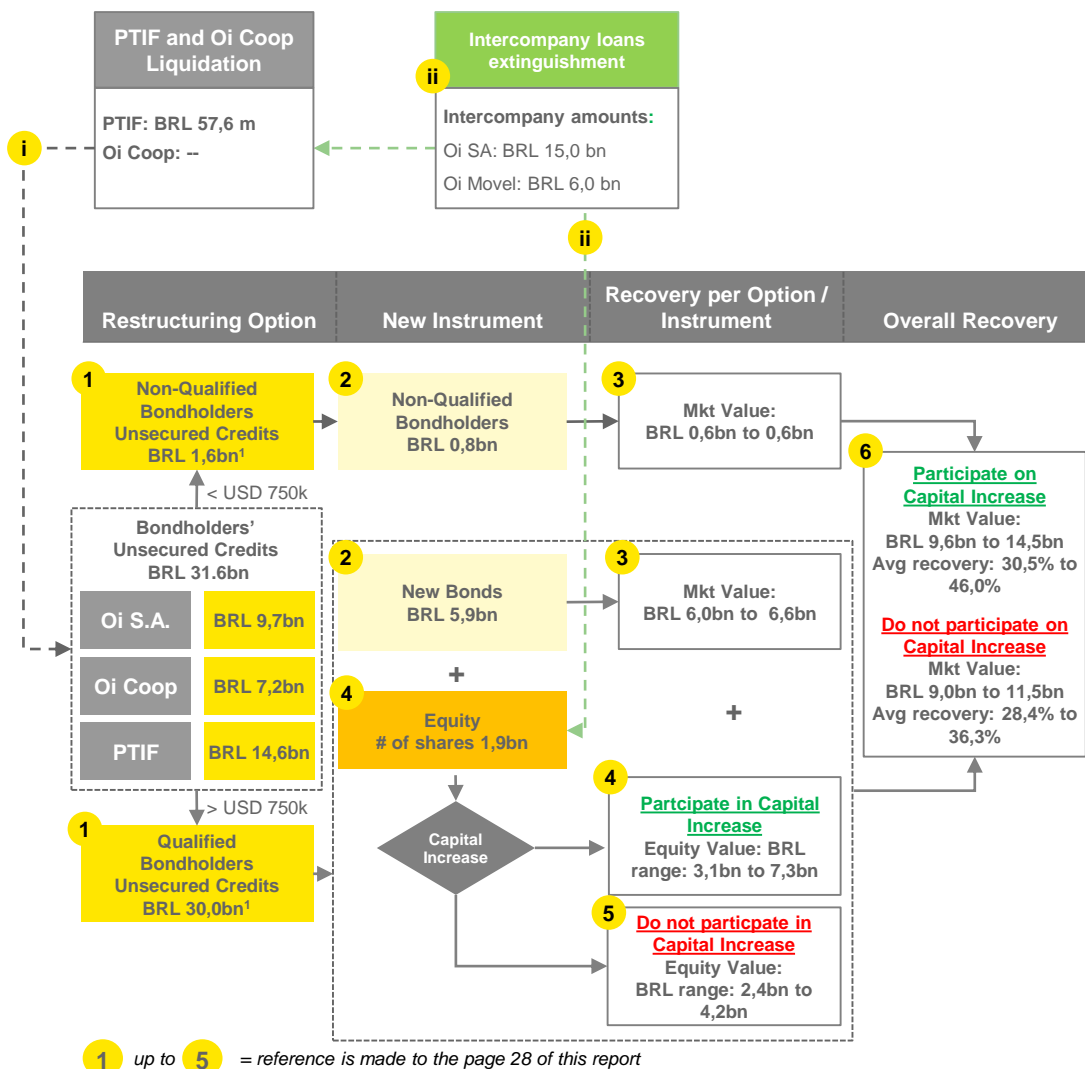
In a theoretical liquidation scenario where Oi Coop and PTIF are liquidated solely, the recovery to PTIF's creditors would be sufficient to repay priority creditors in full and 0,4% of unsecured creditors' claims.

## 4 Scenario B – Liquidation of Dutch Companies

### Present value of Bondholders options

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### Bondholders options present value – Overview



<sup>1</sup> The amounts restructured were economically deducted from the amounts received from the liquidation of Oi Coop and PTIF (see page 109).  
Source: RJ Plan, Creditors List of the Bankruptcy Trustee dated May-2017.

### Scenario B – Going Concern Oi & Liquidation Oi Coop and PTIF

- i According to clause 11.1.1 of the RJ Plan, Oi is allowed to deduct from the amount that creditors are entitled to receive under the RJ Plan all amounts eventually received under or as result of any liquidation, disposal or enforcement against assets of the Oi Group (including Oi Coop and PTIF).
- ii A bankruptcy of PTIF and Oi Coop would lead to the extinguishment of the intercompany loans. This would trigger an additional corporate income tax at the level of Oi SA and Oi Móvel, which would decrease the equity value.
- 4 Based on the applicable conversion rate, the qualified bondholders are entitled to 1.9bn shares (some of which are held by PTIF as ADRs), assuming that they will participate in the capital increase keeping the 73,6% of the outstand shares, the value would range from BRL 3,1bn to BRL 7,3bn (based on the total equity value ranging from BRL 4,2bn to BRL 8,9bn pre-money).
- 5 In case the bondholders do not participate on the capital increase, they would be diluted to 31,5% of the outstanding shares, therefore its equity share would have a value range of BRL 2,4bn to 4,2bn (based on the total equity value ranging from BRL 7,6bn to BRL 13,3bn post-money).
- 6 The Average Recovery Percentage for the Bondholders' Unsecured Credits for Scenario B (considering the tax impact) amounts from 30,5% to 46,0%, assuming Bondholders participation in the equity increase and from 28,4% to 36,3% in case Bondholders are diluted in the equity increase.

## 4 Scenario B – Liquidation of Dutch Companies

### Impact of the liquidation of the Dutch Companies on the restructured credits

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### Present value of the instalment payment Options G, H and I adjusted according Scenario B;

#### 1 Prior Liquidation of PTIF and Oi Coop.

Bond Breakdown	Amount to be restructured	(%)
PTIF	BRL 14,8bn [USD 4,5bn]	46,6%
Oi Coop	BRL 7,2bn [USD 2,2bn]	22,7%
Oi S.A.	BRL 9,7bn [USD 2,9bn]	30,7%
<b>Total Bonds</b>	<b>BRL 31,8bn [USD 9,6bn]</b>	<b>100%</b>



Amount restructured	Qualified		Non-Qualified
	New Bonds	Equity shares	New debt
PTIF	BRL 2.744m [USD 830m]	876,2m	BRL 770m [USD 233m]
Oi Coop	BRL 1.340m [USD 405m]	427,8m	BRL 376m [USD 114m]
Oi S.A.	BRL 1.808m [USD 546m]	577,2m	BRL 507m [USD 153m]
<b>Total Bonds</b>	<b>BRL 5.892m [USD 1.781m]</b>	<b>1.881,2m</b>	<b>BRL 1.654m [USD 500m]</b>

### Liquidation recovery and impacts

#### 2 Liquidation Recovery

PTIF	BRL 58m [USD 19,3m]
Oi Coop	-
Oi S.A.	-
<b>Total Bonds</b>	<b>BRL 58m [USD 19,3m]</b>

#### 3 Economic adjustment

	Mkt. Value	Amount adjusted
PTIF	37,3%	BRL 168m [USD 50,9m]
Oi Coop	-	-
Oi S.A.	-	-
<b>Total Bonds</b>	<b>37,3%</b>	<b>BRL 168m [USD 50,9m]</b>

#### 4 Bonds restructured after Liquidation of PTIF and Oi Coop.

	Updated amount to be restructured	% Adjustment	Qualified		Non-Qualified
			New Bonds	Equity shares	New debt
PTIF	BRL 14,6bn [USD 4,4bn]	99,0%	BRL 2.716m [USD 821m]	867,0m	BRL 762,3m [USD 230m]
Oi Coop	BRL 7,2bn [USD 2,2bn]	100%	BRL 1.340m [USD 405m]	427,8m	BRL 376,2m [USD 114m]
Oi S.A.	BRL 9,7bn [USD 2,9bn]	100%	BRL 1.808m [USD 546m]	577,2m	BRL 507,5m [USD 153m]
<b>Total Bonds</b>	<b>BRL 31,6bn [USD 9,5bn]</b>		<b>BRL 5.863m [USD 1.772m]</b>	<b>1.872,1m</b>	<b>BRL 1.646m [USD 498m]</b>

The table presents the impact of the liquidation of the Dutch Companies on the amounts of credits to be restructured under the RJ Plan.

- 1 Tables according to Scenario A assumptions [page 29];
- 2 As described on the prior pages, only PTIF would recover an amount after liquidation proceedings, estimated to be BRL 64m; According to RJ Plan these amount should be reduced from the restructuring of the Bonds;
- 3 In addition, taking into account the instruments market value, detailed in the Going Concern section, of 37,3%, the total economic adjustment would be BRL 168m or an adjustment of 99,0% in the Bonds restructured in PTIF;
- 4 Bonds restructured after liquidation recovery and economic adjustment. The new equity share represents 73,5%

## 4 Scenario B – Liquidation of Dutch Companies

### Equity value

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	Indication of Value	Sensitivity	Base Case
1	Σ present value of cash flows	1.862	6.028
2	Present value of debt cash flow after 2035	(364)	(465)
3	Present value of perpetuity	2.242	3.830
	<b>Equity value before non operating assets and liabilities</b>	<b>3.740</b>	<b>9.394</b>
4	Cash and cash equivalents	-	-
5	Tax benefit – perpetuity	62	126
6	PTPT – Africa Operation	1.974	1.974
7	Non operating assets and liabilities	1.792	1.792
	<b>Equity value</b>	<b>7.570</b>	<b>13.287</b>

### Sensitivity

Sensitivity analysis considers a stress test on the operational assumptions of the base case model, locking-in the EBITDA margin at 32,1% from 2022 until the end of the projected period.

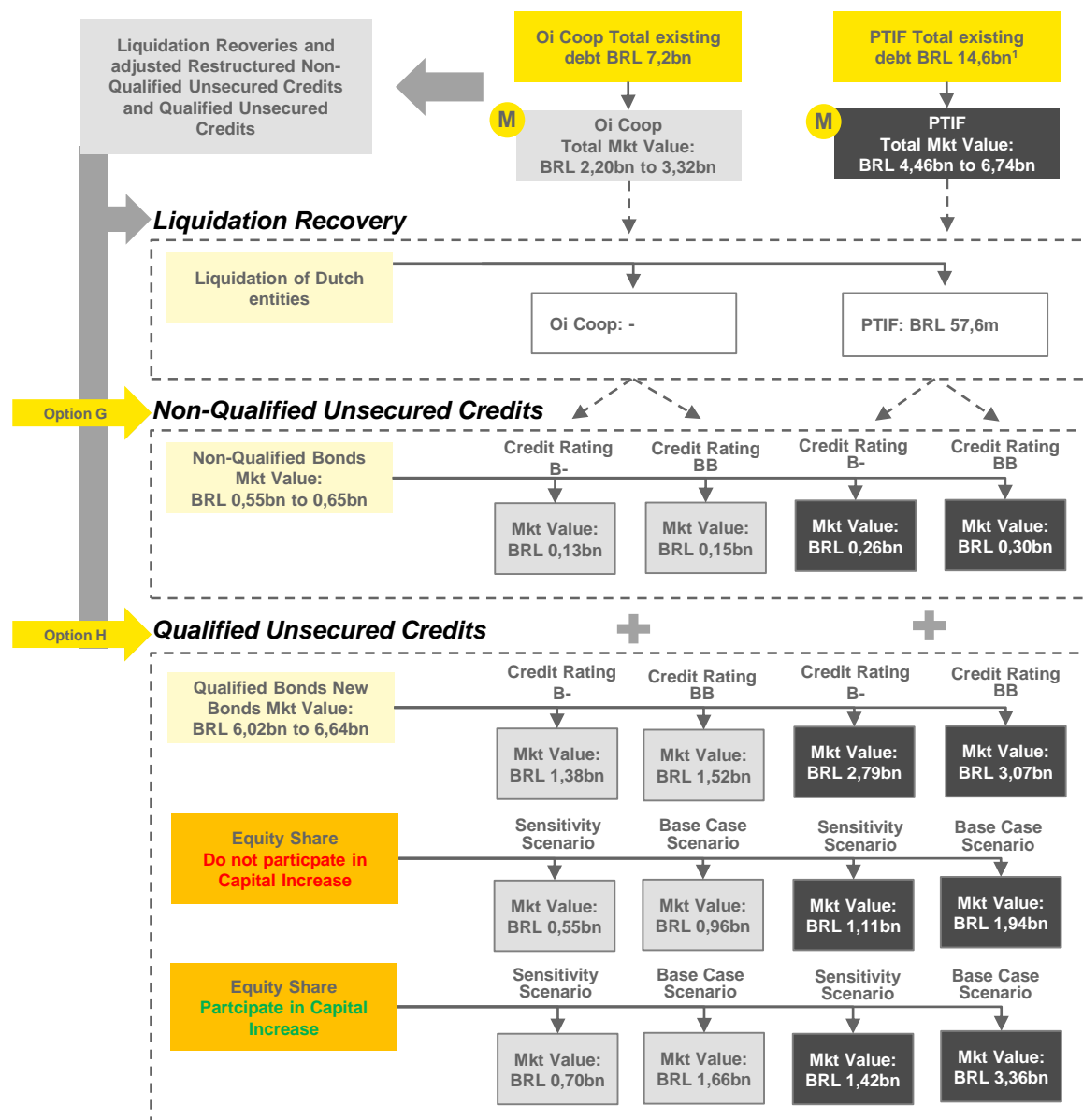
- Sum of the present value of the cash flows projected of explicit period starting in 1 July 2017 until 31 december 2035. Takes into consideration the capital increase commitment of BRL 4 billion in 2018.
  - It is worth noting that the extinguishment of the intercompany loans would generate tax obligations (financial gains recognized in Oi SA and Oi Move! SA), impairing the recovery of equity-related instruments. It is possible to see the total impact comparing this table above with the one on page 99.
  - Also, with the extinguishment of the intercompany loans, the tributary inefficiency of pre-RJ Plan Group would be reduced, creating a gain to the future cash flow.

- Corresponds to Anatel and Lawsuits (iliquid) present value cash flows projected after the explicit period starting in 1 January 2036 until 31 December 2042 when the last RJ Plan debt is paid.
- Present value of the perpetuity considering a non terminal operation of Oi Group after 2035. Estimated by the Gordon Growth methodology using Brazil's long term inflation of 4,1% as growth in the long term.
- Cash and cash equivalents accounts of Oi Group balance sheet on the reference date were considered in the cash flow as a reserve cash for negative cash flows in the first projected years
- Present value of the non utilized tax deductions (income tax and social contribution) of Oi Group in 2035.
- Oi Group non-controlling interest in some companies located in Africa and Southeast Asia that are classified as assets kept for sale on the balance sheet. Considers a recoverability rate of 50% estimated by Management on top of the book value.
- Oi Group balance sheet non operating assets and liabilities that were not considered in the working capital calculations. Each individual account considers a recoverability rate estimated by Management on top of the book value.

## 4 Scenario B – Liquidation of Dutch Companies

### Scenario B – Oi Coop and PTIF

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<sup>1</sup> The amounts restructured were economically deducted from the amounts received from the liquidation of PTIF (see page 109).

### Summary recovery Oi Coop and PTIF Bondholders

- On the previous page we have set-out the recovery values on Scenario B for Class III Unsecured Creditors eligible for Options G and H, which include the bondholders of Oi Coop and PTIF.
- Applying the same assumptions as used for when valuing Options G and H for all Class III Unsecured Creditors, the total Market Value range for Oi Coop and PTIF is the sum of the Non-Qualified Bondholders' Unsecured Credits Option (Option G) and the Qualified Bondholders' Unsecured Credits Option (Option H) as presented in the adjacent overview.
- In the hypothetical scenario where Oi Coop and PTIF are liquidated, the financial unsecured credits (Bondholders) of PTIF would have access to BRL 58m, reducing the bonds restructured according RJ Plan, while creditors of Oi Coop would not have access to any proceeds from the liquidation.
- For Oi Coop The Recovery Range Percentage is estimated from 33,7% to 39,2% for that part of the Bonds classified as Non-Qualified Unsecured Credit and from 28,1% to 36,1% for credits classified as Qualified Unsecured Credits, assuming that they do not participate in the capital increase and from 30,5% to 46,0% assuming they participate in the capital increase of BRL 0,57bn (present value [BRL 1,01 per share] applied to Oi shares [567m]).
- For PTIF The Recovery Range Percentage is estimated from 33,7% to 39,2% for that part of the Bonds classified as Non-Qualified Unsecured Credit and from 28,1% to 36,1% for credits classified as Qualified Unsecured Credits, assuming that they do not participate in the capital increase and from 30,5% to 46,0% assuming they participate in the capital increase of BRL 1,17bn (present value [BRL 1,01 per share] applied to Oi shares [1.162m]).
- The amount presented in **M** is the sum of recoveries for the Non-Qualified Bondholders Unsecured Credits and Qualified Bondholders Unsecured Credits, assuming they will participate in the Capital Increase.



# 5

## Scenario C – Liquidation Analysis

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## 5 Scenario C – Liquidation Analysis

### Overview and Approach

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The ultimate aim of the liquidation analysis of the Oi Group is to consider potential implications on the returns of Oi Coop and PTIF to the Dutch creditors in a group insolvency outcome of the Oi Group. The liquidation analysis comprises the estimation of stakeholder returns on a theoretical insolvency.

The approach assumes a theoretical group-wide liquidation of the Oi Group. It assumes a liquidation process under Brazilian law, since all relevant assets are located in Brazil. It also assumes forfeiture of operation rights and an asset break up. Additionally, this approach also takes into consideration all the liquidation costs that are expected for this kind of proceeding.

Hence, other scenarios (e.g. a controlled insolvency scenario with only key holding companies being placed into an insolvency process to facilitate a controlled sale of underlying divisions) will not be part of the analysis.

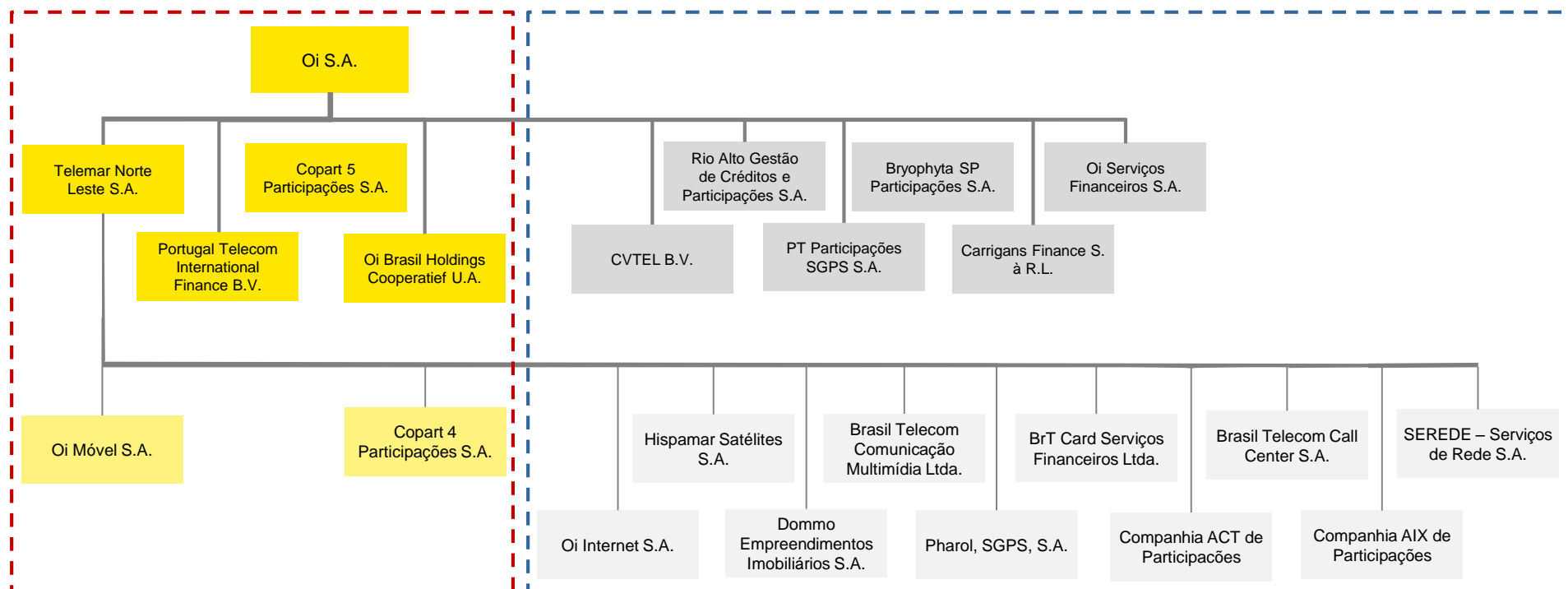
For this analysis the value of the assets of the Oi Group needs to be estimated under a liquidation scenario, i.e. the net realizable value of the assets. The Legal Waterfall Analysis provides insight into:

- ▶ The mapping of the shareholders claims against the realizable value of the assets, taking into account claims (such as the ones typically created by guarantees), general priority considerations and any specific priority considerations (if applicable);
- ▶ Distribution of the realizable value of the assets (based on value pools) to a common set of distribution rules. These are underpinned by the relevant insolvency regime in each legal jurisdiction (defining the distribution and priority rules);
- ▶ An analysis that demonstrates the distribution and % 'dividend' available to the creditor classes and individual creditor claims.

## 5 Scenario C – Liquidation Analysis

### RJ Debtors – Consolidated Bankruptcy Assumption

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The understanding of Oi's legal advisor (José Alexandre Tavares Guerreiro Lawyer) is that, despite the omission of the BBL, a joint and substantive consolidated bankruptcy of the RJ Debtors is the most likely process<sup>1</sup>, based on the following grounds:

1. in terms of arts. 48 and 105 to 107 of the BBL, the debtor can demand their judicial reorganization or bankruptcy, so it would be possible for the group to demand in court the maintenance of the substantive consolidation in a bankruptcy;
2. the structure of the Oi Group, due to regulatory impositions in the telecommunications sector, demands joint treatment of the Oi Group's bankruptcy, in order to facilitate the collection of assets for the payment of liabilities in a way that preserves the collective interests of creditors of the group;
3. Brazilian jurisprudence and scholars also recognize the need for joint and consolidated treatment of the corporate group crisis in case of bankruptcy.

It is important to note that the Brazilian Justice granted the creditors the right to vote on the matter of substantive consolidation at the Creditor's Meeting. At the meeting, the creditors approved the substantive consolidation.

#### Key

- Entities under Judicial Reorganization
- Entities that are not under Judicial Reorganization
- Companies under substantive consolidated bankruptcy/ liquidation
- Companies under entity-by-entity bankruptcy/ liquidation

<sup>1</sup> Tavares Guerreiro, "Judicial Reorganization of the Oi Group. Bankruptcy decree of the companies Oi Coop and PTIF by the Dutch Court", September 2017.

## 5 Scenario C – Liquidation Analysis

### Key Assumptions

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Key Considerations	Modelling approach
<b>Date of Analysis</b>	The analysis is based upon the unaudited entity management balance sheets as at June 30, 2017 and excludes any transactions occurred after this date, such as corporate reorganizations, pending guarantees, and any capital flows.
<b>Insolvency Processes</b>	<p>Our estimated outcome work is a theoretical exercise in respect to multiple domestic and foreign entities insolvency processes which are inherently uncertain.</p> <p>The RJ Debtors will have their bankruptcy processed on a substantive consolidated basis whereas the other companies of the group will have their bankruptcies processed on an entity-by-entity basis. Independent operations and minority shareholdings will be sold, instead of liquidated.</p> <p>The existing liabilities and the ones generated by the bankruptcy, related to suppliers, debts, contingent liabilities, terminations costs and others will be kept in the bankruptcy estate.</p> <p>It is important to note that the Brazilian Justice granted the creditors the right to vote on the matter of substantive consolidation at the Creditor's Meeting. At the meeting, the creditors approved the substantive consolidation.</p>
<b>Time value of money</b>	<p>This Analysis takes no account of the time value of money.</p> <p>The complex corporate structure of the Oi Group, added to its broad coverage area, hinders the development of an eventual insolvency process, distributions would likely be made over a long period of time, during which assets could vary in value and interest could accrue on financial claims at market or statutory rates.</p> <p>Undisclosed amounts related to legal disputes could be blocked until its final settlement delaying the payment to the creditors for a considerable period of time.</p>
<b>Insolvency costs, expenses and transaction costs</b>	<p>Practically, liquidators would require employees for an indeterminate period to realize all assets, obtain key information and wind down entity operations. The realization and distribution to creditors, including the adjudication of claims across a group of this size, may take a number of years to be completed due to intricate financing structures and complex jurisdictional issues.</p> <p>Estimated legal and liquidation costs have been assumed at 2% of realized unencumbered asset values (e.g. asset realizations, share sales, others) at an entity level.</p>
<b>Currency</b>	Throughout this Report and in the model, BRL is the currency unless otherwise stated. Amounts in other currencies have been converted using the following exchange rates: (i) 1 USD = 3,308 BRL; and (ii) 1 EUR = 3,775 BRL.
<b>Tax</b>	<p>For tax purposes it has been assumed that the liquidation would occur within one fiscal year, since it is difficult to predict the unfolding of an eventual liquidation process. In this document, the timeline of eventual gains and losses to be recognized by the RJ Debtors is not taken in consideration, which may generate additional taxes, as well as impacts regarding cost of capital;</p> <p>Taxes recoverable are considered to be credits to be compensated, it is also stressed that this work did not contemplate a detailed analysis regarding the nature of the credits or the requirements for its effective recovery;</p> <p>Calculation of taxes resulting from the liquidation are done on an entity-by-entity basis;</p>
<b>Scenarios</b>	This Report considered a range of possible results divided in three scenarios – Base, Low and High. The scenario which Management understands to most likely occur was considered as the Base. The Low refers to a pessimistic scenario, whilst High refers to an optimistic one. All adjustment assumptions were discussed and assumed together with Management in these three different scenarios.

## 5 Scenario C – Liquidation Analysis

### Key Assumptions

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Key Considerations	Modelling approach
<b>Liabilities and Contingent</b>	Liabilities and provisions have been assumed to result in a valid claim equivalent to the full carrying unless otherwise determined by Management. The treatment of Oi Group's liabilities is discussed in detail later in this section. Nevertheless the Oi Group would still be subject to lawsuits filed by suppliers, franchisees, commercial representatives, corporate clients and businessmen that operate by public means and damages, due to an eventual termination of the executed contracts.
<b>Contingent Asset</b>	Neither the RJ Debtors nor Oi Group have any relevant contingent assets.
<b>Regulatory</b>	According to Oi's legal advisor (Pereira Neto, Macedo Advogados), Oi would have its fixed telecom concessions forfeited and mobile licenses revoked in case of an insolvency of Oi Group <sup>1</sup> ; As telecom is viewed as an essential service by the regulator, Management understands that it is likely that Anatel will subrogate the third-party contracts with services providers to guarantee the continuity of the services; The regulator may revert all assets related/necessary for the continuity of the concessions and authorizations services to a different operator, as presented in detail in this section;
<b>Waterfall</b>	The waterfall of payments priority according to the Brazilian Bankruptcy Law 11.101/05 is detailed on page 129; All proceeds from the RJ Debtors would be distributed among its creditors respecting the priority order of the credits nature considering a substantive consolidated liquidation, while the other companies of the Group will have its proceeds distributed on an entity-by-entity basis; In the same manner, the possible set-off of accounts receivable and accounts payable will be done on a consolidated basis.
<b>Balance sheet information used for model</b>	As at 30 June 2017, Oi Group comprised 7 entities, classified as RJ Debtors and 21 remaining entities classified as Other Companies of the Group. All entities balance sheets have been modelled in this analysis. We have not made any adjustments for post balance sheet events, including pending guarantees or any capital flows.
<b>Intercompany Operations</b>	Intercompany balances (loans and trade) as at 30 June 2017 have been modelled. Outstanding amounts between RJ Debtors (Oi, TLM and PTIF) and other companies of the group (Oi Internet and PTPT) have different treatment in the waterfall, further detailed later in this section.
<b>Bank Guarantees</b>	Certain contingent liabilities are covered by bank guarantees, which will impact the allocation of the liabilities in the waterfall. Some of these guarantees have an immediate maturity clause in case of bankruptcy, and it is Management's understanding that a bankruptcy could release the banks from their obligations.
<b>Secured Credits</b>	The BNDES guarantee was structured based on Management information and has not been independently verified by EY.
<b>Balance sheet adjustments</b>	The borrowing between RJ Debtors and other companies of the group (PTPT and Oi Internet) were considered within the sale value and liquidation value of these companies, respectively, which were accounted for as investments proceeds.

<sup>1</sup> Pereira Neto, Macedo Advogados; "Regulatory aspects applicable to a consolidated bankruptcy scenario of the Oi Group", November 2017.

## 5 Scenario C – Liquidation Analysis

### Estimated Outcome Analysis

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Proceeds and Credits	Book Value Jun17A (BRL million)	Due (BRL million)			Recovery (BRL million)			Recovery Percentage			Balance (BRL million)		
		Low	Base	High	Low	Base	High	Low	Base	High	Low	Base	High
Cash and Equivalents	7.271	-	-	-	7.271	7.271	7.271	100%	100%	100%	7.271	7.271	7.271
Accounts Receivables	7.730	-	-	-	5.173	5.508	5.843	67%	71%	76%	12.444	12.779	13.115
Inventories	234	-	-	-	48	56	64	20%	24%	27%	12.492	12.835	13.179
Court Deposits	14.917	-	-	-	8.499	9.032	9.566	57%	61%	64%	20.991	21.868	22.744
Tax	5.929	-	-	-	1.028	1.084	1.141	17%	18%	19%	22.018	22.952	23.886
Investments	7.576	-	-	-	2.548	2.989	3.447	45%	51%	56%	24.566	25.941	27.333
Reversible Assets	7.678	-	-	-	-	-	-	0%	0%	0%	24.566	25.941	27.333
Non-reversible Assets	28.209	-	-	-	9.446	10.856	12.267	33%	38%	43%	34.011	36.797	39.599
Borrowings	909	-	-	-	-	-	-	0%	0%	0%	34.011	36.797	39.599
Other Credits	2.802	-	-	-	1.478	1.501	1.525	53%	54%	54%	35.489	38.298	41.124
<b>Total Proceeds and Credits</b>	<b>83.255</b>	-	-	-	<b>35.489</b>	<b>38.298</b>	<b>41.124</b>	<b>44%</b>	<b>47%</b>	<b>51%</b>	<b>35.489</b>	<b>38.298</b>	<b>41.124</b>
<b>Credits to be paid regardless of legal priority or apportionment</b>													
Anticipations	(43)	(43)	(43)	(43)	(43)	(43)	(43)	100%	100%	100%	35.447	38.256	41.081
Compensations	(1.171)	(1.171)	(1.171)	(1.171)	(1.171)	(1.171)	(1.171)	100%	100%	100%	34.276	37.085	39.911
<b>Total credits to be paid regardless of legal priority or apportionment</b>	<b>(1.213)</b>	<b>(1.213)</b>	<b>(1.213)</b>	<b>(1.213)</b>	<b>(1.213)</b>	<b>(1.213)</b>	<b>(1.213)</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>34.276</b>	<b>37.085</b>	<b>39.911</b>
<b>Credits outside the Reorganization proceedings</b>													
Bankruptcy Administrator	-	(710)	(766)	(822)	(710)	(766)	(822)	100%	100%	100%	33.566	36.319	39.088
Liquidation Taxes	-	(3.704)	(3.394)	(3.076)	(3.704)	(3.394)	(3.076)	100%	100%	100%	29.862	32.925	36.012
Severance / Termination Costs	(333)	(333)	(333)	(333)	(333)	(333)	(333)	100%	100%	100%	29.529	32.591	35.679
Post-petition Suppliers	(3.499)	(3.499)	(3.499)	(3.499)	(3.499)	(3.499)	(3.499)	100%	100%	100%	26.030	29.093	32.180
<b>Total credits outside the Reorganization proceedings</b>	<b>(3.832)</b>	<b>(8.246)</b>	<b>(7.992)</b>	<b>(7.730)</b>	<b>(8.246)</b>	<b>(7.992)</b>	<b>(7.730)</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>26.030</b>	<b>29.093</b>	<b>32.180</b>
<b>Pre-petition Credits</b>													
Employees and equivalents	(1.030)	(1.663)	(1.359)	(1.056)	(1.663)	(1.359)	(1.056)	100%	100%	100%	24.367	27.733	31.125
Secured Creditors	(3.671)	(2.268)	(2.440)	(2.612)	(2.268)	(2.440)	(2.612)	100%	100%	100%	22.099	25.294	28.513
Fiscal	(3.558)	(17.007)	(14.538)	(12.297)	(17.007)	(14.538)	(12.297)	100%	100%	100%	5.093	10.756	16.216
Special privileged creditors	(67)	(67)	(67)	(67)	(67)	(67)	(67)	100%	100%	100%	5.026	10.689	16.149
General privileged creditors	(2.604)	(2.990)	(2.784)	(2.578)	(2.990)	(2.784)	(2.578)	100%	100%	100%	2.036	7.905	13.572
Unsecured creditors	(57.220)	(63.359)	(64.251)	(64.709)	(2.036)	(7.905)	(13.572)	3%	12%	21%	-	-	-
(Sub)unsecured creditors	(1.620)	(7.414)	(6.130)	(4.952)	-	-	-	0%	0%	0%	-	-	-
Post-bankruptcy interest	-	-	-	-	-	-	-	0%	0%	0%	-	-	-
<b>Total Pre-petition Credits</b>	<b>(69.770)</b>	<b>(94.768)</b>	<b>(91.569)</b>	<b>(88.270)</b>	<b>(26.030)</b>	<b>(29.093)</b>	<b>(32.180)</b>	<b>27%</b>	<b>32%</b>	<b>36%</b>	<b>-</b>	<b>-</b>	<b>-</b>

The table above shows the range of results for the three scenarios of asset recovery combined with the claim scenarios, resulting in a theoretical range of recovery for the unsecured creditors from 1% to 20%, including the Bondholders of PTIF and Oi Coop. In the base case, a recovery of 12% is assumed for the unsecured creditors.

## 5 Scenario C – Liquidation Analysis

### Proceeds and Credits: Overview

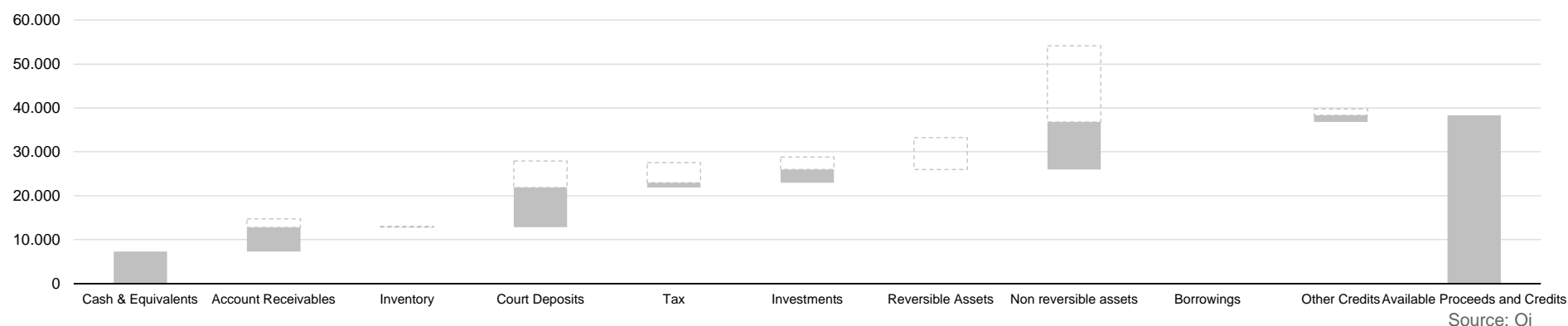
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#### Proceeds

The table below shows a summary of total Proceeds and Credits, which are detailed in the next pages.

Proceeds and Credits	Book Value Jun17A (BRL million)	Due (BRL million)			Recovery (BRL million)			Recovery Percentage			Balance (BRL million)		
		Low	Base	High	Low	Base	High	Low	Base	High	Low	Base	High
1 Cash and Equivalents	7.271	-	-	-	7.271	7.271	7.271	100%	100%	100%	7.271	7.271	7.271
2 Accounts Receivables	7.730	-	-	-	5.173	5.508	5.843	67%	71%	76%	12.444	12.779	13.115
3 Inventories	234	-	-	-	48	56	64	20%	24%	27%	12.492	12.835	13.179
4 Court Deposits	14.917	-	-	-	8.499	9.032	9.566	57%	61%	64%	20.991	21.868	22.744
5 Tax	5.929	-	-	-	1.028	1.084	1.141	17%	18%	19%	22.018	22.952	23.886
6 Investments	7.576	-	-	-	2.548	2.989	3.447	45%	51%	56%	24.566	25.941	27.333
7 Reversible Assets	7.678	-	-	-	-	-	-	0%	0%	0%	24.566	25.941	27.333
8 Non-reversible Assets	28.209	-	-	-	9.446	10.856	12.267	33%	38%	43%	34.011	36.797	39.599
Borrowings	909	-	-	-	-	-	-	0%	0%	0%	34.011	36.797	39.599
9 Other Credits	2.802	-	-	-	1.478	1.501	1.525	53%	54%	54%	35.489	38.298	41.124
<b>Total Proceeds and Credits</b>	<b>83.255</b>	-	-	-	<b>35.489</b>	<b>38.298</b>	<b>41.124</b>	<b>44%</b>	<b>47%</b>	<b>51%</b>	<b>35.489</b>	<b>38.298</b>	<b>41.124</b>

The graph below highlights the proceeds and credits recoverability at the base scenario.



## 5 Scenario C – Liquidation Analysis

### Proceeds and Credits: Cash & Cash Equivalents and Accounts Receivables

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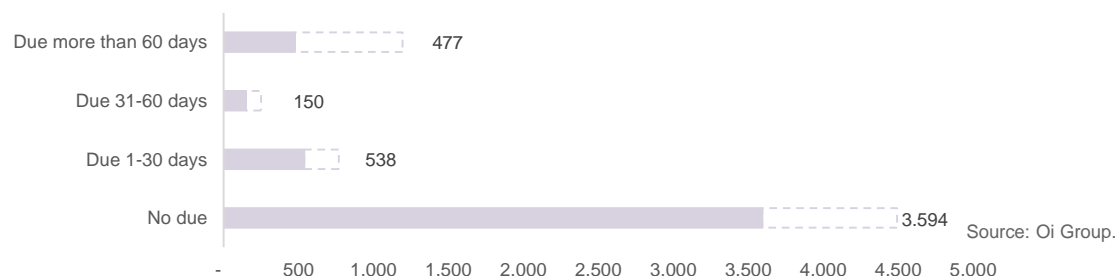
#### 1 Cash and Cash Equivalents

- ▶ At 30 June 2017, the RJ Debtors held cash of BRL 7.271m, of which BRL 6.403m was held in Brazilian Government Bonds, BRL 389m was held in bank accounts and a further BRL 394m in investments.
- ▶ Of the BRL 394m in investments, BRL 84,9m are long term financial investments from Oi Móvel and Oi S.A., and the other BRL 201,4m corresponds to short term investments.
- ▶ Management has assumed full recovery of BRL 7.271m in cash & cash equivalents since these are considered liquid investments with no withdrawal penalties.

#### 2 Account Receivables

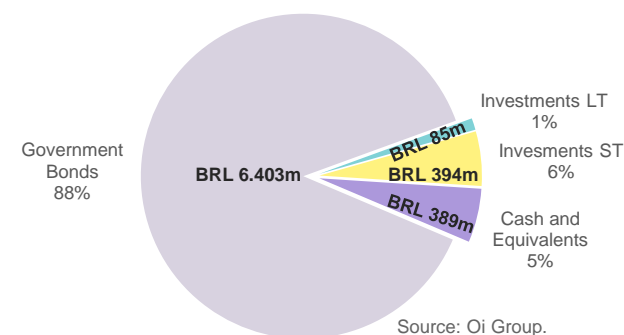
- ▶ For the BRL 6.704m, related to third parties and public clients, which already includes an operational provision for losses of 7%, an average recovery of 71% (BRL 4.759m) was considered, resulting in the following expected recovery for each aging period:

##### Third Parties & Public Clients (BRL million)

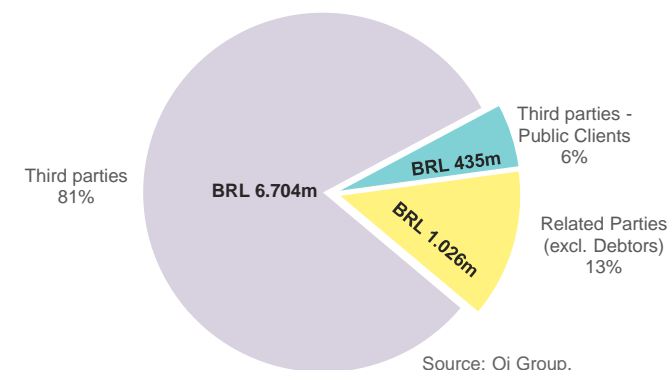


- ▶ Given that this analysis considers the assumption of sub-rogation of services to a new operator in case of a bankruptcy of Oi Group, Management believes that the handling over of the services would reduce the impact of the bankruptcy on these recoveries, since the services would still be provided.
- ▶ For the receivables from related parties excluding RJ Debtors, it was considered a recovery of 73% (BRL 749m) in the form of credits, which are offset against the obligations that RJ Debtors hold against the Other Companies of the Group. The remaining 27% are considered in the calculation of each of the subsidiaries' liquidation value, which is considered as investments proceeds.
- ▶ Hence, the total recovery of the accounts receivable amount to BRL 5.508m (71%).

#### RJ Debtors' Cash and Cash Equivalents



#### RJ Debtors' Account Receivables - Book Value



## 5 Scenario C – Liquidation Analysis

### Proceeds and Credits: Inventory

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#### 3 Inventory

- ▶ At 30 June 2017, the RJ Debtors held BRL 234m in inventory, of which BRL 110m consisted of consumption material, BRL 102m comprised stock for resale and BRL 22m refers to inventory held by third parties;
- ▶ Consumption material refers to materials required to operate the network, such as modems, routers, cables and other required equipment for installation of the network, which were considered as scrap with a recovery of 20% (BRL 22m);
- ▶ Oi Group's stock for resale is divided between handsets (51%) and SIM cards/ pre-paid cards (49%), of which the RJ Debtors own 45% (BRL 102m). For these items, Management estimated a recover of 31% (BRL 31m), detailed below:
  - ▶ For handsets, with a book value of BRL 52m, and an average value of BRL 643 per handset, the estimated recovery by Management was determined at 60% (BRL 31m);
  - ▶ SIM cards/ pre-paid cards, with a book value of BRL 50m were considered for scrap value. According to Management, these items cannot be sold with the purpose of using them, since they hold properties relevant to Oi only, such as authentication keys and specific art graphics, hence considered as scrap to be sold at BRL 0,90 per kilo. With a total of 148 tons, the liquidation value is estimated at BRL 0,1m.
- ▶ Inventory held by third parties refers to handsets sent for repair. They represent 4% (BRL 22m) of the RJ Debtors' total inventory and according to Management should be valued as scrap. In case of a liquidation, recovery is estimated at 13% (BRL 3m), under the assumption that the average price of handset in Oi's stock is BRL 683 and the scrap value of BRL 83 per handset.

#### RJ Debtors' Inventory



Source: Oi Group.



## 5 Scenario C – Liquidation Analysis

### Proceeds and Credits: Court Deposits

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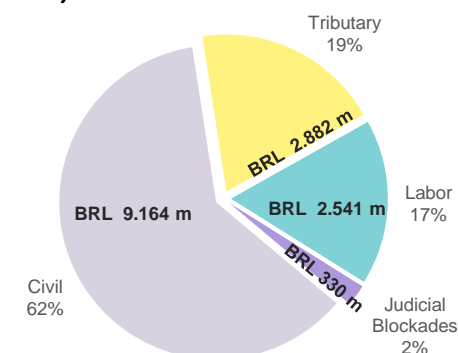
#### 4 Court Deposits

- ▶ At 30 June 2017, the RJ Debtors held court deposits totaling an amount of BRL14.917m, related to judicial proceedings and administrative proceedings of civil, labor and tributary nature, as well as regulatory administrative proceedings.
- ▶ In order to estimate the percentage of recovery on the court deposits, the high number of lawsuits with court deposits (approximately 315.000), together with the need for individualized documents and procedures were taken into account.
- ▶ In addition, these deposits are concentrated in a limited number of financial institutions in Brazil, including public ones, in an unprecedented case in Brazil, which makes it difficult to execute these deposits from an operational and practical point of view.
- ▶ Management estimates a recovery of 50% for deposits related to civil claims (PEX, JEC, Consumer and Strategic Civil) and labor claims, and a recovery of 100% for Regulatory and Tax deposits (considering that the specifics above do not apply);
- ▶ Furthermore, it is expected by Management that legal proceedings will need to be instigated by Oi in order to ultimately monetize the Court Deposits to value. It is estimated an effort of five (5) hours per lawsuit at a cost of BRL 350 per lawyer hour, in order to monetize the Court Deposits, totaling BRL 550m.

Court Deposits	Asset	Recovery	
	(BRL million)	%	(BRL million)
<b>Civil</b>	<b>9.164</b>	<b>57%</b>	<b>5.265</b>
Anatel	1.366	100%	1.366
Others	7.798	50%	3.899
<b>Tax</b>	<b>2.882</b>	<b>100%</b>	<b>2.882</b>
<b>Labor</b>	<b>2.541</b>	<b>50%</b>	<b>1.270</b>
<b>Court blocks</b>	<b>330</b>	<b>50%</b>	<b>165</b>
<b>Costs of monetization</b>			<b>(550)</b>
<b>Total</b>	<b>14.917</b>	<b>61%</b>	<b>9.032</b>

Source: Oi Group.

#### RJ Debtors' Court Deposits – Book Value (BRL million)



Source: Oi Group.

## 5 Scenario C – Liquidation Analysis

### Proceeds and Credits: Recoverable Taxes

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#### 5 Recoverable Taxes

- ▶ At 30 June 2017, the RJ Debtors held BRL 5.9 billion in tax credits. The average recoverability is 18%. Details are shown in the adjacent table.
- ▶ The amounts under the federal spheres can be offset with payable taxes of same nature of each entity and the remaining balance could also be used to offset additional federal tax generated in the bankruptcy. According to Management, a substantial part of the federal tax litigation (at the administrative level) concerns the denial of the intended set-off by the Brazilian tax authorities. Therefore, in this case these recoveries were determined at 60%.
  - In addition, according to Management the payables balance for federal taxes were more than enough for the use of these credits.
- ▶ Recoverable ICMS refers to credits that can be offset in its total amount against ICMS payable. According to Management the ICMS payable balance is more than enough to offset these credits in full.
- ▶ Parcelled ICMS can only be offset with the total payable amount of Telemar. According to Management, the payable balance available to be offset is approximately BRL 100m.
- ▶ Other ICMS accounts can be offset with the monthly payable amounts - Taking into consideration the amount paid in June 2017 the amount recovered of the total balance is approx. BRL 72,7m
- ▶ In relation to IPTU taxes, these can only be offset with the total IPTU balance the Company has to pay to the Rio de Janeiro State Treasury Office. However, there is no payment balance to offset these credits, according to Management.
- ▶ According to Management, Others refers to credits of incorporated companies and it needs a solid proof and documents gathering to have a chance of recoverability. Thus, the Company considered that this balance would have no change of recoverability in a liquidation scenario.

Recoverable Taxes	Asset	Recovery	
	(BRL million)	%	(BRL million)
<b>Federal</b>	<b>1.139</b>	<b>60%</b>	<b>683</b>
Recoverable Social Contribution	21	60%	13
Recoverable Income Tax	46	60%	28
IT and SC withholding taxes	324	60%	194
Other IT and SC deferred taxes	482	60%	289
PIS/COFINS withholding taxes	37	60%	22
PIS/COFINS	214	60%	128
Others	14	60%	8
<b>State</b>	<b>1.720</b>	<b>23%</b>	<b>401</b>
Recoverable ICMS	222	100%	222
Parcelled ICMS	351	31%	107
Others ICMS	1.148	6%	73
<b>Municipal</b>	<b>100</b>	<b>0%</b>	<b>-</b>
IPTU	93	0%	-
Others	7	0%	-
<b>Deferred IT and SC</b>	<b>2.970</b>	<b>0%</b>	<b>-</b>
<b>Total</b>	<b>5.929</b>	<b>18%</b>	<b>1.084</b>

Source: Oi Group.

## 5 Scenario C – Liquidation Analysis

### Proceeds and Credits: Investments

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## 6 Investments

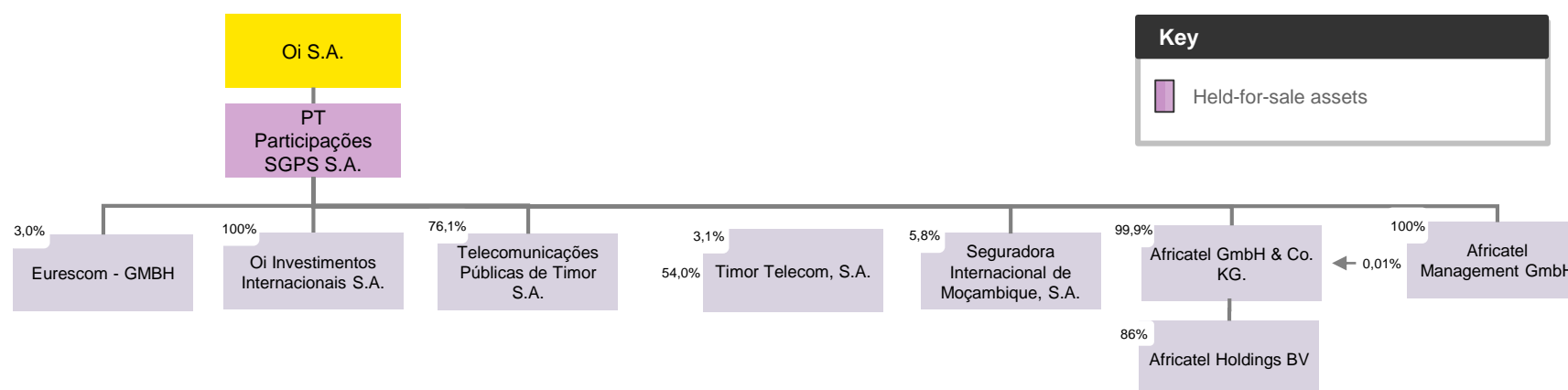
- Investments refer to Oi Group's interest in affiliates/subsidiaries and held-for-sale assets. Below is a summary of this account balance.

Investments	Asset	Recovery	
	(BRL million)	%	(BRL million)
<b>A Held-for-sale</b>	<b>3.928</b>	<b>50%</b>	<b>1.964</b>
<b>B Interest in affiliates</b>	<b>96</b>	<b>70%</b>	<b>67</b>
<b>C Interest in subsidiaries</b>			<b>958</b>
<b>Total</b>	<b>4.024</b>	<b>74%</b>	<b>2.989</b>

Source: Oi Group.

## A Held-for-sale assets

- Held-for-sale assets comprise PTPT subsidiaries and affiliates, which are mostly operations in Africa/Asia. These off-shore investments have independent operations and are considered as forced sales in a liquidation scenario. The PTPT legal structure is outlined below.



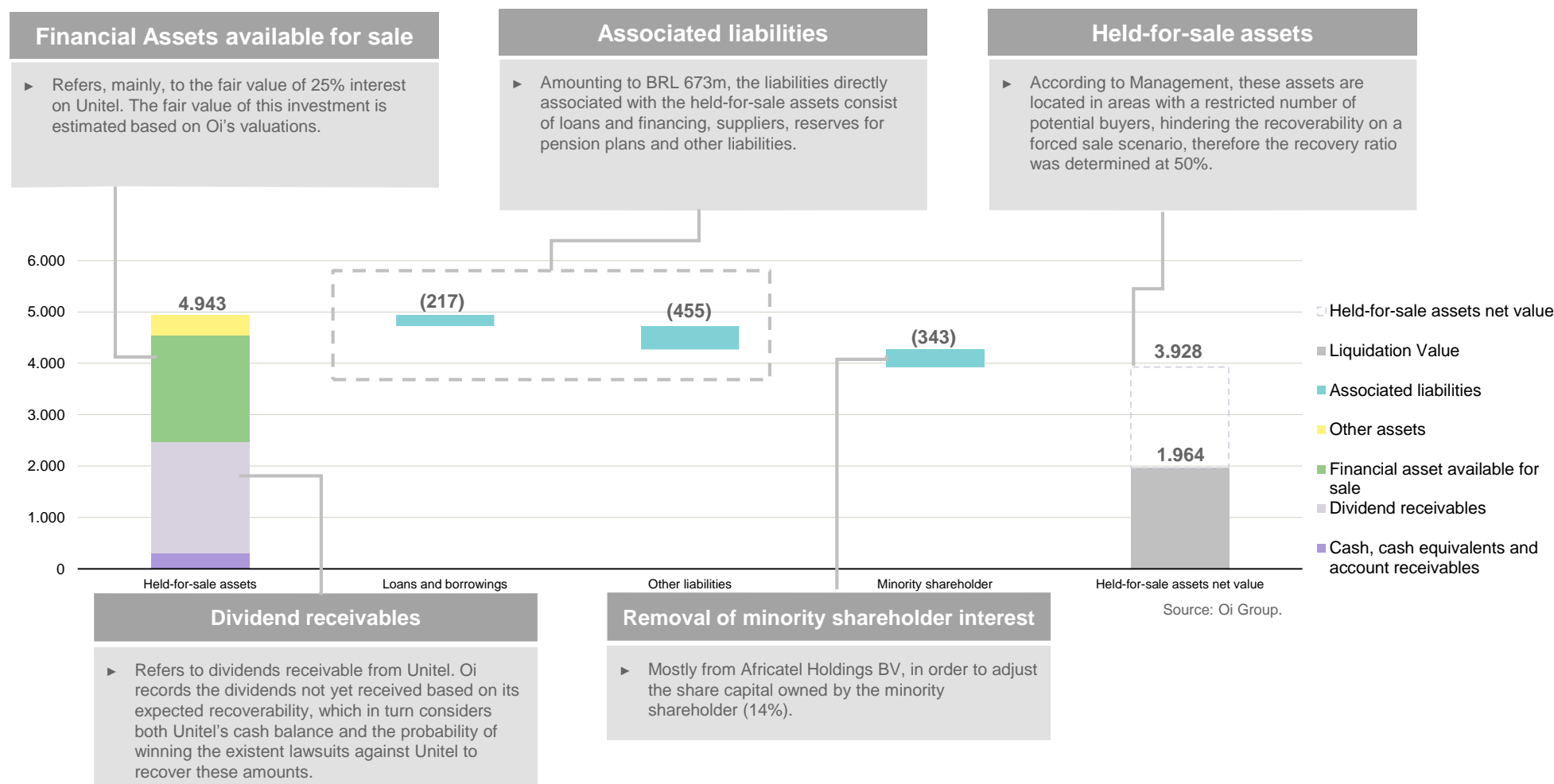
## 5 Scenario C – Liquidation Analysis

### Proceeds and Credits: Investments

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The value bridge below highlights the recoverability in PTPT Assets, from book value to liquidation value, reflecting the associated liabilities, reduction for forced sales and other relevant reductions.

#### PTPT Assets Net Value (BRL million)



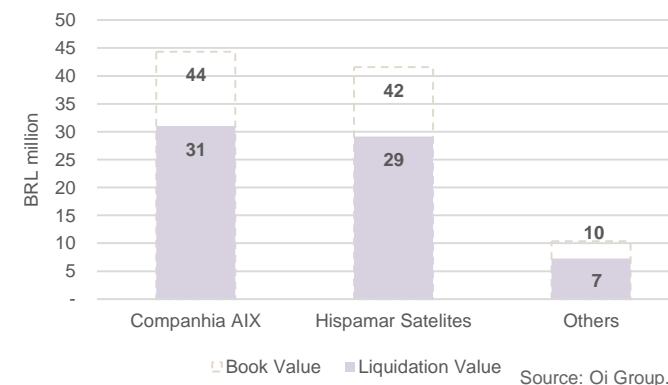
## 5 Scenario C – Liquidation Analysis

### Proceeds and Credits: Investments

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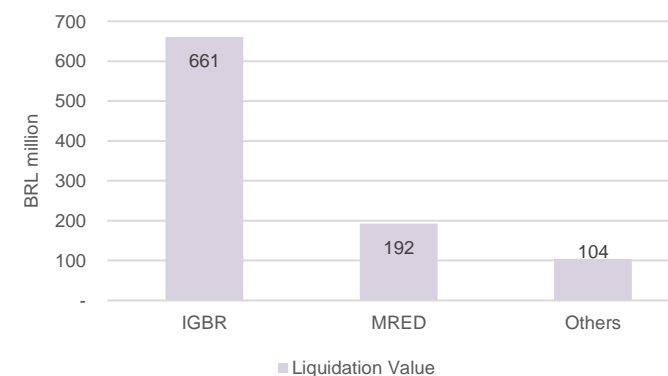
#### B Interest in affiliates

- ▶ At 30 June 2017, the RJ Debtors held BRL 96m in minority interests, mostly related to:
  - Companhia AIX de Participações, in which the RJ Debtors hold a 50% equity interest; and
  - Hispamar Satélite S.A., in which the RJ Debtors hold a 19% equity interest.
- ▶ Management estimates that in a forced sale the recovery of these investments would be of 70% (BRL 67m).



#### C Interest in subsidiaries

- ▶ It was assumed a substantive consolidated bankruptcy for the RJ Debtors, whilst an entity-by-entity liquidation for the companies that are not under Judicial Reorganization.
- ▶ Hence, upon repayment of all prior ranking claims within each legal entity of the group (excluding the RJ Debtors), any residual amount is assumed to be distributed to the RJ Debtors.
- ▶ The liquidation value of the RJ Debtors' subsidiaries amounts to BRL 958m.
- ▶ Highlights are IGBR and MRED as shown next. For the full entity-by-entity liquidation, please refer to Appendix VI.



## 5 Scenario C – Liquidation Analysis

### Proceeds and Credits: Reversible Assets

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#### 7 Reversible Assets

The reversible assets, are defined as the telecom assets indispensable for the continuity and timeliness of the services in the public system, which, according to item IX of art. 93 of Law 9,472/97, are required to be included in the concession contracts.

According to Oi's legal advisor (Pereira Neto, Macedo Advogados), in a bankruptcy scenario the reversible assets would be confiscated by the regulator and the state bankruptcy would have rights over the indemnification as a result of reversion of unamortized or non-depreciated assets to Anatel<sup>2</sup>.

Nevertheless, Anatel would be able to deduct the outstanding contractual obligations, including outstanding fines, contractual obligations and damages due for the inadequate provision of the service, with indemnification related to the unamortized or non-depreciated assets at the moment of the concession termination, as stated in the concession contracts Clauses 27.4, § 2 and 28.1, III.

Considering that the RJ Debtors estimate an amount of BRL 12.618m in obligations with Anatel related to fines and contractual obligations, and the RJ Debtors would have the right to an indemnification related to unamortized or non-depreciated assets of BRL 7.678m, according to the balances of its balance sheet, in this case the net indemnification would be zero.

It is important to note that this Report uses Oi's list of reversible assets which can be challenged by Anatel.

In spite of that, according to Oi legal advisor (Pereira Neto, Macedo Advogados), there is controversy with regard to the scope of Anatel's obligation to indemnify the Concessionaires if it has not specifically authorized these unamortized or non-depreciated investments (Clause 23.3, § 1), and Anatel may attempt to enforce this interpretation to restrict Oi Group's claim for indemnification for these investments. In this case, the amounts related to contractual obligations would not be deducted by the reversible assets amount.

Reversible Assets Determination	Asset	Recovery	
	(BRL million)	%	(BRL million)
Real Estate Properties	3.927	100%	3.927
Personal Properties	96	100%	96
Others <sup>1</sup>	3.655	100%	3.655
<b>Total before Anatel Claims</b>	<b>7.678</b>	<b>100%</b>	<b>7.678</b>
<b>Contractual Obligations and Fines</b>			<b>12.618</b>
<b>Total Indemnification</b>			<b>-</b>

Source: Oi Group.

<sup>1</sup> Include assets related to constructions in progress, intangibles assets other than software and balance sheet accounts

<sup>2</sup> Pereira Neto, Macedo Advogados; "Regulatory aspects applicable to a consolidated bankruptcy scenario of the Oi Group", November 2017.

## 5 Scenario C – Liquidation Analysis

### Proceeds and Credits: Non Reversible Assets

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#### 8 Non-Reversible Assets

The Non-Reversible Assets comprises the remaining fixed assets and intangibles, not considered in the Reversible assets.

According to NBR 14.653, part 1- General Procedures, the premise of value considered in this analysis is the market value and the forced liquidation value, hereinafter defined, respectively, as:

- Probable amount for which an asset would be voluntarily and consciously negotiated, in a reference date, given the current market conditions; and
- Condition regarding the case of a compulsory sale or in a period of time shorter than the average of the market absorption.

Also, according to the standards of Urban Properties Valuation of 2011 from IBAPE-SP (Brazilian Appraisal and Engineering Institute), the forced liquidation value is:

- Value for a compulsory sale situation, typical of auctions and also often used for bank guarantees. When utilized, the market value must also be presented.

To calculate forced liquidation value the following premise was assumed:

- Liquidation of assets considering an ongoing business: when the economic situation supports the premise that the company's assets are negotiated considering the continuity of the services, it is assumed the joint sale of such assets by its use in operations.

The assumption of the ongoing business is based on the continuity of services regardless of the RJ Debtors. Specific assets to the telecommunication industry, which depend on high costs and long term investment and maturation, would only have value in this scenario, except for the real estate assets classified as non-reversible.

Non-Reversible Assets	Book Value	Market Value	Recovery	
	(BRL million)	(BRL million)	%	(BRL million)
<b>Real Estate Properties</b>	<b>959</b>	<b>4.126</b>	<b>50%</b>	<b>2.057</b>
<b>Personal Properties</b>	<b>14.206</b>	<b>15.411</b>	<b>42%</b>	<b>6.425</b>
<b>Others<sup>1</sup></b>	<b>13.044</b>	<b>5.693</b>	<b>42%</b>	<b>2.373</b>
<b>Total</b>	<b>28.209</b>	<b>25.231</b>	<b>43%</b>	<b>10.856</b>

Source: Oi Group.

<sup>1</sup> Include assets related to constructions in progress, intangibles assets other than software and balance sheet accounts

## 5 Scenario C – Liquidation Analysis

### Proceeds and Credits: Other Credits

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#### 9 Other Credits

Regarding Other Credits, in 30 June 2017, the RJ Debtors held an amount of BRL 2.802m, which can be split as follows:

- ▶ Credits receivable amounting to BRL 1.249m, consist basically of amounts to be received from real estate assets and surety bonds release, which represents 52% of the group account with an expected full recovery, according to Management.
- ▶ Prepaid expenses, amounting to BRL 700 million, are assumed to have a recoverability of 18%, which can be split as follows:
  - FISTEL Maintenance, amounting to BRL 331m, is determined as not recoverable by Management and its legal advisers due to the complexity of the process of recovery or set-off<sup>1</sup>;
  - Contractual Prepaid expenses with publicity and sponsorships, amounting BRL 102m, is determined as not recoverable by Management;
  - Financial and Concession Prepaid Expenses, amounting to BRL 104m, are subject to set-off against obligations, according to Management;
  - Insurances, amounting to BRL 42m, were assumed to have a recoverability of 40% as Management believes that part of the insurance premium can be recovered.
- ▶ Supplier advances, amounting to BRL 639m, consist of advances to domestic and non-domestic markets, fuel reimbursement, among others. Where 34% is off-set with accounts payable and for the remaining amount a recoverability of 50% was estimate by Management;
- ▶ Advances to employees, amounting to BRL 41m, consist of advances on monthly salaries, advances on holiday payments, bonuses, FGTS (collected by the federal government), advances on vacation days, among others, with an assumed recoverability of 98% as it can be set-off against labor payables;
- ▶ Pension Funds, amounting BRL 120m, are not recoverable according to Management, as the amount of the fund can be recovered only in a case of fund termination;
- ▶ Fiscal Incentives, amounting to BRL 172m, are not recoverable according to Management, as the terms to set-off these amounts against obligations are complex and difficult to occur;
- ▶ Those values total an assumed recoverability of 54%.

Other Credits	Asset	Recovery	
	(BRL million)	%	(BRL million)
Receivable credits	1.249	73%	911
Prepaid expenses	700	18%	123
Advances to suppliers	640	67%	427
Advances to employees	41	98%	40
Pension Funds	120	0%	-
Tax incentives	52	0%	-
<b>Total</b>	<b>2.802</b>	<b>54%</b>	<b>1.501</b>

Source: Oi Group.

<sup>1</sup> Pereira Neto, Macedo Advogados; "Regulatory aspects applicable to a consolidated bankruptcy scenario of the Oi Group", November 2017.



## 5 Scenario C – Liquidation Analysis

### Priorities and Privileges in the Payment of the Debtor's Obligations

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The final stage of the bankruptcy begins with the accountability and reporting of the legal administrator and is effective after the realization of all the bankrupt party's assets and their disposal. The proceeds of the liquidation of the bankrupt party's assets is a way of satisfying the obligations to the Creditors and must be paid to said Creditors as soon as the cash enters the account of the bankrupt companies in the following order of preference, according to the Brazilian Bankruptcy Law 11.101/05 ("BBL").

Oi and their Legal Advisers (BMA; Rosman, Penalva, Souza, Leão, Franco Advogados; and Basilio Advogados<sup>1</sup>) built the waterfall priority of payment for this exercise as follows:

Waterfall Priority	Modelling approach
<b>Super priority claims</b>	
<b>Restitutions</b>	According to article 85 of the BBL, which states that "the owner of property collected in the bankruptcy proceeding or that is in the debtor's power on the date that the bankruptcy is decreed may request its restitution". This would include claims arising from co-billing and commissions.
<b>Set-off</b>	According to article 122 of the BBL, it is possible to offset debts and claims that are certain, liquid and payable. The offset is made regardless of the status of the creditor as per the legal waterfall <sup>2</sup> .
<b>Others (Anticipations)</b>	Others Super priority claims comprises creditors as follow: <ul style="list-style-type: none"> <li>• expenses considered indispensable to the administration of the bankruptcy;</li> <li>• claims for salary or wages owed in respect of the three month period prior to the bankruptcy order, limited to an amount equal to five monthly minimum wages per employee (articles 150 and 151 of the BBL).</li> </ul>
<b>Other claims that are not subject to the legal waterfall</b>	
Other claims that are not subject to the legal waterfall comprises creditors as follow: <ul style="list-style-type: none"> <li>• Fees and expenses of the judicial administrator;</li> <li>• Costs associated with running the bankruptcy proceeding;</li> <li>• Taxes arising from acts performed after the bankruptcy decree;</li> <li>• Obligations arising from valid acts of the debtor performed during the course of the judicial reorganization;</li> <li>• Labor-law claims or claims related to occupational accidents, in each case arising after the bankruptcy decree.</li> </ul>	

<sup>1</sup> BMA Advogados; Basilio Advogados; Rosman, Penalva, Souza Leão, Franco Advogados; "Bankruptcy Legal Waterfall according to Brazilian Law nº 11.101/2005", November 2017.

<sup>2</sup> Note: Financial institutions cannot set-off their debts by accessing the RJ Debtors' bank accounts and the amounts therein;

The offsets can be done in a consolidated, except taxes, as given that there are only few cases in which assignment of tax credits is allowed, all of which demand legal express provision;

The offset is made regardless of the status of the creditor as per the legal waterfall, but, according to case law, must abide by certain rules and principles, and cannot imply violation of the legal waterfall, which is one of the legal guidelines of the Brazilian bankruptcy liquidation.

## 5 Scenario C – Liquidation Analysis

### Priorities and Privileges in the Payment of the Debtor's Obligations

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#### Waterfall Priority

#### Modelling approach

**Following payment of super-priority claims, the remaining proceeds from liquidation of the debtor are distributed in the following order (article 83 of the BBL):**

<b>1. Employees and equivalents</b>	Refers to all employee work-related claims in an amount of up to 150 monthly minimum wages per employee, and all employee work-related injury claims. Whatever surpasses this limit is considered unsecured.
<b>2. Secured Creditors</b>	Refers to secured claims up to the value of the collateral, including interests levied after the bankruptcy up to the amount of the guarantee.
<b>3. Fiscal</b>	Refers to tax claims, meaning fiscal claims (held by the Governments) and parafiscal claims (held by those who hold Governments prerogatives), except for those arising from tax fines. Federal tax claims have priority treatment, followed by State tax claims and, lastly, City tax claims, as provided for by article 187 of the Brazilian National Tax Code.
<b>4. Special privileged creditors</b>	Special privileged creditors comprises creditors as follow: <ul style="list-style-type: none"> <li>• those defined by article 964 of the Brazilian Civil Code;</li> <li>• those as defined in other civil and commercial laws;</li> <li>• those who have a retention right over what is given as a guarantee;</li> <li>• those in favor of individual micro-entrepreneurs, micro-companies and small companies.</li> </ul>
<b>5. General privileged creditors</b>	General privileged creditors comprises creditors as follow: <ul style="list-style-type: none"> <li>• those defined by article 965 of the Brazilian Civil Code;</li> <li>• unsecured claims subject to the judicial reorganization held by suppliers of goods and services who maintain the supply normally after the filing of the judicial reorganization request, up to the value of the goods and services provided during the judicial reorganization;</li> <li>• those as defined in other civil and commercial laws, such as debentures with floating guarantees, as per article 58 of the Brazilian Corporate Law – Law nº 6.404/1976.</li> </ul>
<b>6. Unsecured creditors<sup>1</sup></b>	Unsecured creditors comprises creditors as follow: <ul style="list-style-type: none"> <li>• those not provided for under the other items set out herein;</li> <li>• the balance of claims not covered by the product of sale of the asset securing the claim;</li> <li>• the balance of claims under employment legislation that exceed the aforementioned limit;</li> </ul>

<sup>1</sup> Note: Unsecured claims also include those of private pension funds, according to case law.12; In case of contractual fines and penalties with the purpose of indemnifying the counterparty, if due, the amounts deriving thereof would be considered unsecured claims.

## 5 Scenario C – Liquidation Analysis

### Priorities and Privileges in the Payment of the Debtor's Obligations

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Waterfall Priority	Modelling approach
<b>7. Contractual fines</b>	Refers to contractual fines that intend to penalize a contracting party – and monetary fines arising from infractions of criminal and administrative laws, including tax penalties.
<b>8. Subordinated claims</b>	Subordinated claims comprises creditors as follow: <ul style="list-style-type: none"> <li>• those established as such by law or by contract;</li> <li>• claims held by partners or shareholders of the bankrupt company and by members of its management who are not employees.</li> </ul>
<b>9 Interest with mature dates after the bankruptcy decree are only payable if, after all of the abovementioned claims are paid, the debtor still has enough assets to pay off such amounts. The legal waterfall of these payments will be done according to the status of the principal amounts.</b>	
<b>10. It is only after all of the above have been paid that the partners of the bankrupt debtor can receive the outstanding amount – if any – in the same proportion as their shares in the social capital.</b>	

## 5 Scenario C – Liquidation Analysis

### Liabilities Payable: Overview

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<b>1</b>	<b>Credits to be paid regardless of legal priority or apportionment</b>												
	Anticipations	(43)	(43)	(43)	(43)	(43)	(43)	100%	100%	100%	35.447	38.256	41.081
	Compensations	(1.171)	(1.171)	(1.171)	(1.171)	(1.171)	(1.171)	100%	100%	100%	34.276	37.085	39.911
	<b>Total credits to be paid regardless of legal priority or apportionment</b>	<b>(1.213)</b>	<b>(1.213)</b>	<b>(1.213)</b>	<b>(1.213)</b>	<b>(1.213)</b>	<b>(1.213)</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>34.276</b>	<b>37.085</b>	<b>39.911</b>
<b>2</b>	<b>Credits outside the Reorganization proceedings</b>												
	Bankruptcy Administrator	-	(710)	(766)	(822)	(710)	(766)	100%	100%	100%	33.566	36.319	39.088
	Liquidation Taxes	-	(3.704)	(3.394)	(3.076)	(3.704)	(3.394)	100%	100%	100%	29.862	32.925	36.012
	Severance / Termination Costs	(333)	(333)	(333)	(333)	(333)	(333)	100%	100%	100%	29.529	32.591	35.679
	Post-petition Suppliers	(3.499)	(3.499)	(3.499)	(3.499)	(3.499)	(3.499)	100%	100%	100%	26.030	29.093	32.180
	<b>Total credits outside the Reorganization proceedings</b>	<b>(3.832)</b>	<b>(8.246)</b>	<b>(7.992)</b>	<b>(7.730)</b>	<b>(8.246)</b>	<b>(7.992)</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>26.030</b>	<b>29.093</b>	<b>32.180</b>
	<b>Pre-petition Credits</b>												
<b>3</b>	Employees and equivalents	(1.030)	(1.663)	(1.359)	(1.056)	(1.663)	(1.359)	100%	100%	100%	24.367	27.733	31.125
<b>4</b>	Secured Creditors	(3.671)	(2.268)	(2.440)	(2.612)	(2.268)	(2.440)	100%	100%	100%	22.099	25.294	28.513
<b>5</b>	Fiscal	(3.558)	(17.007)	(14.538)	(12.297)	(17.007)	(14.538)	100%	100%	100%	5.093	10.756	16.216
<b>6</b>	Special privileged creditors	(67)	(67)	(67)	(67)	(67)	(67)	100%	100%	100%	5.026	10.689	16.149
<b>7</b>	General privileged creditors	(2.604)	(2.990)	(2.784)	(2.578)	(2.990)	(2.784)	100%	100%	100%	2.036	7.905	13.572
<b>8</b>	Unsecured creditors	(57.220)	(63.359)	(64.251)	(64.709)	(2.036)	(7.905)	3%	12%	21%	-	-	-
<b>9</b>	(Sub)unsecured creditors	(1.620)	(7.414)	(6.130)	(4.952)	-	-	0%	0%	0%	-	-	-
<b>10</b>	Post-bankruptcy interest	-	-	-	-	-	-	0%	0%	0%	-	-	-
	<b>Total Pre-petition Credits</b>	<b>(69.770)</b>	<b>(94.768)</b>	<b>(91.569)</b>	<b>(88.270)</b>	<b>(26.030)</b>	<b>(29.093)</b>	<b>27%</b>	<b>32%</b>	<b>36%</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 5 Scenario C – Liquidation Analysis

Liabilities Payable: Credits to be paid regardless of legal priority or apportionment

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### 1 Super priority claims

- ▶ Anticipation refers to labor claims strictly related to wage owed in respect of the three months period prior to the bankruptcy order, up to the limit of 5 minimum wages per worker, and its payment should be done as soon as there is cash available.
- ▶ The current Brazilian minimum wage is BRL 937,00.
- ▶ According to Oi's legal advisers (BMA; Rosman, Penalva, Souza, Leão, Franco Advogados; and Basilio Advogados), labor charges or any labor rights, such as vacations, holidays, FGTS and others are not considered.
- ▶ In relation to set-offs, any sum owed by the RJ Debtors to each of the other companies of the Group were set-off by the RJ Debtors against its indebtedness to these entities.
- ▶ Set-offs are made regardless of the original order of classification of credits, therefore, the set-offs related to labor advances, supplier advances, account receivables and borrowings (highlighted above) were made against intercompany obligations, with preference over all other creditors.

Super priority claims	Claim	Amount Due		Recovery	
	(BRL million)	%	(BRL million)	%	(BRL million)
<b>Anticipations</b>	<b>43</b>	<b>100%</b>	<b>43</b>		
<b>Set-off</b>			<b>1.171</b>		
Labor Advances			40		
Suppliers Advances			160		
Intercompany set-offs			971		
<b>Total</b>			<b>1.213</b>	<b>100%</b>	<b>1.213</b>

Source: Oi Group.

## 5 Scenario C – Liquidation Analysis

### Liabilities Payable: Other claims that are not subject to the legal waterfall

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#### 2 Other claims that are not subject to the legal waterfall

- ▶ The Bankruptcy Administrator is appointed by the Court to monitor the liquidation transactions of the Company's assets. Being responsible for the collection, sales and distribution of the monetized assets among the creditors and are paid an established commission over the amount. In this case, it was assumed that the Bankruptcy Administrator would earn a 2% commission on the total amount of monetized assets. After the assets' liquidation the Bankruptcy Administrator is paid before all creditors;
- ▶ According to Oi legal advisers (BMA; Rosman, Penalva, Souza, Leão, Franco Advogados; and Basilio Advogados), "a legal entity subject to bankruptcy proceedings is a taxpayer, and tax obligations arising out of taxable events occurring after the decree of bankruptcy must be paid or reserved by the trustee". The tax estimated to arise are the following:
  - Corporate income taxes of 34% over gain;
  - PIS/COFINS of 4,65% over the income arising out of the extinguishment of the remaining claims, since most of the claims come from financial transactions.
- ▶ The RJ Debtors bankruptcy registered gains, which are compensated against losses on the asset realization, recognition of provisions and other losses. Therefore, bankruptcy taxes comprises only PIS/COFINS.
- ▶ Severance / Termination Costs:
  - Collectively Oi Group employs more than 57.000 people, of which the RJ Debtors employ 12.400 people.
  - The severance cost includes wages and rights due after the Judicial Reorganization Petition and has no payment limit to workers.
  - Labor charges arising from these obligations are ranked as fiscal claims.
- ▶ Post petition refers to obligations arising from valid acts of the debtor performed during the course of the judicial reorganization

Credits outside the Reorganization proceedings	Claim		Amount Due		Recovery	
	(BRL million)	%	(BRL million)	%	(BRL million)	
<b>Preferential Claims</b>	<b>4.494</b>	<b>100%</b>	<b>4.494</b>	<b>100%</b>		<b>4.494</b>
Bankruptcy Administrator	766	100%	766			
Bankruptcy Taxes	3.394	100%	3.394			
Severance / Termination Costs	333	100%	333			
<b>Post-Petition Suppliers</b>	<b>3.499</b>	<b>100%</b>	<b>3.499</b>	<b>100%</b>		<b>3.499</b>
<b>Total</b>	<b>7.992</b>	<b>100%</b>	<b>7.992</b>	<b>100%</b>		<b>7.992</b>

Source: Oi Group.

## 5 Scenario C – Liquidation Analysis

### Liabilities Payable: Pre-petition Credits

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### Pre-petition Credits

#### 3 Employees and Equivalents

- ▶ The labor credits comprise all employee work-related claims amounting up to 150 monthly minimum wages per employee, and all employee work-related injury claims;
- ▶ According to Management and its legal advisers (BMA; Rosman, Penalva, Souza, Leão, Franco Advogados; and Basilio Advogados), the limit of 150 monthly minimum wages includes overtime, priori notice, 13<sup>th</sup> salary and the FGTS;
- ▶ The probable amounts of labor lawsuits are calculated considering the payment history made in the last 36 months, using a moving average of payments segregated by (i) type of lawsuit (own and third parties), (ii) the type of requests of the lawsuits; (iii) by subsidiary and Group.
- ▶ Thus, once these average payments are determined, the historical loss percentage is applied in the same logic above and, finally, all multiplied by the active base of requests registered inside the Company's system. The same rationale is applied to assess the possible amounts.
- ▶ As for remote amounts, it is the total number of requests made, but which currently have decisions favorable to the Company, lowering the probability of risk reversal.
- ▶ The negative amount related to Bank Guarantee refers to the execution of the guarantee, in which case the guarantor will pay for the labor claim, and will reverse claim to the RJ Debtors. This amount will be allocated in the unsecured rank;
- ▶ The exceeding amounts are ranked as unsecured credits.

Employees and equivalents	Claim	Amount Due		Recovery	
	(BRL million)	%	(BRL million)	%	(BRL million)
Operational Cost	196	100%	196		
Lawsuits	6.075	19%	1.164		
Probable	505	90%	455		
Possible	421	50%	210		
Remote	5.328	10%	533		
(-) Bank Guarantee	(179)	19%	(34)		
Total	6.270	22%	1.359	100%	1.359

Source: Oi Group.

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#### 4 Secured Credits

At 30 June 2017, the RJ Debtors held a debt of BRL 3.671m with BNDES which is collateralized by receivables of Oi S.A. and its subsidiaries Telemar and Oi Movel.

According to Oi and its legal advisers (BMA), in a bankruptcy liquidation process Brazilian Law provides that secured claims have priority over certain other claims listed in article 83 of BBL up to the value of the collateral, including interest<sup>1</sup>.

Oi Group has an Agreement of Guarantee Administration Services with Banco do Brasil to comply with the assignment of receivables with BNDES, which in a bankruptcy scenario shall work as follows:

- Amounts are received through collection agents in the collection accounts in Banco do Brasil;
- Banco do Brasil transfers 100% of the funds to a centralization account from BNDES;
- The agreement establishes that 57% of the funds are then transferred to BNDES until the limit of BRL 3.671m;
- The 43% that are not part of the contract are transferred directly from the centralizing account to Oi Group.

To calculate the value of the collateral, it was used 57% of the amounts estimated to be recovered from third parties accounts receivable in a insolvency scenario, as presented above.

BNDES loan is estimated to have 66% (BRL 2.440m) of recovery, the remaining amount of BRL 1.231m will be addressed in the unsecured creditors rank.

Secured Credits	Oi (BRL million)	Oi Movel (BRL million)	TMAR (BRL million)	Total (BRL million)	Recovery %	(BRL million)
Third Parties Accounts Receivable	908	1.539	1.834	4.280		
<b>Collateral</b> (57% of cash received)	<b>517</b>	<b>877</b>	<b>1.045</b>	<b>2.440</b>		
<b>BNDES Loan</b>	<b>933</b>	<b>1.084</b>	<b>1.654</b>	<b>3.671</b>	<b>66%</b>	<b>2.440</b>

Source: Oi Group.

<sup>1</sup> BMA Advogados; Basilio Advogados; Rosman, Penalva, Souza Leão, Franco Advogados; "Banco Nacional de Desenvolvimento Econômico e Social's Credit", November 2017.



## 5 Scenario C – Liquidation Analysis

### Liabilities Payable: Pre-petition Credits

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#### 5 Fiscal

- ▶ According to the Company, the total amount of current taxes is due in a bankruptcy scenario. Part of this balance is offset against recoverable taxes.
- ▶ Labor Taxes are related to labor obligations, which are paid in full.
- ▶ Consignment in favor of third parties refers to retained amounts of service providers transferred to Federal and Municipal tax authorities.
- ▶ In relation to REFIS exclusion (Tax Restructuring Program destined to the regularization of debts related to taxes with the Federal Revenue Office), Oi and its legal advisors understand that, in a bankruptcy scenario, the refinanced amount would be excluded from the program and the part of the refinanced amount that has not been paid yet (current book value) would be adjusted proportionally to the original amount, resulting in an amount due greater than the current claim<sup>1</sup>.
- ▶ The Contingent Liabilities in the Federal sphere (40% of the total), the better part of the amounts refer to proceedings still in the administrative discussion, in which specific and circumstantial discussions are held on the analysis of documental evidence. The recent alterations in the CARF (Tax Appeals Administration Board) composition led to a higher severity in the jurisprudences, which demanded a more conservative evaluation.
- ▶ In the State and Municipal spheres, the better part of the amounts are tied to judicial thesis. Since many of the charges related to those thesis involve factual-probative aspects, the Company promotes thorough analysis of each case.
- ▶ Also, the contingencies consist of a TFI tax (installation and inspection tax charged by Anatel) due to the issuance of new licenses certificates when there is a prorogations on the authorizations and use of radiofrequencies. Those values are arguable and some cases are already cases under discussion in the judiciary sphere.
- ▶ Lastly, suspended tax obligation consists in arguable taxes related to interconnection revenues and from the realization of court deposits, in which the constitutionality of the tax is questioned.
- ▶ Therefore, Contingent Liabilities amount is based on Oi and its legal advisers estimate, which consider the average of historical success ratios, adjusted for a bankruptcy scenario, in which it is expected that the Company would not have the same capacity as it would have in a going concern scenario.
- ▶ The negative amount related to Bank Guarantee refer to the execution of the guarantee, in this case the guarantor will pay for the tax claim and will reverse claim to the Debtors. This amount will be allocated in the unsecured rank.

Taxes Obligations	Claim	Amount Due		Recovery	
	(BRL million)	%	(BRL million)	%	(BRL million)
<b>Current taxes</b>	<b>1.570</b>	<b>75%</b>	<b>1.177</b>		
Federal	848	57%	481		
State	717	96%	691		
Municipally	5	100%	5		
<b>Labor taxes</b>	<b>46</b>	<b>100%</b>	<b>46</b>		
<b>Consignment in favor of third parties</b>	<b>51</b>	<b>92%</b>	<b>47</b>		
<b>REFIS Exclusion</b>	<b>965</b>	<b>123%</b>	<b>1.192</b>		
<b>Contingent Liabilities</b>	<b>21.304</b>	<b>57%</b>	<b>12.077</b>		
Federal	12.325	55%	6.799		
State	9.975	59%	5.871		
Municipally	2.315	60%	1.379		
Suspension demandability	1.434	50%	717		
(-) Bank Guarantee	(4.745)	57%	(2.690)		
<b>Total</b>	<b>23.936</b>	<b>61%</b>	<b>14.538</b>	<b>100%</b>	<b>14.538</b>

Source: Oi Group.

Note: Contingent liabilities consists in principal and interest. Fines are considered in another priority of payments.

<sup>1</sup> Maneira Advogados, "Impossibilidade de rescisão dos parcelamentos de débitos tributários regidos pelas Leis nº 11.941/2009 e 12.996/2014 em razão da convalidação da recuperação judicial em falência", November 2017.

## 5 Scenario C – Liquidation Analysis

### Liabilities Payable: Pre-petition Credits

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#### 6 Special Privileged Credits

- ▶ At 30 June 2017, the RJ Debtors held an amount of BRL 67m related to pre-petition Microenterprises and Small Business credits, this represents 100% of the amount on the creditors list.
- ▶ The company confirmed that there aren't relevant creditors with retention rights as useful and necessary improvements.
- ▶ The estimated recovery for the Special Privileged Credits rank is 100%.

Special Privileged Credits	Claim	Amount Due		Recovery	
	(BRL million)	%	(BRL million)	%	(BRL million)
<b>Microenterprises and Small Business credits</b>	<b>67</b>	<b>100%</b>	<b>67</b>		
<b>Total</b>	<b>67</b>	<b>100%</b>	<b>67</b>	<b>100%</b>	<b>67</b>

Source: Oi Group.

#### 7 General privileged creditors

- ▶ This rank includes unsecured credits, with the following characteristic:
- ▶ Remaining labor credits, including labor lawsuits, not addressed in the ranks above (see page 135), totaling an amount due of BRL 4.202m.
- ▶ The supplier reclassification refers to the pre-petition amounts from suppliers that maintained services and good supply, limited by the value of goods and services provided after the Judicial Reorganization petition.
- ▶ The company confirmed that there aren't debenture holders with floating guarantees;
- ▶ The negative amount related to Bank Guarantee refers to the execution of the guarantee, in this case the guarantor will pay for the labor claim and will reverse the claim to the RJ Debtors. This amount will be allocated in the unsecured rank.
- ▶ For the General Privileged Creditors rank there is an estimated recovery of 100%.

General privileged creditors	Claim	Amount Due		Recovery	
	(BRL million)	%	(BRL million)	%	(BRL million)
<b>Labor Credits</b>	<b>4.202</b>	<b>21%</b>	<b>870</b>		
Operational Cost	80	100%	80		
Lawsuits	4.121	19%	789		
Probable	343	90%	309		
Possible	285	50%	143		
Remote	3.615	10%	361		
(-) Bank Guarantee	(122)	19%	(23)		
<b>Supplier Reclassification</b>	<b>1.914</b>	<b>100%</b>	<b>1.914</b>		
<b>Total</b>	<b>6.116</b>	<b>46%</b>	<b>2.784</b>	<b>100%</b>	<b>2.784</b>

Source: Oi Group.

## 5 Scenario C – Liquidation Analysis

### Liabilities Payable: Pre-petition Credits

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#### 8 Unsecured Credits

This rank comprises the following obligations:

- ▶ Unsecured Loans, which consist of the remaining amounts of the BNDES loan (excluded from the Secured Credits) and the others loans registered in the balance sheet of the RJ Debtors (including the bonds issued by PTIF and Oi Coop).
- ▶ Suppliers refer to the remaining amount of suppliers not considered in the previous ranks.
- ▶ Civil Lawsuits comprises the following types: Corporate, JEC (Special Civil Court), Consumer, Strategic and Pharol.
  - All percentage adjustments were considered by Management taking into account the nature of the lawsuit and decisions' history.
- ▶ The Bank Guarantee represents the sum of all amounts that the bank shall honor in name of the RJ Debtors. In this case, it was considered 100% of bank guarantees without immediate maturity clause in case of bankruptcy and 50% of bank guarantees with immediate maturity clause.
- ▶ The negative amount related to Bank Guarantee refer to the execution of the guarantee, in this case the guarantor will pay for the Anatel claim and will reverse claim to the Debtors. This amount is added in the Bank Guarantees
- ▶ Others group account comprises the following accounts:
  - Tower Contracts: indemnification related to the premature cancellation of the contract for the assignment of towers, exceeding the book value amount;
  - Pension Funds: although it is an obligation related to labor, according to Oi's legal advisers (BMA; Rosman, Penalva, Souza, Leão, Franco Advogados; and Basilio Advogados), it should be considered as unsecured credit;
  - Others are related to liabilities from assets to be sold, which are considered in the investments sale calculation, so no obligation in this account. It also consist of account entries that should not generate cash impact and some obligations that Management believes will not be claimed.
  - Anatel refers to concession obligations under dispute
- ▶ For the Unsecured Credits rank it is estimated an recovery of 12% proportional to all claims. The remaining balance of proceeds is not enough cover the entire rank.

Unsecured Credits	Claim	Amount Due		Recovery	
	(BRL million)	%	(BRL million)	%	(BRL million)
<b>Unsecured Loans</b>	<b>49.395</b>	<b>100%</b>	<b>49.395</b>		
<b>Suppliers</b>	<b>1.171</b>	<b>100%</b>	<b>1.171</b>		
<b>Civil Law Suits</b>	<b>8.339</b>	<b>43%</b>	<b>3.589</b>		
Corporate	1.077	100%	1.077		
JEC (Special Civil Court)	290	100%	290		
Consumer	138	78%	107		
Strategic	7.308	31%	2.229		
Pharol	50	90%	45		
(-) Bank Guarantee	(524)	31%	(160)		
<b>Bank Guarantees</b>	<b>8.484</b>	<b>56%</b>	<b>4.752</b>		
Tax	5.708	56%	3.225		
Anatel	1.951	67%	1.310		
Civil	524	31%	160		
Labor	301	19%	58		
<b>Others</b>	<b>4.326</b>	<b>123%</b>	<b>5.305</b>		
Tower Contracts	1.694	214%	3.632		
Pension Funds	614	100%	614		
Others	2.019	52%	1.059		
<b>Anatel</b>	<b>100</b>	<b>40%</b>	<b>40</b>		
Anatel Obligations	215	62%	134		
(-) Anatel indemnification	(81)	100%	(81)		
(-) Bank Guarantee	(35)	40%	(14)		
<b>Total</b>	<b>71.815</b>	<b>89%</b>	<b>64.251</b>	<b>12%</b>	<b>7.905</b>

Source: Oi Group.

## 5 Scenario C – Liquidation Analysis

### Liabilities Payable: (Sub)unsecured Credits

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#### 9 Fines and Penalties

- ▶ Tributary contingent liability refers to fines over the contingent tax described in page 137.
- ▶ According to external legal advisers of the Company (BMA; Rosman, Penalva, Souza, Leão, Franco Advogados; and Basilio Advogados), the Anatel credits were classified as Administrative Fines and Penalties considering that the amounts are related to contractual non-compliance.
- ▶ In order to estimate the amount due for the Anatel fines and penalties, the average of dispute loss during the year of 2016 was used, when Oi had the highest number of processes with unappealable res judicata in the administrative sphere.
- ▶ As explained before, the Anatel obligations are deducted of all possible indemnification.
- ▶ The negative amount related to Bank Guarantee refers to the execution of the guarantee. In this case the guarantor will pay for the Anatel claim and will reverse claim to the Debtors. This amount will be allocated in the unsecured rank.

Fines and Penalties	Claim	Amount Due		Recovery	
	(BRL million)	%	(BRL million)	%	(BRL million)
<b>Tributary contingent liabilities</b>	<b>4.329</b>	<b>56%</b>	<b>2.406</b>		
Federal	1.612	53%	859		
State	3.109	57%	1.768		
Municipally	286	60%	171		
Suspension demandability	287	50%	143		
(-) Bank Guarantee	(964)	56%	(536)		
<b>Anatel</b>	<b>5.508</b>	<b>68%</b>	<b>3.725</b>		
Fines and Penalties	15.021	84%	12.618		
(-) Anatel indemnification	(7.597)	100%	(7.597)		
(-) Bank Guarantee	(1.916)	68%	(1.296)		
<b>Total</b>	<b>9.836</b>	<b>62%</b>	<b>6.130</b>	<b>0%</b>	<b>0</b>

Source: Oi Group.

## 5 Scenario C – Liquidation Analysis

### Liquidation Analysis – Oi Coop

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#### Oi Coop – Liquidation analysis

Currency: BRL m	Jun17A	Recovery	Recovery %
Loan - Oi SA	13.830,7	-	0,0%
Loan - Oi Móvel SA	5.858,8	-	0,0%
<b>Non-current assets</b>	<b>19.689,5</b>	<b>-</b>	<b>0,0%</b>
Interest receivable and other related to Debtors	1.022,2	-	0,0%
<b>1</b> Prepaid expenses	11,1	-	0,0%
Cash & Equivalents	5,3	5,3	100,0%
Loan - Oi SA	788,8	-	0,0%
Loan - Oi Móvel SA	450,9	-	0,0%
<b>Current assets</b>	<b>2.278,3</b>	<b>5,3</b>	<b>0,0%</b>
<b>Total Proceeds and Credits</b>	<b>21.967,8</b>	<b>5,3</b>	<b>0,0%</b>

Currency: BRL m	Oi Coop
Proceeds from sale of unencumbered assets	-
Unencumbered cash balances	<b>5,3</b>
Other proceeds	-
<b>Net realisable assets</b>	<b>5,3</b>
<b>2</b> Less costs of realisation	<b>(5,3)</b>
<b>Available for priority creditors</b>	-
Less settlement of priority creditors	-
<b>Available for unsecured creditors</b>	-
Less return to unsecured creditors	-
<b>Excess cash after settlement of unsecured creditors</b>	-
<b>Recovery bondholders</b>	-

#### Oi Coop – Scenario C

This estimated outcome work is a theoretical exercise on the assumption that the liquidation of the RJ Debtors will be on a consolidated basis, meaning that the proceeds of the RJ Debtors' assets in a liquidation scenario will be distributed to the creditors on a consolidated basis. The proceeds and obligations between the Debtors were disregarded.

The proceeds generated from Oi Coop are exclusively related to the cash & equivalents balance.

- 1 With regards to the prepaid expenses, Oi and its legal advisors believe that these amount would not be recoverable in a bankruptcy.
- 2 The total costs of realization refers to the liquidator costs and personnel expenses related to the liquidation process.

As a consolidated liquidation process, Oi Coop's creditors would benefit from the proceeds collected from all Debtors on a consolidated basis and based on the waterfall priorities explained on the previous pages.

#### Conclusion

The recovery for the bankruptcy estate is estimated to be nil, while its unsecured creditors would be entitled to receive a recover of BRL 934,9m through the RJ Debtors.

## 5 Scenario C – Liquidation Analysis

### Liquidation Analysis – PTIF

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#### PTIF – Liquidation Analysis

Currency: BRL m		Jun17A	Recovery	Recovery %
	Loan to Oi Coop	8.663,9	-	0,0%
1	Financial Investments (Oi shares)	371,2	-	0,0%
	<b>Non-current Assets</b>	<b>9.035,2</b>	-	0,0%
2	Loan to Timor Telecom	68,1	34,1	50,0%
	Loan to Oi Coop	5.591,8	-	0,0%
	Other taxation	11,7	-	0,0%
	Interest receivable and other related to Debtors	913,9	-	0,0%
	Cash & Equivalents & other receivables	41,5	41,5	99,9%
	<b>Current assets</b>	<b>6.627,0</b>	<b>75,6</b>	<b>1,2%</b>
	<b>Total Proceeds and Credits</b>	<b>15.662,2</b>	<b>75,6</b>	<b>0,5%</b>

Currency: BRL m		PTIF
	Proceeds from sale of unencumbered assets	-
	Unencumbered cash balances	41,5
	Other proceeds	34,1
	<b>Net realisable assets</b>	<b>75,6</b>
3	Less costs of realisation	(12,0)
	<b>Available for priority creditors</b>	<b>63,6</b>
	Less settlement of priority creditors	(6,0)
	<b>Available for unsecured creditors</b>	<b>57,6</b>
	Less return to unsecured creditors	(57,6)
	<b>Excess cash after settlement of unsecured creditors</b>	<b>-</b>
	<b>Recovery bondholders</b>	<b>0,4%</b>

#### PTIF – Scenario C

This estimated outcome work is a theoretical exercise on the assumption that the liquidation of the RJ Debtors will be on a consolidated basis, meaning that the proceeds of the RJ Debtors' assets in a liquidation scenario will be distributed to the creditors on a consolidated basis. The proceeds and obligations between the Debtors were disregarded.

- 1 PTIF's financial investment (BRL 371m) are related to ADR shares of Oi, which will be liquidated and on the current scenario no amount would be recovered.
- 2 Based on Timor Telecom's financial situation and according to Oi's financial analysis, a recovery of 50% on the loan to Timor Telecom was considered. As the loan is currently overdue, the company does not have enough cash balance to repay the debt immediately and there isn't any guarantee to be executed, therefore this debt might be restructured. Furthermore, Oi confirmed that the shareholders are not obliged to inject capital in order to allow Timor Telecom to honor its obligations.
- 3 The total costs of realization refers to the liquidator costs and personnel expenses related to the liquidation process.

As a consolidated liquidation process, PTIF's creditors would benefit from the proceeds collected from all Debtors on a consolidated basis and based on the waterfall priorities explained on the previous pages.

#### Conclusion

The recovery for the unsecured credits through the bankruptcy estate is estimated to be BRL 57,6m, while its unsecured creditors would be entitled to receive BRL 1.910,9m, being BRL 1.853,3m through the RJ Debtors.

# 6

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### Appendix I: Contingent Liabilities

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BRL 000	Labor		Tributary					Anatel		Civil						
	Liquidation		ITR		Liquidation			ITR		Liquidation		Liquidation				ITR
	Total		Total		Federal	State	Municipal	Total	Total	Total	Total	Consumer	Strategic	JEC	PEX	Others
	Total		Total		Total	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total
<b>Lawsuits</b>	<b>12.881.895</b>				<b>12.449.885</b>	<b>10.048.574</b>	<b>2.665.482</b>	<b>25.163.940</b>		-		<b>139.753</b>	<b>7.321.217</b>	<b>292.556</b>	<b>1.077.133</b>	<b>49.512</b>
Probable	1.335.485				24.208	392.782	70.639	487.629		-		84.002	565.356	292.556	1.077.133	49.512
Possible	747.062				10.415.902	8.895.999	2.495.200	21.807.101		-		46.777	1.074.634	-	-	-
Remote	10.799.348				2.009.774	759.793	99.642	2.869.210		-		8.974	5.681.226	-	-	-
<b>Fines</b>	<b>-</b>				<b>1.617.845</b>	<b>3.118.500</b>	<b>285.956</b>	<b>5.022.301</b>		<b>15.000.000</b>						
Probable	-				1.123	72.527	4.074	77.724		15.000.000						
Possible	-				1.256.939	2.650.706	275.701	4.183.346		-						
Remote	-				359.783	395.267	6.181	761.232		-						
<b>Total</b>	<b>12.881.895</b>	<b>2.082.547</b>	<b>14.067.730</b>	<b>13.167.074</b>	<b>2.951.438</b>	<b>30.186.242</b>	<b>25.274.346</b>	<b>15.000.000</b>	<b>1.314.391</b>	<b>139.753</b>	<b>7.321.217</b>	<b>292.556</b>	<b>1.077.133</b>	<b>49.512</b>	<b>8.880.171</b>	
Probable	1.335.485	1.335.485	25.331	465.309	74.713	565.353	565.353	15.000.000	1.170.604	84.002	565.356	292.556	1.077.133	49.512	2.068.559	2.068.559
Possible	747.062	747.062	11.672.842	11.546.705	2.770.901	25.990.447	24.708.993	-	143.788	46.777	1.074.634	-	-	-	1.121.411	1.121.411
Remote	10.799.348	N/A	2.369.558	1.155.060	105.824	3.630.442	N/A	-	N/A	8.974	5.681.226	-	-	-	5.690.201	N/A

Due Amount (%)																
<b>Base</b>	<b>18%</b>					<b>57%</b>		<b>84%</b>		<b>78%</b>	<b>31%</b>	<b>100%</b>	<b>100%</b>	<b>90%</b>	<b>42%</b>	
Probable	90%					90%		84%		100%	100%	100%	100%	90%	99,8%	
Possible	70%					60%		84%		50%	50%	0%	0%	0%	50%	
Remote	5%					30%		84%		20%	20%	0%	0%	0%	20%	
<b>Low</b>	<b>0%</b>					<b>62%</b>		<b>89%</b>		<b>80%</b>	<b>35%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>46%</b>	
Probable	0%					95%		89%		100%	100%	100%	100%	100%	100%	
Possible	0%					65%		89%		55%	55%	0%	0%	0%	55%	
Remote	0%					35%		89%		25%	25%	0%	0%	0%	25%	
<b>High</b>	<b>0%</b>					<b>52%</b>		<b>79%</b>		<b>73%</b>	<b>26%</b>	<b>95%</b>	<b>95%</b>	<b>80%</b>	<b>37%</b>	
Probable	0%					85%		79%		95%	95%	95%	95%	80%	95%	
Possible	0%					55%		79%		45%	45%	0%	0%	0%	45%	
Remote	0%					25%		79%		15%	15%	0%	0%	0%	15%	

Source: Oi



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### Appendix II: Third party financing

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### Financial Credits – Borrowings and Financing

- The total amount of borrowings and financing considered for this analysis was the balance of June 30 2017, which is BRL 51,8 Billion. The tables below is possible to see the breakdown of this amount by type, currency and index of correction

Borrowings and financing by type BRL 000	Consolidated Oi Group			
	06/30/2017	12/31/2016	Contractual maturity	
			Principal	Interest
<b>Senior Notes</b>	<b>33,650,377</b>	<b>30,800,816</b>		
Local currency	1,211,777	1,151,246	Sep 2016	Semiannual
Foreign currency	32,438,600	29,649,570	2016 to Aug 2022	Semiannual/annual
<b>Financial institutions</b>	<b>13,817,659</b>	<b>13,242,077</b>		
CCB – Bank Credit Note	2,754,290	2,598,001	2016 to Jan 2028	Monthly/ semiannual
Certificates of Real Estate Receivables (CRI)	1,705,675	1,616,381	Aug 2022	Annual
Development Banks and Export Credit Agencies (*)	9,357,694	9,027,695	Jul 2016 to Dec 2033	Monthly/ semiannual
<b>Public debentures</b>	<b>4,704,361</b>	<b>4,435,885</b>	Mar 2017 to Jul 2021	Semiannual/annual
<b>Subtotal</b>	<b>52,172,397</b>	<b>48,478,778</b>		
Incurred debt issuance cost	(347,051)	(392,491)		
<b>Total</b>	<b>51,825,346</b>	<b>48,086,287</b>		
Current	51,825,346	48,086,287		
Non-current	-	-		

Source: Oi

Debt issuance costs by type	Oi Group (BRL) 06/30/2017
Financial institutions	343,550
Public debentures	3,501
<b>Total</b>	<b>347,051</b>
Current	347,051

Breakdown of the debt by currency	Oi Group (BRL) 06/30/2017
Euro	20,404,427
US dollar	17,223,432
Brazilian Reais	14,197,487
<b>Total</b>	<b>51,825,346</b>

Debt by index	Index/rate	Oi Group (BRL) 06/30/2017
Fixed rate	2.25% p.a.- 10.00% p.a.	34,580,631
CDI	0.75% p.a.- 1.83% p.a.	7,310,902
LIBOR	0.90% p.a.- 2.50% p.a.	4,898,024
TJLP	0.0% p.a.- 4.08% p.a.	3,249,279
IPCA	0.50% p.a.- 7.94% p.a.	1,732,916
INPC	2.43% p.a.	53,594
<b>Total</b>		<b>51,825,346</b>

Source: Oi

(\*) Refers to financing facilities obtained from the BNDES and other North and Northeast development banks, and Export Credit Agencies, and the counterparties of the Company and its subsidiaries are: China Development Bank (CDB), Delcredere Ducreire, and Finnish Export Credit (FEC).

The request for judicial reorganization (filed with the Rio de Janeiro State Courts on June 20, 2016) constitutes a default event under the terms and conditions of the agreements in effect. For accounting and disclosure purposes, borrowing and financing liabilities are disclosed in current liabilities and adjusted using contractual inflation interest and inflation adjustment and foreign exchange fluctuations for the period.

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### Appendix III: Intercompany borrowings

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#### Intercompany Borrowings

##### ► Credits with RJ Debtors

In line with the substantive consolidation bankruptcy, all credits between RJ Debtors was disregarded, to calculated the proceeds.

##### ► Credits with Other Related Parties

The RJ Debtors have credits with PTPT and Oi Internet, these credits are considered in the sale value of PTPT and in the residual value of Oi Internet which are be included as investments proceeds.

##### ► Credits with Third Parties

There is no standing credit with third parties

Borrowings (BRL million)	Oi	Oi Móvel	TMAR	COPART 4	COPART 5	Oi Coop	PTIF	TOTAL	Net Debtors
<b>RJ Debtors</b>	<b>3.007,8</b>	<b>5.189,9</b>	<b>64,4</b>	<b>1.138,5</b>	<b>541,8</b>	<b>21.951,3</b>	<b>15.169,6</b>	<b>47.063,3</b>	-
Oi	-	4.412,8	-	1.138,3	541,8	15.641,7	-	21.734,5	-
Oi Móvel	72,5	-	0,2	-	-	6.309,7	-	6.382,3	-
TMAR	2.935,3	777,2	-	0,2	-	-	-	3.712,6	-
COPART 4	-	-	64,2	-	-	-	-	64,2	-
COPART 5	-	-	-	-	-	-	-	-	-
OBHC	-	-	-	-	-	-	15.169,6	15.169,6	-
PTIF	-	-	-	-	-	-	-	-	-
<b>Other related parties</b>	<b>840,4</b>	-	-	-	-	-	<b>68,1</b>	<b>908,6</b>	<b>908,6</b>
Oi Internet	0,2	-	-	-	-	-	-	0,2	0,2
PTPT	840,2	-	-	-	-	-	68,1	908,3	908,3

Source: Oi

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### Appendix IV: Intercompany payables summary

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As at June 30, 2017 (BRL million)		Net Intercompany Payables							
Counterparty									
Debtor		RJ Debtors	Oi Internet	Brasil Telecom Comunicação e Multimídia	Brasil Telecom Call Center	Dommo	Serede S.A.	Oi Serviços Financeiros	Portugal Telecom Participações SGPS
Entity Name									
RJ Debtors		-	-	-	-	-	-	-	443,63
Oi Internet		0,05	-	-	0,01	0,11	12,65	0,92	-
Brasil Telecom Comunicação e Multimídia		8,82	-	-	-	-	86,23	-	-
Brasil Telecom Call Center		-	0,25	-	-	-	-	-	-
Dommo		-	-	-	-	-	-	-	-
Serede S.A.		-	-	-	-	-	-	-	-
Oi Serviços Financeiros		-	-	-	0,01	-	42,90	-	-
Portugal Telecom Participações SGPS		-	-	-	-	-	-	-	-
<b>Total</b>		<b>8,86</b>	<b>0,25</b>	<b>-</b>	<b>0,01</b>	<b>0,11</b>	<b>141,78</b>	<b>0,92</b>	<b>443,63</b>

Source: Oi

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	Guarantee amount (BRL million)	Due after bankruptcy (BRL million)	
		%	Amount Due
<b>Labor</b>	<b>301</b>	<b>100%</b>	<b>301</b>
<b>Anatel</b>	<b>4.537</b>	<b>73%</b>	<b>3.328</b>
<b>Civil</b>			
PEX	412	0%	-
JEC	51	0%	-
Consumer	68	0%	-
Strategic	738	42%	310
<b>Tributary</b>	<b>8.446</b>	<b>35%</b>	<b>2.971</b>
<b>Total</b>	<b>14.787</b>		<b>6.909</b>

Source: Oi

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### Appendix VI: Liquidation of subsidiaries

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Proceeds and Credits	BTSF	BRPE	MRED	IGBR	PGA	PGE	PGQ	PAR	PTPT	CVTE	CARR
Cash and Equivalents	10	6	25	14	51	1	0	0	177	(0)	-
Accounts Receivables	-	103	223	1.186	381	(0)	-	-	91	0	-
Inventories	-	-	0	-	55	-	-	-	2	-	-
Court Deposits	-	9	12	11	7	0	0	-	-	-	-
Tax	0	1	15	98	4	0	0	-	7	-	-
Investments	-	-	-	13	-	63	-	-	13	-	-
Reversible Assets	-	-	-	-	-	-	-	-	-	-	-
Non-reversible Assets	-	-	48	42	38	0	0	0	93	-	-
Borrowings	-	-	-	-	-	-	-	-	-	-	-
Other Credits	-	5	65	40	151	-	8	-	30	-	-
<b>Total Proceeds and Credits</b>	<b>10</b>	<b>125</b>	<b>388</b>	<b>1.403</b>	<b>687</b>	<b>65</b>	<b>8</b>	<b>0</b>	<b>414</b>	<b>0</b>	<b>-</b>
<b>Super priority claims</b>											
Anticipations	-	16	0	0	4	-	-	-	-	-	-
Set off	-	83	86	85	480	-	-	-	-	-	-
<b>Total super priority claims</b>	<b>-</b>	<b>99</b>	<b>86</b>	<b>86</b>	<b>483</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other claims that are not subject to the legal waterfall</b>											
Bankruptcy Administrator	0	2	8	28	14	1	0	0	8	0	-
Bankruptcy Taxes	-	9	-	-	-	-	0	0	-	0	0
Severance / Termination Costs	-	35	1	3	8	-	-	-	2	-	-
Post-petition Suppliers	-	-	-	-	-	-	-	-	-	-	-
<b>Total other claims not subject to the legal waterfall</b>	<b>0</b>	<b>47</b>	<b>9</b>	<b>31</b>	<b>22</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>11</b>	<b>0</b>	<b>0</b>
<b>Pre-petition Credits</b>											
Employees and equivalents	-	70	6	11	7	-	-	-	-	-	-
Secured Creditors	-	-	-	-	-	(0)	-	-	-	-	-
Fiscal	0	65	57	509	17	0	1	-	29	-	-
Special privileged creditors	-	-	-	-	-	-	-	-	-	-	-
General privileged creditors	-	23	3	6	1	-	-	-	-	-	-
Unsecured creditors	-	12	32	112	95	0	5	1	324	0	-
(Sub)unsecured creditors	-	1	4	2	1	-	-	-	-	-	-
Post-bankruptcy interest	-	-	-	-	-	-	-	-	-	-	-
<b>Total Pre-petition Credits</b>	<b>0</b>	<b>170</b>	<b>102</b>	<b>641</b>	<b>121</b>	<b>0</b>	<b>6</b>	<b>1</b>	<b>353</b>	<b>0</b>	<b>-</b>
<b>Proceeds available to distribution to shareholders</b>	<b>10</b>	<b>-</b>	<b>191</b>	<b>644</b>	<b>61</b>	<b>63</b>	<b>2</b>	<b>-</b>	<b>51</b>	<b>-</b>	<b>-</b>

Source: Oi

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### Appendix VI: Liquidation of subsidiaries

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Proceeds and Credits	POAR	PONE	POPE	SPSP	SPSU	TA78	TCAS	TCO3	TSR	CONE
Cash and Equivalents	0	1	-	-	33	-	0	16	1	0
Accounts Receivables	-	0	-	-	-	-	-	10	79	188
Inventories	-	-	-	-	-	-	-	-	11	1
Court Deposits	-	1	-	-	-	-	0	0	37	15
Tax	-	0	-	-	4	-	-	0	12	3
Investments	-	0	-	-	-	-	-	-	-	-
Reversible Assets	-	-	-	-	-	-	-	-	-	-
Non-reversible Assets	0	0	-	-	-	4	-	-	411	22
Borrowings	-	-	-	-	-	-	-	-	-	-
Other Credits	0	4	0	-	1	-	0	-	300	9
<b>Total Proceeds and Credits</b>	<b>0</b>	<b>6</b>	<b>0</b>	<b>-</b>	<b>38</b>	<b>4</b>	<b>0</b>	<b>26</b>	<b>851</b>	<b>239</b>
<b>Super priority claims</b>										
Anticipations	-	-	-	-	-	-	-	-	32	14
Set off	-	-	-	-	-	-	-	-	65	262
<b>Total super priority claims</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>97</b>	<b>276</b>
<b>Other claims that are not subject to the legal waterfall</b>										
Bankruptcy Administrator	0	0	0	-	1	0	0	1	17	5
Bankruptcy Taxes	0	-	-	0	-	-	0	0	8	120
Severance / Termination Costs	-	-	-	-	-	-	-	-	71	30
Post-petition Suppliers	-	-	-	-	-	-	-	-	-	-
<b>Total other claims not subject to the legal waterfall</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>96</b>	<b>155</b>
<b>Pre-petition Credits</b>										
Employees and equivalents	-	-	-	-	-	-	-	-	366	119
Secured Creditors	-	-	-	-	-	-	-	-	-	-
Fiscal	0	0	-	-	10	-	0	1	51	39
Special privileged creditors	-	-	-	-	-	-	-	-	-	-
General privileged creditors	-	-	-	-	-	-	-	-	171	50
Unsecured creditors	0	0	0	0	0	-	0	26	230	465
(Sub)unsecured creditors	-	-	-	-	-	-	-	-	2	0
Post-bankruptcy interest	-	-	-	-	-	-	-	-	-	-
<b>Total Pre-petition Credits</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10</b>	<b>-</b>	<b>0</b>	<b>27</b>	<b>820</b>	<b>674</b>
<b>Proceeds available to distribution to shareholders</b>	<b>-</b>	<b>6</b>	<b>0</b>	<b>-</b>	<b>27</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Oi

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### Appendix VII – Conditions Precedent: Capital Increase Capitalization of Credits and Conditions Subsequent to the Plan

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- ▶ Conditions Precedent – Capital Increase Capitalization of Credits: Below the conditions, which are described in more details in the RJ Plan and its annexes:
  - ▶ Preemptive rights: The issuance of New Common Shares I must abide, as applicable, the provisions established by the Brazilian Corporate law. In case the current shareholders of Oi exercise their preemptive rights, the amounts paid by them should be delivered to the Qualified Bondholders holders of the Unsecured Credits to be capitalized;
  - ▶ Those Conditions Precedent need to be verified prior to the execution of the Capital Increase Capitalization of Credits or expressly and formally waived by the Qualified Bondholders in the terms described in the RJ Plan;
  - ▶ Judicial Ratification of the Plan, without any modification that affects the rights of the Qualified Bondholders Unsecured Creditors;
  - ▶ No appeal is filed against the Judicial Ratification of the Plan with a stay effect, or, if the stay effected is granted, it is later reverted;
  - ▶ No material breaches of any obligations by any of the Debtors under the RJ Plan;
  - ▶ No material amendments to the documentation negotiated under RJ Plan and the respect to the proposed timeline;
  - ▶ Distribution of common shares held by PTIF in accordance with the RJ Plan;
  - ▶ The transactions shall not have given rise to any material tax or other contingent liabilities;
  - ▶ No judicial executions against the Group that can make the RJ Plan unfeasible;
  - ▶ Oi Group shall be in compliance with all financial reporting and regulatory requirements and shall have the RJ Plan approval enforce from all district court in which Oi Group has proceedings in dispute, such as Amsterdam, New York and England and Wales;
  - ▶ Legal and regulatory conditions related to new enacted laws, authorizations, approvals and others that can affect the RJ Plan;
  - ▶ ANATEL did not appeal in Court against the Plan and ANATEL credits should be novated and restructured in accordance to the RJ Plan;
  - ▶ ANATEL does not take any administrative measure that may result in the intervention or similar acts that can affect the concessions and/or authorizations of the Oi Group that may result in a Material Adverse Effect; This is a summary of the Conditions Precedent established in the Plan. For a complete description, please refer to the Exhibit 4.3.3.5(c).
- ▶ Conditions Subsequent to the Plan:
  - ▶ The restructuring of the Qualified Bondholders Unsecured Credits may have occurred until July 31, 2018;
  - ▶ The Capitalization of Credits Capitalization of Credits may have occurred until July 31, 2018, and;
  - ▶ The Capital Increase New Funds may have occurred until February 28, 2019
  - ▶ The Creditors may, with the simply majority of the votes present to the Creditors Meeting called for this purpose, waive totally or partially the above Conditions Subsequent to the Plan.

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### Appendix VII – Conditions Precedent: Capital Increase New Funds

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- ▶ Conditions Precedent – Capital Increase New Funds: Below the conditions, which are described in more details in the Annex to RJ Plan, Subscription and Commitment Agreement:
  - ▶ Pursuant to the Brazilian Corporate Law, Oi shareholders at the time of the issuance of the Capital Increase New Funds, shall have their preemptive right regarding the subscription of new shares issued;
  - ▶ The RJ Plan has been approved by the Creditors and ratified by the Reorganization Court, without any material modification that affects the rights of the Backstopper Investors, unless the changes have been waived by each investor;
  - ▶ There shall not have been any material breach of any obligation by any of the Debtors in respect to their obligations in respect to the Plan, unless the breaches have been approved by each Investor;
  - ▶ The Composition Plans of Oi Coop and PTIF have been confirmed by the Dutch Bankruptcy Court consistent with the approved RJ Plan;
  - ▶ The U.S. Bankruptcy Court and the UK Bankruptcy Court shall have approved the RJ Plan and reasonably acceptable by the Backstopper Investors;
  - ▶ No legal constraints that alter or limit the rights or interest of the Investors in connection with Plan and the Offering;
  - ▶ Receive the necessary approvals of ANATEL and CADE for the implementation of the Plan and for the Offering;
  - ▶ The treatment of ANATEL's claims shall be in accordance with the Plan;
  - ▶ Debtors shall have a minimum "routine" EBITDA of no less than R\$ 5,625 billion LTM.



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### Overview of the Debt Restructuring RJ Plan

This section presents in a synthesized manner the Debt Restructuring Plan for Oi, including information about the new financial conditions stated in the Judicial Reorganization Plan (JRP), approved in CGM installed on December 19 and 20, 2017.

For more details about the payment terms, refer to the JRP of December 20, 2017. In case of any divergence between this chapter and the JRP, the latter shall prevail. This Report has been prepared considering the financial and operating assumptions arising from the implementation of the JRP.

The projections in this Report assume the execution of the Plan proposed by the Debtors .

Creditors Classes	BRL m	General Rule Labor Claims	Fundação Atlântico Labor Credit	Secured Credits proposal	Linear payment of unsecured credits	Restructuring option 1	Restructuring option 2	Non-Qualified Bondholders restructuring option	Qualified Bondholder restructuring option	General payment method	Court deposit for the payment of unsecured credits	Regulatory Agencies Pre-Petition Credits	Strategic supplier Creditors
I Labor	912												
II Secured	3,327												
III Unsecured	58,989												
IV Small business	68												
<b>Total</b>	<b>63,297</b>												

*Creditor class  
PTIF & Oi Coop*

### Mediation/Conciliation/Agreement with the Creditors

All Pre-Petition Creditors could, by their own will, up until 08 December 2017, adhere to the Mediation plan with Oi Group for the anticipation of amounts up to BRL 50.000 of its credits to be paid in two installments as follows:

- ▶ 90% of the total amount within 10 business days from the day of the agreement;
- ▶ The remaining 10% within 10 business days from the Judicial Ratification of the Plan.

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## Class I Labor Credits

### Labor Claims General Rule

Labor credits will be paid in 5 equal monthly installments with a 6-month grace period after the Judicial Ratification of the Plan. Labor credits which are not yet recognized, shall be paid in 5 equal monthly installments with a 6-month grace period after the final judgment decision to terminate the process and ratify the amount due.

Court Deposits Labor Creditors which have court deposits as collaterals of their claims:

- ▶ Payments will be made upon immediate release of the deposited amount.
- ▶ If the deposit is a lower amount than the debt listed by Oi Group, the deposit will be used to pay part of the debt, and the balance will be paid, after the court decision approves the due amount, in 5 equal monthly installments with 6-month grace period after the Judicial Ratification of the Plan. If the deposit is a greater amount than the debt, Oi Group will raise the difference in its own favor.

### Fundação Atlântico Labor Credit

- ▶ Payment will be made in 6 equal yearly installments with a 5-year grace period after the Judicial Ratification of the Plan.
- ▶ Interest/ Monetary correction: INPC + 5,5% per annum, from the Judicial Ratification of the Plan, with interest and monetary correction being accrued on the grace period and paid after the 6th year, along with the principal.

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#### Class II Secured Credits

The creditor will receive the amount of the original debt, shown in the Creditor's List of the Bankruptcy Trustee, updated by interest rate/ monetary correction as stated below:

TJLP (Long Tern Interest Rates), disclosed by the Brazilian Central Bank, plus 2,946372% per annum.

The payment period for this class is 15 years, in the following structure;

- ▶ 6-year grace period for principal payments
- ▶ 9-year amortization with non-linear monthly payments, as shown in the following table:

Months	Percentage of amortized amount per month
0 to 72 <sup>nd</sup>	0,0%
73 <sup>rd</sup> to 132 <sup>nd</sup>	0,33%
133 <sup>rd</sup> to 179 <sup>th</sup>	1,67%
180 <sup>th</sup>	1,71%

- ▶ Interest: 4-year grace period
- ▶ Interest/Monetary correction: will be capitalized annually to the debt principal during the grace period and will be paid monthly afterwards.

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### Class III Credits

Each Unsecured Creditor may opt, except when otherwise stated in the JRP, for having the totality of their Unsecured Credits paid or restructured according to the following options: (i) Linear Payment Unsecured Creditors, (ii) Restructuring Option I or (iii) Restructuring Option II. Credits cannot be voluntarily split among the options.

Once the limit for the restructuring of the credits in Brazilian Reals or the limit for credits in US Dollars are reached, the credit holders who choose Restructuring Option I or Restructuring Option II will have part of their credits paid according to the chosen option, on a *pro rata* basis and limited to the respective credit amount according to the Creditors' List of the Bankruptcy Trustee. The remaining balance will be allocated to be paid according to the General Payment Method.

### Linear payment of Unsecured Credits

Creditors in this class who hold credits amounting up to BRL 1.000,00 will be paid in a single installment in 20 business days after the Judicial Ratification of the Plan.

Creditors in this class with credits higher than BRL 1.000,00 may choose to be paid in one single installment, provided that they agree to receive only the amount of BRL 1.000,00 as full payment of their respective credit and related costs, which will be paid in 20 business days from the deadline given to the creditor for choosing the payment option.

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## Class III Credits

### Court Deposits for the Payment of Unsecured Credits

Credit Amount (in BRL)	% of Discount
Up to 1.000,00	0,0%
1.000,01 to 5.000,00	15,0%
5.000,01 to 10.000,00	20,0%
10.000,01 to 150.000,00	30,0%
Above 150.000,00	50,0%

- Payments will be made upon the release of deposited amounts;
- In the event that the Court Deposit is demonstrably less than the amount of the respective credit (after discounts), the deposit will be used to pay part of the debt and the remaining balance will be paid according to the General Payment Method after the rendering of the decision by the relevant Court that ratifies the amount owed;
- If the Court Deposit is Greater than the debt, the exceeding amount will be withdrawn by Oi Group.

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## Class III Credits

### Restructuring Option I

The Unsecured Creditors may opt for Restructuring Option I, in which they will have their credits restructured within 6 months counting from the Judicial Ratification of the Plan, given the following limits

- a. Part of the credits will be represented in Brazilian Reais up to the limit of BRL 10 billion;
- b. Part of the credits will be represented in US dollars up to the limit of USD 1.15 billion, Debtors will assume the liens related to the taxes levied in Brazil, related to the payment of these credits in US dollars.

Said credits will be restructured as follows:

- ▶ 5-year grace period for principal and interest payments;;
- ▶ 12 years of amortization with non-linear half-yearly payments, as shown in the following table;

Semesters	Percentage of amortized amount per semester
0 to 10 <sup>th</sup>	0,0%
11 <sup>th</sup> to 20 <sup>th</sup>	2,0%
21 <sup>st</sup> to 33 <sup>rd</sup>	5,7%
34 <sup>th</sup>	5,9%

- ▶ Interest: (i) for credits originally in Brazilian Reais, interest will correspond to the yearly of 80% of the CDI; and (ii) for credits originally in US dollars will be fixed at 1,75% a year, being capitalized annually to the principal amount and paid half-yearly from the 66<sup>th</sup> month after the Judicial Ratification of the Plan.

In case the requests for this payment option does not reach the limit (b) established herein, then any remaining balance shall be automatically added to the limit established in Restructuring Option II.

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## Class III Credits

### Restructuring Option II

The Unsecured Creditors may opt for Restructuring Option II, in which they will have their credits restructured within 6 months counting from the Judicial Ratification of the Plan, given the limit of USD 850 million. Debtors will assume the liens related to taxes levied in Brazil, related to the payment of these credits in US dollars.

- ▶ 5-year grace period for principal payments;
- ▶ 12-year amortization with non-linear half-yearly payments, as shown in the following table:

Semesters	Percentage of amortized amount per semester
0 to 10 <sup>th</sup>	0,0%
11 <sup>th</sup> to 20 <sup>th</sup>	2,0%
21 <sup>st</sup> to 33 <sup>rd</sup>	5,7%
34 <sup>th</sup>	5,9%

- ▶ Interest of 1,25% a year, of which:
  - a. 10% of the interest to be paid throughout the first 60 months from the Judicial Ratification of the Plan will be paid on a half-yearly basis;
  - b. 90% of the interest to be paid throughout the first 60 months from the Judicial Ratification of the Plan will be capitalized annually on the principal amount;
  - c. From the 66<sup>th</sup> month of the Judicial Ratification of the Plan onwards, 100% of the interest will be paid on a half-yearly basis;

In case the requests for this payment option do not reach the limit established herein, then any remaining balance shall be automatically added to the limit (b) established in Restructuring Option I.

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## Class III Credits

### Bonds Restructuring

#### ► Non-Qualified Bondholders' Unsecured Credits:

- Non-Qualified Bondholder Unsecured Creditors who, at the moment of their option, state and prove they hold Bondholders' Unsecured Credits with a maximum value up to USD 0,75 million, shall have their credits restructured under the following structure;
  - a. 6-year grace period for principal and interest payments;
  - b. 6-year amortization with non-linear half-yearly payments, as shown in the following table:

Semesters	Percentage of amortized amount per semester
0 to 12 <sup>th</sup>	0,0%
13 <sup>h</sup> to 18 <sup>th</sup>	4,0%
19 <sup>h</sup> to 23 <sup>rd</sup>	12,66%
24 <sup>th</sup>	12,70%

- Interest of 6% per annum in US Dollars;
- 50% discount on the credit amount;
- The total of credits to be restructured under this option will be limited to USD 500 million. Hence, the amount of principal of the restructured credits will be limited to USD 250 million.



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## Class III Credits

### Bonds Restructuring

#### ► Qualified Bondholders' Unsecured Credits:

- Qualified Bondholder Unsecured Creditors who opt for this payment mode and hold Qualified Bondholders' Unsecured Credits in an amount above USD 0.75 million will have their debt restructured in exchange of ;
  - a. Common shares, issued by Oi and held by PTIF, as ADRs;
  - b. A package with (i) New Bonds, (ii) New Common Shares – I as ADRs, and (iii) Subscription Bonus, to be issued by Oi.
- The New Bonds will have the following properties:
  - a. Amount to be issued limited to BRL 6.3 billion, issued up until July 31, 2018;
  - b. The New Bonds will reach its maturity date on the 7<sup>th</sup> year after the Issuance Date of the Bonds, the principal will be paid in a single installment on the 84<sup>th</sup> month after the Issuance Date of the Bonds;
  - c. Interest of, at Oi's discretion, 10% per annum in US Dollars, paid half-yearly or 12% per annum in US Dollars up until the 3<sup>rd</sup> year, with 8% p.a. being paid half-yearly and 4% p.a. being capitalized half-yearly, and interest of 10% per annum from the 4<sup>th</sup> year onwards. Both options starting from the 6<sup>th</sup> month after the Issuance Date of the Bonds.
  - d. Debtors will assume the liens related to the taxes levied in Brazil, related to the payment of these credits in US Dollars.
- Capital Increase – Capitalization of Credits: The New Common Shares – I shall be issued by Oi in a capital increase by private subscription, provided that the Conditions Precedents for the Capital Increase – Capitalization of Credits are verified or waived by the Qualified Bondholders Unsecured Creditors.
- The amounts and further information on the issuance of New Bonds, shares and subscription bonus are described in the JRP.

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## Class III Credits

### General Payment Method

- ▶ This offer is applicable to creditors who do not fit the conditions of any of the previous offers or if the offers reach their limits and the creditor still has receivable balance. In addition to the creditors who do not express themselves regarding other options.
  - The principal will be paid in 25 years. The principal payment will be done annually for the 21<sup>st</sup> year onwards, with 5 annual equal installments.
  - Interest/Monetary correction: TR (Reference Rate) per annum for debt in Brazilian Reais, applied from the Judicial Ratification of the Plan, with the total amount of interest and monetary correction accumulated during the period being paid only, and together with the last installment of the principal. No accrual of interest if the credit holder opts of receiving the payment in US Dollars or Euros.
  - Oi shall have the option of, at its exclusive criteria, at any time, settle in advance the amounts due pursuant to General Payment Method, by means of the payment of 15% of the principal and capitalized interest up to the date of exercise of the option.
  - The total principal amount to be restructured under this method shall be limited to BRL 70 billion, deducted the amount of Pre-Petition Credits restructured by another method under the JRP.

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## Class III Credits

### Regulatory Agencies Pre-Petition Credits

**Regulatory Agencies Pre-Petition Credits** resulting from administrative fines must be paid as follows:

- ▶ **Liquid Regulatory Agencies Pre-Petition Credits** shall be settled Pre-Petition Credits shall be settled by means of novation and paid in 240 installments, as follows:
  - The first installments will be paid with the amounts deposited judicially to guarantee these credits, starting 60 days after the Judicial Ratification of the Plan;
  - Interest/monetary correction: from the 2<sup>nd</sup> installment, monthly installments shall be adjusted in accordance to the SELIC variation;
  - The following discounts will be applied: (i) 50% in interest and (ii) 25% in fines. In addition to a 4-year grace period for the payments of estimated fines.

Months	Percentage of amortized amount per month
1 <sup>st</sup> to 60 <sup>th</sup>	0,16%
61 <sup>st</sup> to 120 <sup>th</sup>	0,33%
121 <sup>st</sup> to 180 <sup>th</sup>	0,50%
181 <sup>st</sup> to 239 <sup>th</sup>	0,66%
240 <sup>th</sup>	Remaining Balance

- ▶ **Illiquid Regulatory Agencies Pre-Petition Credits** if and when settled by a final and unappealable decision, shall be paid according to the General Payment Method.

### Strategic Supplier Creditors

- ▶ Suppliers of goods and/ or services that maintain the terms and conditions practiced before the Judicial Reorganization request filling and that have credits of up to BRL 150,000.00 will have their credits, other than those arising or funding granted to Oi Group, paid in full within 20 business days of the choice made by the respective Unsecured Creditor through the electronic platform made available by Oi
- ▶ Suppliers with credits greater than BRL 150,000.00 will also receive the amount of BRL 150,000.00 in the same conditions above. The remaining balance will be paid after the a 10% discount, in 4 annual equal installments, with the first installment due date one year after the deadline given to the creditor for choosing the payment option through the electronic platform made available by Oi, with interest of TR + 0.5% p.a. for credits in Brazilian Reais and interest of 0.5% p.a. for credits in US Dollars or Euros.

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### Class IV Credits

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

- ▶ The payment proposals for Class IV creditors have the same conditions as the following Class III proposals:
  - ▶ Linear Payment Unsecured Creditors
  - ▶ Court Deposits Unsecured Creditors
  - ▶ Restructuring Option I
  - ▶ Restructuring Option II
  - ▶ General Payment Method
  - ▶ Strategic Supplier Creditors

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### Intercompany Credits

Credits referring to loans conducted between Oi Group's companies, loans which were conducted with resources stemming from operations made in the international market by the Debtors, will be paid as follows:

- ▶ The principal will be paid from the 20th year after the full payment of credits in the General Payment Option. The principal payment will be made in 5 annual equal installments.
- ▶ Interest/monetary correction: No interest for debts in US Dollars or Euros and TR p.a. for debts in Brazilian Reais, starting from the Judicial Ratification of the Plan, with the total interest amount and monetary correction accumulated in the period being paid only and together with the last principal's installment.

### Generation of Cash Sweep

In the first 5 fiscal years counting from the Judicial Ratification of the Plan, Oi Group will assign 100% of the net revenue from asset sales that exceeds USD 200 million to investments in its activities.

From the 6<sup>th</sup> year after the Judicial Ratification of the Plan, Oi Group will assign 70% of the Cash Balance that exceeds the Minimum Cash Balance to the Unsecured Creditors and Secured Creditors in order to quicken the receipt of their credits against the Oi Group, distributed proportionally between the credits.

- ▶ The Minimum Cash Balance is defined as the highest amount among the following:
  - 25% of the previous year's sum of OPEX and CAPEX; or
  - BRL 5 billion.
- ▶ Additionally, any resources originated from Capital Increase – New Funds will be added to the Minimum Cash Balance calculation.

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#### Capital Increase – New Funds

Respecting the shareholders' preference rights, Oi expects to perform a Capital Increase, through the private issue of New Common Shares – II issued by Oi in the amount of BRL 4 billion, until February 28, 2019, provided that the Conditions Precedents for the Capital Increase – New Funds are verified or waived by the Backstopper Investors.

The Issuance Price and further information related to guarantees of the Capital Increase – New Funds are described in the JRP.

To the Backstopper Investors, there will be amounts due referring to the Commitment Premium, totaling 8% of the guaranteed amount to be paid in national currency or 10% of the guaranteed amount to be paid in common shares issued by Oi, depending on the weighted average price per volume of common shares issued by Oi, as described in the JRP.

#### Additional Financing Manners

Oi may seek Additional Financing Manners in the capital market, in the amount of up to BRL 2.5 billion, within two years after the Judicial Ratification of the Plan. These fundraisings may include, among others, the public issuance of common shares and new debt instruments. In addition, the Company considers new credit facilities, in order to import equipment, in the potential amount of BRL 2 billion.

In order to enable the approval of stock issues and Subscription Bonus, Oi intends to call a general shareholders' meeting, after the Judicial Ratification of the Plan, to resolve on the increase of the limit of its authorized capital to cope with such issuances.

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