Oi S.A. and Subsidiaries

Financial Statements for the Years Ended December 31, 2014 and 2013 and Independent Auditor's Reports

(A free translation of the original report in Portuguese, as filed with the Brazilian Securities and Exchange Commission (CVM), prepared in accordance with the accounting practices adopted in Brazil, rules of the CVM and of the International Financial Reporting Standards - IFRS)

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Independent auditors' report on the financial statements

(A free translation of the original report in Portuguese, as filed with the Brazilian Securities and Exchange Commission (CVM), prepared in accordance with the accounting practices adopted in Brazil, rules of the CVM and of the International Financial Reporting Standards - IFRS)

To
The Board of Directors and Shareholders of
Oi S.A.
Rio de Janeiro - RJ

We have examined the individual and consolidated financial statements of Oi S.A. ("Company"), identified as Company and Consolidated, respectively, which comprise the balance sheet as of December 31, 2014 and the respective statements of operations, of comprehensive income, of changes in shareholders' equity and of cash flows for the year then ended, as well as a summary of the significant accounting policies and other notes to the financial statements.

Management's responsibility for the financial statements
The Company's Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with the accounting practices adopted in Brazil and in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as well as for the internal controls, which they deemed necessary to enable the preparation of these financial statements free of material misstatements, regardless of whether due to fraud or error.

Independent auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit carried out in accordance with the Brazilian and International Standards on Auditing. These standards require compliance of ethical requirements by the auditor and that the audit is planned and performed for the purpose of obtaining reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing selected procedures to obtain evidence with respect to the amounts and disclosures presented in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, regardless of whether due to fraud or error. In the assessment of these risks, the auditor considers relevant internal controls for the preparation and fair presentation of the Company`s financial statements, in order to plan audit procedures that are appropriate in the circumstances, but not for purposes of expressing an opinion on the effectiveness of the Company`s internal controls. An audit also includes evaluating the adequacy of the accounting practices used and the reasonableness of the accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements taken as a whole.

We believe that the audit evidence obtained is sufficient and appropriate for expressing our opinion.

Opinion on the financial statements

In our opinion, the aforementioned individual and consolidated financial statements present fairly, in all material respects, the individual and consolidated financial position of Oi S.A. as of December 31, 2014, and of its individual and consolidated financial performance and its respective cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil and the International Financial Reporting Standards– (IFRS) issued by the International Accounting Standards Board (IASB).

Emphasis

Investment in Unitel

The investment in Unitel, S.A. in the amount of R$4,157 million as of December 31, 2014, which includes the dividends receivable from that entity in the amount of R$944 million, was determined by Management according to a business valuation performed to reflect the best estimate of the Company's fair value. We call the attention to the uncertainties disclosed in notes 1 and 28 to the financial statements, since the realizable value of that investment depends on the concretization of the assumptions made in the valuation mentioned and to the disposal conditions of the interests in Unitel. Our opinion is not qualified due to this matter.

Discontinued operations

We call the attention to note 28 to the financial statements, which describes the final approval by the Board of Directors of Oi S.A. of the general terms and conditions for the sale of all the shares of PT Portugal, SGPS, S.A. to Altice Portugal, S.A., a subsidiary held by Altice S.A. This decision was subsequently approved on January 22, 2015 by the shareholders board meeting of Portugal Telecom, SGPS, S.A. The effectiveness of the contract also depends on statutory authorizations to be given by the Portuguese antitrust authorities. Accordingly, on December 31, 2014 the Company recognized in its individual and consolidated financial statements a loss, as discontinued operations, in the amount of R$4,164 million. Our opinion is not qualified due to this matter.

Other matters

Statements of added value

We have also examined the individual and consolidated statements of added value (DVA) for the year ended December 31, 2014, prepared under the responsibility of the Company`s management, for which presentation is required by the Brazilian Corporate Law for publicly-held companies and presented as supplementary information under IFRS, as these standards do not require the presentation of a statement of added value. These statements were submitted to the same audit procedures previously described and, in our opinion, are presented fairly, in all material respects, in relation to the financial statements taken as a whole.

Rio de Janeiro, March 25, 2015

KPMG Auditores Independentes
CRC SP-014428/O-6 F-RJ

José Luiz de Souza Gurgel
Accountant CRC RJ-087339/O-4

Oi S.A. and Subsidiaries

Balance Sheets as at December 31, 2014 and 2013

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

		Company		Consolidated	
Assets	**Notes**	**2014**	**2013**	**2014**	**2013**
Current assets					
Cash and cash equivalents	8	354,084	442,016	2,449,206	2,424,830
Cash investments	8	24,437	31,113	171,415	492,510
Derivative instruments	18	141,096	283,071	340,558	452,234
Due from related parties	26	2,444,054			
Accounts receivable	9	1,978,558	1,844,012	7,450,040	7,096,679
Inventories		28,347	26,278	478,499	432,633
Current recoverable taxes	10	219,681	73,115	1.097,189	907,140
Other taxes	11	247,507	569,079	1.054,255	1.474,408
Judicial deposits	12	881,595	1,070,693	1,133,639	1,316,252
Dividends and interest on capital	26	854,231	673,508		
Other receivables	28 (d)		1,775,691		1,775,691
Pension plan assets	24	1,623	8,757	1,744	9,596
Prepaid expenses		27,040	29,042	301,181	399,062
Held-for-sale assets	28	2,821,322	24,508	33,926,592	242,040
Other assets		390,329	389,141	882,477	906,103
		10,413,904	7.240,024	49,286,795	17.929,178
Non-current assets					
Due from related parties	26	707,802	228,269		
Cash investments	8	18,465	16,882	111,285	99,129
Derivative instruments	18	2,114,364	1,073,000	2,880,923	1,620,945
Deferred taxes recoverable	10	4,381,261	4,318,604	7,625,772	8,274,432
Other taxes	11	198,768	245,987	741,911	890,835
Available-for-sale financial asset	3				914,216
Judicial deposits	12	7,886,194	7,068,920	12,260,028	11,050,936
Pension plan assets	24	42,149	58,329	45,752	60,197
Prepaid expenses		20,412	30,044	104,398	145,506
Other assets		298,958	267,245	222,843	231,280
Investments	13	19,186,213	19,437,617	148,411	173,640
Property, plant and equipment	14	5,575,321	5,398,725	25,670,026	24,786,286
Intangible assets	15	239,831	249,874	3,690,978	3,919,491
		40,669,738	38,393,496	53,502,327	52,166,893
Total assets		51,083,642	45,633,520	102,789,122	70,096,071

		Company		Consolidated	
Liability and equity	**Notes**	**2014**	**2013**	**2014**	**2013**
Current liabilities					
Payroll, related taxes and benefits		203,686	198,107	744,439	650,982
Trade payables	16	1,397,610	1,659,794	4,336,566	4,732,174
Borrowings and financing	17	1,901,051	2,288,654	4,463,728	4,158,708
Derivative instruments	18	444,106	309,532	523,951	409,851
Current taxes payable	10	71,877	67,424	477,282	432,317
Other taxes	11	810,513	1,179,803	1,667,599	2,112,598
Dividends and interest on capital		181,477	220,168	185,138	230,721
Licenses and concessions payable	19	40,052		675,965	457,173
Tax refinancing program	20	52,590	52,838	94,041	100,302
Provisions	21	637,244	770,294	1,058,521	1,223,526
Provisions for pension funds	24	129,401	184,075	129,662	184,295
Liabilities associated to held-for-sale assets	28			27,178,221	
Other payables	22	347,650	325,365	1,021,719	847,810
		6,217,257	7,256,054	42,556,832	15,540,457
Non-current liabilities					
Borrowings and financing	17	22,740,381	21,522,772	31,385,667	31,694,918
Derivative instruments	18	127,730	93,524	142,971	156,800
Other taxes	11	88,613	609,618	874,727	1,747,012
Licenses and concessions payable	19			685,975	1,027,234
Tax refinancing program	20	467,327	517,063	896,189	1,020,002
Provisions	21	2,304,828	2,661,458	4,073,247	4,392,791
Provisions for pension funds	24	346,789	458,988	346,873	459,267
Other payables	22	988,425	989,905	2,515,152	2,533,452
		27,064,093	26,853,328	40,920,801	43,031,476
Equity	23				
Capital		21,438,220	7,471,209	21,438,220	7,471,209
Share issue costs		(309,592)	(56,547)	(309,592)	(56,547)
Capital reserves		3,977,623	3,977,623	3,977,623	3,977,623
Income reserves		1,933,354	2,323,992	1,933,354	2,323,992
Obligations in equity instruments		(2,894,619)		(2,894,619)	
Treasury shares		(2,367,552)	(2,104,524)	(2,367,552)	(2,104,524)
Other comprehensive income		45,126	(91,531)	45,126	(91,531)
Changes in equity interest percentage		3,916	3,916	3,916	3,916
Accumulated losses		(4,024,184)		(4,024,184)	
		17,802,292	11,524,138	17,802,292	11,524,138
Non-controlling interests				1,509,197	
Total equity		17,802,292	11,524,138	19,311,489	11,524,138
Total liabilities and equity		51,083,642	45,633,520	102,789,122	70,096,071

The accompanying notes are an integral part of these financial statements.

Oi S.A. and Subsidiaries

Statements of operations
For the Years Ended December 31, 2014 and 2013
(In thousands of Brazilian reais - R$, unless otherwise stated)

		Company		Consolidated	
	Notes	**2014**	**2013**	**2014**	**2013**
Continuing operations					
Net operating revenue	4 and 5	6,531,101	6,883,370	28,247,099	28,422,147
Cost of sales and services	5	(2,860,665)	(3,304,864)	(15,229,602)	(15,259,215)
Gross profit		3,670,436	3,578,506	13,017,497	13,162,932
Operating income (expenses)					
Share of profits of subsidiaries	5 and 13	1,359,550	1,063,185	(5,881)	(17,750)
Selling expenses	5	(1,311,597)	(1,320,752)	(5,611,772)	(5,571,891)
General and administrative expenses	5	(1,247,489)	(1,271,104)	(3,751,410)	(3,581,544)
Other operating income	5	966,668	2,156,750	4,466,914	3,193,024
Other operating expenses	5	(613,893)	(374,986)	(2,440,710)	(1,898,154)
		(846,761)	253,093	(7,342,859)	(7,876,315)
Profit before financial income (expenses) and taxes		2,823,675	3,831,599	5,674,638	5,286,617
Financial income	5 and 6	840,628	543,404	1,344,767	1,375,217
Financial expenses	5 and 6	(3,722,218)	(2,904,087)	(5,891,332)	(4,649,665)
Financial income (expenses)	5 and 6	(2,881,590)	(2,360,683)	(4,546,565)	(3,274,448)
Profit (loss) before taxes		(57,915)	1,470,916	1,128,073	2,012,169
Income tax and social contribution					
Current	7	(11,970)	62,115	(622,001)	(418,498)
Deferred	7	76,713	(40,016)	(497,954)	(100,656)
Profit from continuing operations		6,828	1,493,015	8,118	1,493,015
Discontinued operations					
Loss for the year from discontinued operations, net (net of taxes)	28	(4,414,539)		(4,414,539)	
Profit (loss) for the year		(4,407,711)	1,493,015	(4,406,421)	1,493,015
Profit (loss) attributable to owners of the Company		(4,407,711)	1,493,015	(4,407,711)	1,493,015
Profit (loss) attributable to non-controlling interests				1,290	
Basic and diluted earnings (loss) per share:	23(i)				
Common shares – basic and diluted (R$)		(7.15)	9.10	(7.15)	9.10
Preferred shares – basic and diluted (R$)		(7.15)	9.10	(7.15)	9.10
Basic and diluted earnings (loss) per share - discontinued operations:	23(i)				
Common shares – basic and diluted (R$)		0,01	9.10	0,01	9.10
Preferred shares – basic and diluted (R$)		0.01	9.10	0.01	9.10

The accompanying notes are an integral part of these financial statements.

Oi S.A. and Subsidiaries

Statements of Comprehensive Income
For the Years Ended December 31, 2014 and 2013
(In thousands of Brazilian reais - R$, unless otherwise stated)

	Company		Consolidated	
	2014	**2013**	**2014**	**2013**
Continuing operations				
Profit (loss) for the year	**(4,407,711)**	**1,493,015**	**(4,406,421)**	**1,493,015**
Hedge accounting gains (losses)	128,982	(119,229)	122,791	(139,334)
Subsidiaries' hedge accounting gains (losses)	(6,191)	(20,105)		
Actuarial gains (losses)	58,885	113,972	59,998	114,896
Subsidiaries' actuarial gains (losses)	1,113	924		
Exchange gains on investment abroad	230,692		464,981	
Exchange gains on subsidiaries' investment abroad	110,853			
Comprehensive income – continuing operations	**(3,883,377)**	**1,468,577**	**(3,758,651)**	**1,468,577**
Discontinued operations				
Comprehensive income of discontinued operations	(387,677)		(387,677)	
Total comprehensive income for the year	**(4,271,054)**		**(4,146,328)**	
Comprehensive income attributable to owners of the Company	(4,271,054)	1,468,577	(4,271,054)	1,468,577
Comprehensive income attributable to non-controlling interests			124,726	

Statement of comprehensive income items are stated net of taxes.

Oi S.A. and Subsidiaries

Statements of Changes in Equity for the Years Ended December 31, 2014 and 2013
(In thousands of Brazilian reais - R$, unless otherwise stated)

	Attributable to owners of the Company																	
			Capital reserves					Income reserves										
	Issued capital	Share issue costs	Donations and investment grants	Special merger goodwill reserve	Special merger reserve - net assets	Interest on construction in progress	Special inflation adjustment - Law 8200/1991	Legal	Investments	Obligations in equity instruments	Treasury shares	Proposed additional dividends	Retained earnings (accumulated losses)	Changes in equity interest percentage	Other comprehensive income	Total controlling interests	Non-controlling interests	Total equity
Balance at January 1, 2013	**7,308,753**	**(56,609)**	**123,558**	**1,092,638**	**2,309,296**	**745,756**	**31,287**	**383,527**	**947,450**		**(2,104,524)**	**391,322**		**3,916**	**(67,093)**	**11,109,277**		**11,109,277**
Capital increase with redeemable shares	162,456			(162,456)														
Redeemable bonus shares				(162,456)												(162,456)		(162,456)
Share issue costs		62														62		62
Approval of proposed additional dividends												(391,322)				(391,322)		(391,322)
Interim dividends (R$0.3049 per share)									(500,000)							(500,000)		(500,000)
Profit for the year													1,493,015			1,493,015		1,493,015
Hedge accounting losses															(119,229)	(119,229)		(119,229)
Subsidiaries' hedge accounting loss															(20,105)	(20,105)		(20,105)
Actuarial gains and (losses)															113,972	113,972		113,972
Subsidiaries' actuarial gains and (losses)															924	924		924
Allocation of profit for the year:																		
Recognition of investment reserve									1,493,015				(1,493,015)					
Balance at December 31, 2013	**7,471,209**	**(56,547)**	**123,558**	**767,726**	**2,309,296**	**745,756**	**31,287**	**383,527**	**1,940,465**		**(2,104,524)**			**3,916**	**(91,531)**	**11,524,138**		**11,524,138**
Acquisition of interests - PT Portugal																	1,468,602	1,468,602
Capital increase	13,959,900															13,959,900		13,959,900
Capital increase with reinvestment tax incentives	7,111								(7,111)									
Attributed dividends																	(84,131)	(84,131)
Share issue costs (Note 3.1)		(253,045)														(253,045)		(253,045)
Obligations in equity instruments										(2,894,619)						(2,894,619)		(2,894,619)
Treasury shares											(263,028)					(263,028)		(263,028)
Loss (profit) for the year													(4,407,711)			(4,407,711)	1,290	(4,406,421)
Realization of legal reserve								(383,527)					383,527					
Hedge accounting gain															128,982	128,982		128,982
Subsidiaries' hedge accounting loss															(6,191)	(6,191)		(6,191)
Actuarial gain															58,885	58,885		58,885
Subsidiaries' actuarial loss															(714,654)	(714,654)		(714,654)
Exchange gains on investment abroad															441,899	441,899	123,436	565,335
Exchange gains on subsidiaries' investment abroad															132,993	132,993		132,993
Other comprehensive income															94,743	94,743		94,743
	21,438,220	**(309,592)**	**123,558**	**767,726**	**2,309,296**	**745,756**	**31,287**		**1,933,354**	**(2,894,619)**	**(2,367,552)**		**(4,024,184)**	**3,916**	**45,126**	**17,802,292**	**1,509,197**	**19,311,489**
Balance at December 31, 2014	**21,438,220**	**(309,592)**			**3,977,623**				**1,933,354**	**(2,894,619)**	**(2,367,552)**		**(4,024,184)**	**3,916**	**45,126**	**17,802,292**	**1,509,197**	**19,311,489**

The accompanying notes are an integral part of these financial statements.

Oi S.A. and Subsidiaries

Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013
(In thousands of Brazilian reais - R$, unless otherwise stated)

	Company		Consolidated	
	2014	2013	2014	2013
Cash flows from operating activities– continuing operations				
Income (loss) before income tax and social contribution	(57,915)	1,470,916	1,128,073	2,012,169
Non-cash items				
Charges, interest income, and inflation adjustment	2,923,813	3,141,501	4,163,880	4,329,432
Depreciation and amortization	862,796	821,613	4,535,418	4,278,477
Losses on receivables	94,170	138,195	649,463	849,779
Provisions	47,268	103,331	463,087	381,949
Provision for pension plans	8,795	10,068	8,897	10,325
Share of profits of subsidiaries	(1,359,550)	(1,063,185)	5,881	17,750
Loss on write-off of permanent assets	6,042	32,602	16,277	395,004
Income from asset sales		(485)		(214,127)
Concession Agreement Extension Fee - ANATEL	40,052	32,359	123,731	93,563
Employee and management profit sharing	98,862	(53,773)	291,885	(115,671)
Derivative financial instrument transactions	(157,241)	(838,170)	(427,384)	(1,158,520)
Inflation adjustment to intragroup receivables and private debentures	(79,265)	(9,479)		
Inflation adjustment to provisions	114,912	68,605	233,276	246,205
Inflation adjustment to tax refinancing program	82,282	40,728	132,194	81,262
Expired dividends	(30,295)	(35,695)	(40,411)	(35,744)
Other	638,429	219,460	(223,569)	1,851,062
	3,233,155	4,078,591	11,060,698	13,022,915
Changes in assets and liabilities				
Accounts receivable	(221,696)	174,525	(1,057,184)	556,009
Inventories	(2,069)	(12,537)	(38,721)	(53,696)
Taxes	(508,670)	397,760	(790,262)	(594,144)
Held-for-trading cash investments	(1,410,206)	(1,106,605)	(4,754,150)	(6,230,243)
Redemption of held-for-trading cash investments	1,431,505	1,937,794	5,021,859	8,203,246
Prepaid expenses	(163,648)	(229,489)	(1,481,557)	(1,954,059)
Trade payables	(409,070)	482,763	(221,347)	(250,056)
Payroll, related taxes and benefits	(93,283)	16,706	(198,428)	(972)
Provisions	(313,098)	(398,337)	(775,583)	(934,039)
Provision for pension plans	(131,156)	(124,245)	(131,156)	(124,246)
Other assets and liabilities	78,566	(1,904,532)	603,549	(1,581,866)
	(1,742,825)	(766,197)	(3,822,980)	(2,964,066)
Financial charges paid	(1,763,351)	(1,528,287)	(2,852,682)	(2,448,391)
Income tax and social contribution paid - Company	(8,969)	(11,156)	(432,999)	(314,221)
Income tax and social contribution paid - third parties	(77,308)	(68,108)	(322,513)	(325,931)
Dividends received	412,518	873,645	23,263	65,006
	(1,437,110)	(733,906)	(3,584,931)	(3,023,537)
Cash flows from operating activities - continuing operations	53,220	2,578,488	3.652,787	7,035,312
Cash flows from operating activities - discontinued operations			1,877.782	
Net cash generated by operating activities	53,220	2,578,488	5.530,569	7,035,312

Oi S.A. and Subsidiaries

Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013
(In thousands of Brazilian reais - R$, unless otherwise stated)

(continued)

	Company		Consolidated	
	2014	**2013**	**2014**	**2013**
Cash flows from investing activities – continuing operations				
Purchase of tangibles and intangibles	(928,240)	(1,860,546)	(5,370,351)	(5,976,488)
Due from related parties and debentures - disbursements	(5,128,661)	(345,785)		
Due from related parties and debentures - receipts	2,416,762	130,837		
Proceeds from the sale of investments, tangibles and intangibles	1,779,026	485	4,453,611	4,127
Judicial deposits	(1,230,418)	(1,275,664)	(1,660,987)	(1,693,945)
Redemption of judicial deposits	542,834	666,483	722,836	958,529
Capital increase in subsidiaries	(3,849,423)			
Cash flow arising on the loss of control of subsidiaries				(50,732)
Acquisition of investment in PT Portugal on May 5, 2014			1,087,904	
Cash and cash equivalents transferred to held-for-sale assets			(730,572)	
Increase/(decrease) in permanent investments	28,087	240,572	8,091	(11,796)
Cash flows from investing activities - continuing operations	(6,370,033)	(2,443,618)	(1,489,468)	(6,770,305)
Cash flows from investing activities - discontinued operations			(2,813,437)	
Net cash used in investing activities	(6,370,033)	(2,443,618)	(4,302,905)	(6,770,305)
Cash flows from financing activities - continuing operations				
Borrowings net of costs	2,488,430	3,004,858	2,665,098	3,434,762
Repayment of principal of borrowings, financing, and derivatives	(3,445,032)	(2,362,576)	(5,053,939)	(3,567,958)
Licenses and concessions		(49,426)	(204,779)	(710,968)
Tax refinancing program	(628,349)	(53,610)	(870,215)	(174,455)
Capital increase	8,230,606		8,230,606	
Issue premium and related costs	(403,375)		(403,375)	
Payment of dividends and interest on capital	(8,395)	(1,278,091)	(5,172)	(1,280,162)
Cash flows from financing activities - continuing operations	6.233,885	(738,845)	4.358,224	(2,298,781)
Cash flows from financing activities - discontinued operations			(5,532,725)	
Net cash used in financing activities	6,233,885	(738,845)	(1,174,501)	(2,298,781)
Foreign exchange differences on cash equivalents	(5,004)	2,007	(28,787)	50,443
Cash flows for the year	(87,932)	(601,968)	24,376	(1,983,331)
Cash and cash equivalents				
Closing balance	354,084	442,016	2,449,206	2,424,830
Opening balance	442,016	1,043,984	2,424,830	4,408,161
Changes in the year	(87,932)	(601,968)	24,376	(1,983,331)

Additional disclosures relating to the statement of cash flows

Non-cash transactions

	COMPANY		CONSOLIDATED	
	2014	2013	2014	2013
Variance between economic and financial investment (PP&E and intangible assets)	107,151	(350,838)	(122,072)	637,884
Assignment of Company debt settled with intercompany dividends receivable		844,255		
Offset of judicial deposits against provisions	338,762	403,920	405,329	495,259

The accompanying notes are an integral part of these financial statements.

1. GENERAL INFORMATION

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

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

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

The local and nationwide STFC long-distance concession agreements entered into by the Company and its subsidiary TMAR with the ANATEL are effective until December 31, 2025. These concession agreements provide for reviews on a five-year basis and in general have a higher degree of intervention in the management of the business than the licenses to provide private services, and also include several consumer protection provisions, as perceived by the regulator.

The terms of the licensing agreements are disclosed in Note 15.

The Company is registered with the Brazilian Securities and Exchange Commission ("CVM") and the U.S. Securities and Exchange Commission ("SEC"). Its shares are traded on the São Paulo Mercantile and Stock Exchange ("BM&FBOVESPA") and its American Depositary Receipts ("ADRs") are traded on the New York Stock Exchange ("NYSE").

On November 18, 2014, the Company approved a 10 for 1 reverse share split of all Company common shares and preferred shares, consolidating 10 shares into a single common or preferred share, as applicable. The Company's shares traded on the NYSE as ADSs were also subject to this reverse share slip, following the same reverse share slip ratio used in Brazil, so these ADSs will continue to be traded at the ratio of one ADS per each share.

In May 2014, in accordance with the business combination plan between the Company and Portugal Telecom, SGPS, S.A. ("PT SGPS" or "PT"), the Company's capital increase was approved through the payment by Portugal Telecom of all the shares of PT Portugal SGPS, S.A. ("PT Portugal").

PT Portugal and its subsidiaries operate basically in the telecommunications and multimedia industries, in Portugal and in other countries in Africa and in Asia.

In Portugal, fixed-line telephony services are provided by MEO – Serviços de Comunicações e Multimédia ("MEO"), previously called PT Comunicações, S.A., which also provides pay TV services, through the IPTV, FTTH and DTH platforms, Internet services to residential customers and small and medium-sized entities, data transmission and Internet services to large customers, and mobile telephony services using the platforms Global System for Mobile Communications ("GSM"), UMTS - – "*Universal Mobile Telecommunications System*" and LTE – "*Long Term Evolution*".

In Africa, the Group provides fixed and mobile telecommunications services indirectly through Africatel Holding BV ("Africatel"). The Group provides services in Namibia, Mozambique, Cape Verde, and São Tomé, among other countries, especially through its subsidiaries Mobile Telecommunications Limited ("MTC"), LTM – Listas Telefónicas de Moçambique ("LTM"), Cabo Verde Telecom, and CST – Companhia Santomense de Telecomunicações, SARL ("CST"). Additionally, the Group holds a 25% stake in Unitel, which provides telecommunications services in Angola.

In Asia, the Group provides fixed and mobile telecommunications services basically through its subsidiary Timor Telecom.

As referred to in Note 28, the Company's shareholders approved the general terms and conditions for the sale of all PT Portugal shares to Altice Portugal S.A. ("Altice PT"), a wholly-owned subsidiary of Altice S.A., ("Altice"), basically involving the operations conducted by PT Portugal in Portugal and in Hungary.

The actual sale of PT Portugal shares is still subject to the completion of the corporate reorganization actions in order to mark out the businesses that will be sold and obtain the required competitive authorizations, according to the applicable law.

The Company's financial statements were analyzed and approved by the Board of Directors, and authorized for issuance at the meeting held on March 25, 2015.

Company's capital increase through the payment by PT of all PT Portugal shares

In accordance with the Definitive Agreements executed on February 19, 2014, the Company's Board of Directors decided at the meetings held on April 28 and 30, 2014, to increase capital by R$13,217,865 though the issue of 2,142,279,524 common shares for public subscription, including 396,589,982 common shares in the form of American Depositary Shares ("ADSs"), and 4,284,559,049 preferred shares, including 828,881,795 preferred shares in the form of ADSs.

On May 5, 2014, Banco BTG Pactual S.A., as Public Offering Stabilizing Underwriter, exercised, under Article 24 of CVM Instruction 400, part of the distribution option for 120,265,046 Oi common shares and 240,530,092 Oi preferred shares ("Overallotment Shares"), amounting to R$742,035. As a result, on said date the Company capital increased to R$21,431,109.

The shares were issued at the price of R$2.17 per common share and R$2.00 per preferred share. The common shares in the form of ADSs (“ADSs ON”, each representing one common share) were issued at the price of US$0.970 per ADS ON, and the preferred shares in the form of ADSs (“ADSs PN”, each representing one preferred share) were issued at the price of US$0.894 per ADS PN.

Finally, the issued shares were paid in (i) by Portugal Telecom in assets, through the assignment to the Company of all PT Portugal shares, which holds all the (i.a) operating assets of Portugal Telecom, except its direct or indirect interests in the Company and in Contax Participações S.A., and (i.b) liabilities of Portugal Telecom at the assignment date, as determined in the Valuation Report prepared by Banco Santander (Brasil) S.A. ("PT Assets"), approved at the Company’s Shareholders’ Meeting held on March 27, 2014; and (ii) in cash, on the subscription date, in local legal tender. Accordingly, the Company’s capital increase totaled the gross amount of R$13.96 billion, including PT’s assets valued at R$5.71 billion.

Acquisition of PT Portugal assets and liabilities

The acquisition of PT Portugal assets and liabilities has been recognized using the acquisition method, as prescribed by CPC 15 (R1) and IFRS 3 (R), based on the fair value of the identifiable assets acquired and liabilities assumed. The net assets acquired on the transaction date are broken down as follows:

(In millions of Brazilian reais - R$)

	Carrying amount	Fair value adjustments (i)	Fair value at May 5, 2014 (revised)
Assets			
Cash and cash equivalents	1,088		1,088
Cash investments	2,870	(2,763)	107
Accounts receivable	2,371		2,371
Inventories	285		285
Current recoverable taxes	266		266
Prepaid expenses	214		214
Available-for-sale financial asset (ii)	4,089		4,089
Intangible assets	2,346	3,147	5,493
Property, plant and equipment	10,432	608	11,040
Deferred taxes recoverable	556		556
Assets related to pension plans	6		6
Other assets (iii)	2,021	2,763	4,784
Total assets acquired	**26,544**	**3,755**	**30,299**
Liabilities			
Borrowings and financing - current	6,209		6,209
Borrowings and financing - non-current	19,026		19,026
Trade payables	1,795		1,795
Current taxes payable	229		229
Provisions	142		142
Provisions for pension plans	2,688		2,688
Deferred taxes recoverable	258	1,012	1,270
Other payables	1,756		1,756
Total liabilities assumed	**32,103**	**1,012**	**33,115**
Total assets acquired and liabilities assumed	**(5,559)**	**2,743**	**(2,816)**

(i) The nature of the adjustments to market value is detailed below.

(ii) Corresponds to the fair value of the investment in Unitel, based on a report prepared by Banco Santander on the valuation of PT’s operating assets and used as basis for the valuation of the capital increase. Note that as at December 31, 2014 this investment is classified as a held-for-sale asset (Note 28).

(iii) This line item includes R$2,763 million (€897 million) corresponding to the rights to compensation receivables. The Company revised the recognition and the measurement of the identifiable assets and liabilities at the date of acquisition on May 5, 2014. Based on the additional material information resulting from the non-settlement of the commercial papers by Rio Forte Investments, S.A., as described in further detail in Note 28, Other Information, and based on the exception rules on the recognition and measurement of a business combination (paragraph 27 of CPC 15/IFRS 3), the Company recognized on the same date the write-off of all these papers totaling R$2,763 million and the recognition in line item Other assets of a right to compensation receivable from the underwriting shareholder, measured on the same bases as the Rio Forte commercial papers. Management, based on the opinion of its legal counsel, believes that there is no need to recognize an allowance for doubtful accounts as at December 31, 2014.

The nature of the adjustments to market value made in the context of the allocation of the fair values of identifiable assets and liabilities is as follows:

(In millions of Brazilian reais - R$)

	Carrying amount	Fair value adjustments	Fair value
List of residential segment customers (i)	40	738	778
List of personal mobile segment customers (i)	94	1,642	1,736
List of corporate segment customers (i)	37	665	701
Mobile licenses of the operations in Portugal (ii)	1,037	103	1,140
Market value adjustments to intangible assets	**1,208**	**3,147**	**4,355**
Property, plant and equipment of operations in Portugal (iii)		608	
Market value adjustments before taxes		**3,755**	
Taxation		(1,012)	
Total market value adjustments, net of taxes		**2,743**	

(i) The fair values of the customer lists have been determined under the Revenue Approach, more specifically, the Surplus Profit Method. Under the Revenue Approach, fair value is determined based on the cash flows (discounted) that an asset should generate during its remaining useful life. The Surplus Profit Method is a variation of the Revenue Approach that considers the use of other assets to generate the projected cash flows of a specific asset to isolate the economic benefit generated by an intangible asset. These assets’ contribution is estimated based on the capital cost of the different contributive assets. In calculating the customer-related fair value, in addition to the future cash flows, the ARPU estimates and the customer churning rates have also been taken into account. These intangible assets will be amortized over the estimated customer retention, which varied from 7 to 13 years, depending on the customer segment.

(ii) The fair value of the mobile operations licenses in Portugal has been determined based on the Market Approach, using the analysis of different band auctions comparable to the radiofrequency auctions in which PT participated, in terms of (a) bandwidth, (b) geography (Western Europe), and (c) valuation date. The fair value was calculated as the average price per MHz of the selected auctions. These licenses are being amortized through their termination dates.

(iii) The fair value of property, plant and equipment was determined based on a Cost Approach, using the Replacement Cost Method. The New Replacement Cost was estimated by using cost indices, per year, which were applied to the historic costs of the property, plant and equipment items. Subsequently, depletion, obsolescence, and other forms of amortization that affect the assets, taking into consideration useful life estimates and the residual value of several asset classes.

The table below shows the total acquisition price, and the goodwill arising on the acquisition of PT Portugal's assets and liabilities:

(In millions of Brazilian reais - R$)

Capital instruments issued	5,710
Fair value of the stake previously held by the Company in PT	571
Non-controlling interests	1,478
Less: Fair value of assets acquired and liabilities assumed	(2,816)
Goodwill determined on May 5, 2014	**10,575**

In business combinations it is common to exist a portion of the acquisition price that is not possible to attribute in accounting terms to the fair value of assets acquired and liabilities assumed, which are therefore recognized as goodwill. In the case of the acquisition of PT Portugal, goodwill is related to several components that cannot be individually reliably quantified and separated from each other, including skilled labor, technologic capacities, and established market reputation.

The change in goodwill as compared to the balance at December 31, 2014 arises from the foreign exchange differences determined from the acquisition date through the end of the reporting period, which are recognized directly as other comprehensive income.

As at December 31, 2014 the acquisition price allocation process has been completed.

Due to the signature of the sale agreement of PT Portugal operations and the offer for sale of the operations in Africa, the assets and liabilities related to these operations were classified in the balance sheet as available-for-sale assets and liabilities. Additionally, in the case of PT Portugal the corresponding revenue and expenses are presented in the income statement as discontinued operations (Note 28).

Merger of the activities of Oi S.A. and PT

On October 2, 2013 Oi published a Material Fact Notice informing that Oi, Portugal Telecom, SGPS S.A. (“PT SGPS” or “PT”), AG Telecom Participações S.A. (“AG”), LF Tel. S.A. (“LF”), PASA Participações S.A. (“PASA”), EDSP75 Participações S.A. (“EDSP75”), Bratel Brasil S.A. (“Bratel Brasil”), Avistar, SGPS, S.A. (“BES”), and Nivalis Holding B.V. (“OnGoing”) entered into a memorandum of understanding that lays down the bases and the principles that would govern the negotiations for a potential transaction involving PT, Oi, and some of their controlling shareholders to incorporate a company (“CorpCo”) that would gather the shareholders of Oi, PT, and Telemar Participações S.A. (“TelPart”) and combine the activities businesses undertaken by Oi in Brazil and PT in Portugal, Africa, and Asia aimed at consolidating the industrial alliance between Oi and PT (“Transaction”).

On February 19, 2014, following the memorandum entered into on October 1, 2013, Oi and PT signed the definitive contractual agreements that describe the stages necessary to implement the Transaction (“Definitive Agreements”). These Definitive Agreements establish that TelPart would be the company that would gather the shareholders of Oi and PT, and provide for the different stages of the Transaction, including the following:

(a) Increase of Oi’s capital through a public offering of Oi shares, approved at the Board of Directors’ meetings held on April 28, 2014, April 30, 2014, and May 5, 2014;

(b) Capitalization of AG, LF and TelPart with the funds required to repay their debts, completed in May 2014;

(c) A corporate reorganization involving the companies PASA, AG, EDSP75, LF, Bratel Brasil, and TelPart to streamline their corporate structure. After this step, TelPart will become the holder of Oi shares only and will not have any debt or have sufficient cash or cash equivalents to repay its debt;

(d) Listing of TelPart on the Novo Mercado segment of the BM&FBOVESPA and termination of AG’s, LF’s and TelPart’s shareholders’ agreements; and

(e) Merger of Oi shares into TelPart, causing Oi to become a wholly-owned subsidiary of TelPart.

Each Oi common share will be exchanged for a CorpCo share and each Oi preferred share will be exchanged for 0.9211 CorpCo shares. The exchange ratios have been determined based on the quotations of Oi common shares and preferred shares over the 30-day period prior to the publication of the Material Fact Notice that disclosed the transaction and the direct or indirect stakes held by the companies involved in the transaction in Oi, under the premise that such companies will not have any liabilities or assets or will have sufficient cash or cash equivalents to fully settle their debts.

Initially the Definitive Agreements also provided for the merger of PT with and into TelPart, and a result of this merger PT’s shareholders would receive a number of TelPart shares equivalent to the number of TelPart shares held by PT, immediately before the merger.

Due to the negotiations between Oi and PT related to the short-term investments made by PT in Rio Forte Investments S.A. ("Rio Forte") securities, as described in further detail in Note 28, Other Information, the merger of PT with and into CorpCo will no longer be implemented as part of the Transaction, without prejudice to PT potentially adopting an alternative structure to reach the same purpose of combining the share bases of Oi and PT.

After the transaction is completed, TelPart shares will be listed for trading on the Novo Mercado segment of the BM&FBOVESPA and on the NYSE Euronext Lisbon and the NYSE.

On January 14, 2014, the Transaction's approval by the Brazilian Antitrust Agency (Conselho Administrativo de Defesa Econômica, or CADE) was published on the Federal Official Gazette and on January 29, 2014 was the deadline for third parties to file any appeals against this agency's decision or file a proceeding with the CADE Court. No appeals or proceedings against the decision were filed. Accordingly, CADE's decision, published on January 14, 2014, was confirmed in all other respects.

Risks Relating to Our African and Asian Operations

We may be unable to dispose of our interest in Africatel for a consideration that exceeds its carrying value in our financial statements or at all. Any impairment of the fair market value of at which we record our indirect investment in Unitel in our financial statements would have a material adverse effect on our financial condition and results of operations.

On September 17, 2014, our board of directors authorized our management to take the necessary measures to market our shares in Africatel, representing 75% of the share capital of Africatel. As a result, as of December 31, 2014, we have recorded our interest in Africatel as discontinued operations. We have engaged a financial advisor to assist us with marketing and selling our interest in Africatel.

As of December 31, 2014, we recorded in our consolidated financial statements as assets held for sale R$7,643 million relating to our interest in Africatel, including R$1,261 of accrued dividends owed to our company by Unitel and R$4,164 representing the fair market value of Africatel's 25% interest in Unitel at the time of the Oi capital increase, and recorded as liabilities directly associated with assets held for sale of R$851 million relating to our interest in Africatel.

We may not be able to sell our interest in Africatel for consideration that exceeds the book value of our interest in Africatel, or at all. The book value of our indirect investment in Unitel is subjected to testing for impairment when events or changes in circumstances indicate that the value of our indirect investment in Unitel may be lower than the fair market value at which we carry this investment. Any impairment of our indirect investment in Unitel may result in a material adverse effect on our financial condition and operating results.

We cannot assure you as to when PT Ventures will realize the accounts receivable recorded with respect to the declared and unpaid dividends owed to PT Ventures by Unitel or when PT Ventures will receive dividends that may have been declared with respect to 2013 or may be declared with respect to succeeding fiscal years.

Since November 2012, PT Ventures has not received any payments for outstanding amounts owed to it by Unitel with respect to dividends declared by Unitel for the fiscal years ended December 31, 2012, 2011 and 2010. Based on the dividends declared by Unitel for those fiscal years, PT Ventures is entitled to receive the total amounts of US$190.0 million (R$504 million) with respect to fiscal year 2012, US$190.0 million (R$504 million) with respect to fiscal year 2011, and US$157.5 million (R$418 million) with respect to fiscal year 2010. As of the date of this annual report, PT Ventures has only received US$63.7 million (R$169 million) of its share of the dividends declared by Unitel with respect to fiscal year 2010, and has not received any amount in respect of dividends declared by Unitel with respect to fiscal years 2011 and 2012.

At a general meeting of Unitel held on November 4, 2013, the other shareholders discussed the financial statements as well as the payment of dividends with respect to the fiscal year of 2013. PT Ventures was unable to attend that meeting because the financial statements and the other relevant information about the meeting were not included in the prior notice for the meeting, nor were they made available to PT Ventures, despite the fact that PT Ventures requested those materials on several occasions. In addition, PT Ventures has not received the minutes of the meeting nor has it been informed about the decisions taken, in spite of PT Ventures' several requests.

As of the date of this annual report, Unitel has not declared dividends with respect to the fiscal year ended December 31, 2014.

On March 25, 2014, Unitel issued a statement claiming that PT Ventures is not listed on the shareholders' register of Unitel, and that the board of directors of Unitel had notified PT SGPS about the existence of an irregularity, which purportedly resulted in Unitel being unable to distribute dividends to PT Ventures until the resolution of this irregularity. In June 2014, PT Ventures (formerly known as Portugal Telecom Internacional, SGPS, S.A.) resolved the alleged irregularity with the Angolan Foreign Investment Institute. On June 3, 2014, PT Ventures was issued a Foreign Investment Certificate endorsing its current name.

On several occasions, PT Ventures has requested an explanation from Unitel about its failure to pay to PT Ventures its share of the declared dividends. As of the date of this annual report, PT Ventures has not received a satisfactory explanation regarding this failure to pay, nor has PT Ventures received reliable indications as to the expected timing of the payment of the accrued dividends. We cannot assure you as to the timing of the payment of the accrued dividends to our company or whether we will be able to receive dividends that may be declared by Unitel in the future. Our inability to receive these dividends could have a material adverse impact on the fair value of our investment in Unitel, our financial position and our results of operations.

The other shareholders of Unitel have indicated to PT Ventures that they believe that PT SGPS' sale of a minority interest in Africatel did not comply with the Unitel shareholders' agreement.

The Unitel shareholders' agreement provides a right of first refusal to the other shareholders of Unitel if any shareholder desires to transfer any or all of its shares of Unitel, other than transfers to certain affiliated companies. This agreement also provides that if any shareholder breaches a material obligation under the Unitel shareholders' agreement, the other shareholders will have a right to purchase the breaching shareholder's stake in Unitel at its net asset value.

The other shareholders of Unitel have asserted to PT Ventures that they believe that PT SGPS' sale of a minority interest in Africatel to Samba Luxco during 2007 was in breach of the Unitel shareholders' agreement. PT Ventures disputes this interpretation of the relevant provisions of the Unitel shareholders' agreement, and we believe that the relevant provisions of the Unitel shareholders' agreement apply only to a transfer of Unitel shares by PT Ventures itself.

As of the date of this report, we have not been notified of any proceedings initiated with respect to PT SGPS' sale of a minority interest in Africatel to Samba Luxco. If the other shareholders of Unitel were to assert that this sale was in breach of the Unitel shareholders' agreement, and if a binding decision by an appropriate forum to this effect were to be rendered in favor of those shareholders, PT Ventures could be required to sell its interest in Unitel for a value significantly lower than the amount that we record in our financial statements with respect to our indirect investment in Unitel. The sale of PT Ventures' interest in Unitel in these circumstances could have a material adverse impact on our financial condition and results of operations.

The other shareholders of Unitel may claim that, as a result of PT SGPS' failure to offer its indirect interest in Unitel to such shareholders prior to our acquisition of PT Portugal, these shareholders have the right to acquire the shares of Unitel held by PT Ventures at their net asset value.

On March 25, 2014, Unitel issued a public statement in which Unitel implied that its shareholders had a right of first refusal related to PT SGPS' then-pending sale of its indirect interest in Unitel to our company. Subsequently, the other shareholders of Unitel delivered a notice to PT SGPS in which they claimed that our indirect acquisition of PT Ventures' interest in Unitel as part of the Oi capital increase would trigger this right. We believe that the relevant provisions of the Unitel shareholders' agreement would apply only to a transfer of Unitel shares by PT Ventures itself.

As of the date of this annual report, we have not been notified of any proceedings initiated with respect to PT SGPS's failure to offer its indirect interest in Unitel to the other shareholders of Unitel prior to our acquisition of PT Portugal. If the other shareholders of Unitel were to claim that PT SGPS' failure to offer its indirect interest in Unitel to those shareholders resulted in a breach of the Unitel shareholders' agreement, and if a binding decision by an appropriate forum to this effect were to be rendered in favor of those shareholders, PT Ventures could be required to sell for its interest in Unitel for its net asset value, which is significantly lower than the amount that we record in our financial statements with respect to our indirect investment in Unitel. The sale of PT Ventures' interest in Unitel in these circumstances would have a material adverse impact on our financial condition and results of operations.

The other shareholders of Unitel have prevented PT Ventures from exercising its rights to appoint the chief executive officer and a majority of the board of directors of Unitel.

Under the Unitel shareholders' agreement, PT Ventures is entitled to appoint three of the five members of Unitel's board of directors and its chief executive officer. Under the Unitel shareholders' agreement, the appointment of the chief executive officer of Unitel is subject to the approval of the holders of 75% of Unitel's shares. However, the other shareholders of Unitel have failed to vote to elect the directors nominated by PT Ventures at Unitel's shareholders' meetings, and as a result, PT Ventures' representation on Unitel's board of directors was reduced to a single director in June 2006, and the chief executive officer of Unitel has not been PT Ventures' appointee since June 2006.

On July 22, 2014, the only member of Unitel's board of directors that had been appointed by PT Ventures resigned from his position, and the other shareholders of Unitel have not permitted PT Ventures to appoint a replacement. In November 2014, the other shareholders of Unitel notified PT Ventures that its rights as a shareholder of Unitel had been purportedly suspended in October 2012, although these other shareholders have not indicated any legal basis for this alleged suspension. At a general shareholders meeting on Unitel held on December 15, 2014, an election of members of the board of directors of Unitel was held. At this meeting, Unitel's other shareholders claimed that PT Ventures was not entitled to vote as a result of the alleged suspension of its rights as a shareholder of Unitel in October 2012, and they refused to elect the member nominated by PT Ventures to Unitel's board of directors.

PT Ventures has filed a suit in Angolan court to annul the results of the election of members of the Unitel board of directors on December 15, 2014. As of the date of this annual report, no nominee of PT Ventures serves on the Unitel board of directors.

Unitel has granted loans to a related party and entered into a management contract with a third-party without the approval of PT Ventures.

Under the Unitel shareholders' agreement, the shareholders of Unitel and their affiliates are not permitted to enter into any contracts with Unitel unless the contracts are approved by a resolution of Unitel's board of directors adopted by at least four members of its board of directors. As a result of the inability of PT Ventures to appoint members of the Unitel board of directors, PT Ventures is unable to effectively exercise its implied veto right over related party transactions of Unitel.

Between May and October 2012, Unitel made disbursements to Unitel International Holdings B.V. of €178.9 million (R$576 million) and US$35.0 million (R$93 million) under a "Facility Agreement" entered into between Unitel and Unitel International Holdings B.V. , or Unitel Holdings, an entity that competes with Africatel in Cabo Verde and in São Tomé and Principe. Unitel Holdings is controlled by Mrs. Isabel dos Santos, an indirect shareholder of Unitel, and according to public information disclosed by NOS, one of the indirect controlling shareholders of ZOPT, SGPS, S.A. (which holds a majority of the voting and total share capital of NOS). PT Ventures' representative on the Unitel board of directors voted against these transactions at the time of their proposed execution by Unitel, and PT Ventures abstained when the consolidated financial statements of Unitel that included these transactions were approved by the other Unitel shareholders at a shareholders meeting.

Unitel has made additional loans to related parties during 2013. We have been unable to obtain information with respect to the existence of similar transactions during 2014.

Any failure by Unitel Holdings to make timely payment under this Facility Agreement could have a material adverse effect on the financial condition and results of operations of Unitel and therefore the value of our investment in Unitel.

In addition, Unitel has recorded a management fee of US$155.7 million payable to a third-party in its unaudited stand-alone financial statements for the year ended December 31, 2013 prepared under Angolan GAAP. This management fee was not presented to the board of directors or shareholders' meeting of Unitel for approval and was not approved by PT Ventures. The payment of this management fee by Unitel could have a material adverse effect on the financial condition and results of operations of Unitel and therefore the value of our indirect investment in Unitel.

We cannot assure you that we will be able to prevent Unitel from taking actions that should require the approval of the members of the Unitel board of directors nominated by PT Ventures, including approving related party transactions with the other shareholders of Unitel that we believe are detrimental to the financial condition and results of operations of Unitel. The use of the resources of Unitel in this manner could have a material adverse impact on the financial position and results of operations of Unitel and therefore the value of our investment in Unitel.

The other shareholders of Unitel have attempted to dilute our indirect ownership of Unitel through a capital increase in which we could be technically unable to participate, and have called meetings at which they have indicated the desire to unilaterally amend the bylaws of Unitel and the Unitel shareholders' agreement.

At a general shareholders meeting of Unitel held on December 15, 2014, the other shareholders of Unitel voted to increase Unitel's share capital and alter the nominal value of its shares. Although PT Ventures requested the proposal and other relevant information in respect with this and other items in the agenda of the meeting on several occacions, PT Ventures has never been provided with such documents and information. The details of this capital increase are obscure as they were not included in the prior notice for this meeting nor were they discussed in detail during this meeting. Additional details of this capital increase have been included in draft minutes of this meeting provided to PT Ventures and it appears that, although PT Ventures has determined to subscribe to its *pro rata* share of this capital increase to avoid dilution of its interest in Unitel, payment of the subscription price will be due on an accelerated timetable that would not permit PT Ventures to obtain the necessary foreign exchange approvals prior to the date on which payment would be due. PT Ventures has filed a suit in Angolan court to annul the approval of the Unitel capital increase at this shareholders meeting.

The agenda of this general shareholders meeting of Unitel included amendments to Unitel's by-laws and the purported amendments to Unitel shareholders' agreement, in addition to other matters that may have been raised at the shareholders' meeting itself, which inluded investments by Unitel in Zimbabwe and a study in order to implement a corporate reorganization of Unitel. PT Ventures has not been provided of the details of the proposed bylaw amendments nor of any purported amendments to the Unitel shareholders' agreement, despite its several requests before, during and after the meeting held on December 15, 2014. The meeting was suspended without any action taken on these items and is expected to be reconvened on April 9, 2015. PT Ventures has filed a suit in Angolan court to annul the approval of investments by Unitel in Zimbabwe and a study in order to implement a corporate reorganization of Unitel.

We cannot assess the impact to Unitel or our company of the matters considered at the December 15, 2014 general shareholders meeting of Unitel or the proposed amendments to Unitel's by-laws and purported amendmnets to the Unitel shareholders' agreement as we have not been provided with sufficient details to appropriately analyze these matters. In addition, we note that there appears to be no legal authority for the other shareholders of Unitel to amend the Unitel shareholders' agreement through actions taken at a meeting of shareholders, as this agreement is an agreement among the parties thereto. Should the other shareholders approve actions detrimental to Unitel or our investment in Unitel, these actions could have a material adverse impact on the financial position and results of operations of Unitel and therefore the value of our investment in Unitel.

Unitel's concession to operate in Angola has expired and has not yet been renewed.

Unitel's concession to provide mobile telecommunications services in Angola expired in April 2012. We cannot provide you with any assurances regarding the terms under which the Angolan National Institute of Telecommunications (*Instituto Angolano das Comunicações*), or INACOM, would grant a renewal of this concession, if at all. A failure of Unitel to obtain a renewal of this concession could have a material adverse effect on the ability of Unitel to continue to provide mobile telecommunications services in Angola, which would have a material adverse effect on Unitel's financial position and results of operations and the value of our investment in Unitel.

Adverse political, economic and legal conditions in the African and Asian countries in which we have acquired investments may hinder our ability to receive dividends from our African and Asian subsidiaries and investments.

The governments of many of the African and Asian countries in which we have investments have historically exercised, and continue to exercise, significant influence over their respective economies and legal systems. Countries in which we have investments may enact legal or regulatory measures that restrict the ability of our subsidiaries and investees to make dividend payments to us. Similarly, adverse political or economic conditions in these countries may hinder our ability to receive dividends from our subsidiaries and investees. Historically, PT SGPS has received dividends from the African and Asian subsidiaries and investees that we have acquired, however, a limitation on our ability to receive a material portion of those dividends could adversely affect our cash flows and liquidity.

In addition, our investments in these regions are exposed to political and economic risks that include, but are not limited to, exchange rate and interest rate fluctuations, inflation and restrictive economic policies and regulatory risks that include, but are not limited to, the process for the renewal of licenses and the evolution of regulated retail and wholesale tariffs. In addition, our ventures in African and Asian markets face risks associated with increasing competition, including due to the entrance of new competitors and the rapid development of new technologies.

The development of partnerships in these markets raises risks related to the ability of the partners to jointly operate the assets. Any inability of our company and our partners to operate these assets may have a negative impact on our strategy and all of these risks may have material effects on our results of operations.

Our acquisition of PT Portugal may have triggered claims of our other joint venture partners or may otherwise lead to an unwinding of those joint ventures.

Some of the agreements governing our joint ventures in Africa and Asia, other than Unitel, contain provisions that may confer certain rights, including call and put rights, on our joint venture parties in the event of a change of control or merger of PT SGPS. If these rights are triggered, we could be forced to exit one or more profitable joint ventures and sell our shares to our joint venture partners at a price significantly lower than the fair market value of our interests in those joint ventures. Alternatively, we could be required to use cash to purchase the joint venture interests of our partners in one or more joint ventures. Any such event could have a material adverse effect on our investment strategy for Africa and Asia, our growth prospects and/or our liquidity and cash flow.

Even if no contractual provision is triggered by any step in the business combination, our relationship with these joint venture partners could change or worsen as a result of the business combination for political, commercial or other reasons. We do not own a controlling stake in most of these joint ventures, and any challenges that arise with our joint venture partners as a result of the business combination or otherwise could lead to costly and time-consuming negotiations, arbitration or litigation or potentially to the unwinding of our investment in those ventures at a price significantly lower that the fair market value of our investment.

We are a party to joint ventures and partnerships that may not be successful and may expose our company to future costs.

We are a partner in joint ventures and partnerships in Africa and Asia. Our partnering arrangements may fail to perform as expected for various reasons, including an incorrect assessment of our needs or the capabilities or financial stability of our strategic partners. Our share of any losses from or commitments to contribute additional capital to such partnerships may also adversely affect our results of operations or financial position.

Our ability to work with these partners or develop new products and solutions may become constrained, which could harm our competitive position in the markets served by these joint ventures and partnerships. We may have disputes with our partners in these joint ventures, and we may have difficulty agreeing with our partners on actions that we believe would be beneficial to those joint ventures and partnerships. In addition, the joint ventures and partnerships in African and Asian countries are typically governed by the laws of those countries, and our partners are often established participants in those markets and may have greater influence in those economies than we will. To the extent we experience difficulties with our joint venture partners, we may encounter difficulties in protecting our investments in those countries.

Any of these factors could cause these joint ventures and partnerships not to be profitable and could cause us to lose all or part of the value of our investments in those ventures.

The minority shareholder of Africatel has asserted that our acquisition of PT Portugal triggered its right to require us to purchase its shares of Africatel under the Africatel shareholders' agreement. If we are required to purchase this interest in Africatel, it will divert resources that could otherwise be deployed to reduce indebtedness or make investments under our business plan. If any such purchase is funded through our incurrence of additional debt, there would be a material adverse effect on our consolidated leverage.

We indirectly own 75% of the share capital of Africatel. Samba Luxco S.à.r.l., an affiliate of Helios Investors LLP, or Samba Luxco, owns the remaining 25%. Africatel holds all of our interests in telecommunications companies in sub-Saharan Africa, including our interests in Unitel, Cabo Verde Telecom, S.A. in Cape Verde, Mobile Telecommunications Limited in Namibia, and CST Companhia Santomense de Telecomunicações S.A.R.L. in São Tomé and Príncipe, among others. PT SGPS, our subsidiaries Africatel GmbH & Co. KG, or Africatel GmbH, and PT Ventures, and Samba Luxco are parties to a shareholders' agreement, which we refer to as the Africatel shareholders' agreement.

On September 16, 2014, our subsidiary, Africatel GmbH, which directly holds our interest in Africatel, received a letter from Samba Luxco in which Samba Luxco claimed that Oi’s acquisition of PT Portugal was deemed a change of control of PT SGPS under the Africatel shareholders agreement, and that this change of control entitled Samba Luxco to exercise a put right under the Africatel shareholders’ agreement at the fair market equity value of Samba Luxco’s Africatel shares. In the letter, Samba Luxco purported to exercise the alleged put right and thereby require Africatel GmbH to acquire its shares in Africatel.

On September 26, 2014, Africatel GmbH responded to Samba Luxco stating that there had not been any action or event that would trigger the right to exercise the put option under the Africatel’s shareholders’ agreement and that Africatel GmbH intended to challenge Samba Luxco’s purported exercise of the put option. On the same date, we issued a Material Fact disclosing Samba Luxco’s purported exercise of the put option, our understanding that the exercise of the put option is not applicable, and that our board of directors had authorized our management to take the necessary actions to sell our interest in Africatel.

On November 12, 2014, the International Court of Arbitration of the International Chamber of Commerce notified Africatel GmbH that Samba Luxco had commenced arbitral proceedings against Africatel GmbH to enforce its purported put right or, in the alternative, certain ancillary rights and claims. Africatel GmbH presented its answer to Samba Luxco’s request for arbitration on December 15, 2014. The arbitral tribunal was constituted on March 12, 2015. We intend to vigorously defend Africatel GmbH in these proceedings.

If we were to acquire the interest of Samba Luxco in Africatel as a result of the exercise of Samba Luxco’s purported put right under the Africatel shareholders’ agreement, our acquisition of this interest would reduce the resources that would be available to us to reduce our outstanding indebtedness or pursue other investment opportunities. If any such purchase were to be funded through our incurrence of additional debt, the consolidated leverage of our company could increase materially, which could have a material adverse effect on our financial condition and results of operations.

Merger of TNL PCS S.A. (“TNL PCS”) with and into Oi Móvel

In February 2014 TNL PCS (mobile telephony operator in Regions I and III) was merged with and into Oi Móvel (mobile telephony operator in Region II). As a result of the merger, Oi Móvel became the Company’s sole operator to provide mobile telephony services in Brazil.

The merger was undertaken at historical carrying amounts of the involved entities as it consisted of a transaction between entities under common control.

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

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

Companies related to the continuing operations

Company	Business	Home country	Direct 2014	Indirect 2014	Direct 2013	Indirect 2013
Oi Móvel S.A.	Mobile telephony – Region II	Brazil		100%		100%
Brasil Telecom Comunicação Multimídia Ltda. (“BrT Multimídia”)	Data traffic	Brazil		100%		100%
BrT Card Serviços Financeiros Ltda. (“BrT Card”)	Financial services	Brazil		100%		100%
Brasil Telecom Call Center S.A. (“BrT Call Center”)	Call center and telemarketing services	Brazil		100%		100%
BrT Serviços de Internet S.A. (“BrTI”)	Holding company	Brazil		100%		100%
Oi Internet S.A (“Oi Internet”)	Internet	Brazil		100%		100%
Oi Paraguay Multimedia Comunicaciones SRL	Data traffic	Paraguay		100%		100%
Rio Alto Gestão de Créditos e Participações S.A. (“Rio Alto”)	Receivables portfolio management and interests in other entities	Brazil	50%		50%	
Copart 5 Participações S.A. (“Copart 5”)	Property investments	Brazil		100%		100%
Telemar Norte Leste S.A.	Fixed-line telephony – Region I	Brazil	100%		100%	
TNL PCS S.A. (i)	Mobile Telephony – Regions I and III	Brazil				100%
Paggo Empreendimentos S.A.	Payment and credit systems	Brazil		100%		100%
Paggo Acquirer Gestão de Meios de Pagamentos Ltda.	Payment and credit systems	Brazil		100%		100%
Paggo Administradora de Crédito Ltda. (“Paggo Administradora”)	Payment and credit systems	Brazil		100%		100%
Oi Serviços Financeiros S.A. (“Oi Serviços Financeiros”)	Financial services	Brazil	99.87%	0.13%	99.87%	0.13%
Copart 4 Participações S.A. (“Copart 4”)	Property investments	Brazil		100%		100%
Telemar Internet Ltda. (“Telemar Internet”)	Internet	Brazil		100%		100%
Dommo Empreendimentos Imobiliários S.A.	Purchase and sale of real estate	Brazil		100%		100%
SEREDE – Serviços de Rede S.A.	Network services	Brazil	0.01%	99.99%	0.01%	99.99%
Pointer Networks S.A. (“Pointer”)	Wi-Fi internet	Brazil		100%		100%
VEX Wifi Tec España S.L	Wi-Fi internet	Spain		100%		100%
VEX Venezuela C.A	Wi-Fi internet	Venezuela		100%		100%
VEX Wifi S.A.	Wi-Fi internet	Uruguay		100%		100%
VEX Ukraine LLC	Wi-Fi internet	Ukraine		90%		90%
VEX USA Inc.	Wi-Fi internet	United States of America		100%		100%
VEX Bolivia SRL	Wi-Fi internet	Bolivia				100%
Pointer Networks S.A. – SUC Argentina	Wi-Fi internet	Argentina		100%		100%
VEX Wifi Canadá Ltd.	Wi-Fi internet	Canada		100%		100%
VEX Chile Networks Serv Tec Ltda.	Wi-Fi internet	Chile				100%
VEX Colombia Ltda.	Wi-Fi internet	Colombia		100%		100%
VEX Paraguay S.A.	Wi-Fi internet	Paraguay		99.99%		99.99%
Pointer Peru S.A.C	Wi-Fi internet	Peru		100%		100%
VEX Portugal S.A.	Wi-Fi internet	Portugal		98.58%		98.58%
VEX Panamá S.A.	Wi-Fi internet	Panama				100%
Oi Brasil Holdings Cooperatief UA (“Oi Holanda”)	Payment and credit systems	The Netherlands	100%		100%	
Tupã Torres S.A.	Property investments	Brazil				100%
Caryopoceae Participações S.A.	Property investments	Brazil				100%
Bryophyta SP Participações S.A.	Property investments	Brazil		100%		100%

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

Companies related to the discontinued operations

Company	Business	Home country	Direct 2014	Indirect 2014	Direct 2013	Indirect 2013
PT Portugal, SGPS, S.A.	Management of equity investments	Portugal	100%			
Directel - Listas Telefónicas Internacionais, Lda. (“Directel”)	Telephone directory publishing and operation of related databases, in international operations	Portugal		75%		
Janela Digital - Informativo e Telecomunicações, Lda	Development of information technologies for real estate agents	Portugal		50%		
Openideia - Tecnologias de Telecomunicações e Sistemas de Informação, S.A.	Provision of systems and IT services	Portugal		100%		
Portugal Telecom Data Center, S.A.	Service provision and product supply in the information systems and IT area, including data processing, hosting and related aspects.	Portugal		100%		
PT Pay, S.A.	Provision of payment services	Portugal		100%		
Portugal Telecom Inovação e Sistemas, S.A. (“PT Inovação e Sistemas”)	Innovation, research, development and service and telecommunications solutions integration, engineering services, and telecommunications training	Portugal		100%		
Postal Network – Prestação de Serviços de Gestão de Infraestrutura de comunicações ACE	Provision of postal services	Portugal		51%		
Previsão – Sociedade Gestora de Fundos de Pensões, S.A.	Pension fund management	Portugal		82%		
PT Centro Corporativo, S.A.	Provision of consulting services to Group companies	Portugal		100%		
MEO – Serviços de Comunicações e Multimédia (“MEO”) (formerly PT Comunicações, S.A.) (ii)	Establishment, management and operation of telecommunications infrastructures and provision of public telecommunication services and TV broadcasting services, and mobile telecommunications	Portugal		100%		
PT Contact - Telemarketing e Serviços de Informação, S.A. ("PT Contact")	Production, promotion and sale of information systems, including information products and services and related technical assistance	Portugal		100%		
PT Imobiliária, S.A.	Real estate asset management, real estate investment consulting, management of real estate developments, and property purchase and sale	Portugal		100%		
PT Investimentos S.A. (“PT I”)	Business consulting and management services, preparation of projects and economic studies, and investment management.	Portugal		100%		
PT Móveis, SGPS, S.A. (“PT Móveis”)	Management of equity investments in the mobile businesses	Portugal		100%		
PT Participações, SGPS, S.A.	Management of equity investments	Portugal		100%		
PT Prestações-Mandatária de Aquisições e Gestão de Bens, S.A. (“PT Prestações”)	Chattels and real estate acquisition and management, and conducting investments	Portugal		100%		
PT Pro- Serviços Administrativos e de Gestão Partilhados, S.A.	Provision of business consulting services and business management	Portugal		100%		
PT Sales - Serviços de Telecomunicações e Sistemas de Informação, S.A. ("PT Sales")	Provision of services in the telecommunications and information systems and services areas	Portugal		100%		
PT Ventures, SGPS, S.A.	Management of equity interests in international investments	Portugal		75%		
PT Cloud e Data Centers, S.A.(“PT IS”)	Provision of systems and IT services	Portugal		100%		
TPT - Telecomunicações Publicas de Timor, S.A. (“TPT”)	Provision of telecommunications, multimedia and IT services, and purchase and sale of related products in Timor	Portugal		76%		
Carrigans Finance S.A. R.L.	Investment management	Luxembourg		100%		
PT Brasil	Investment management	Brazil		100%		
Portugal Telecom Inovação Brasil, Ltda.	Development of IT and telecommunications services.	Brazil		100%		
PT Multimédia.com Brasil, Ltda. (“PTM.com Brasil”)	Investment management	Brazil		100%		
Cabo Verde Móvel, S.A.	Operation of mobile telecommunications service	Cape Verde		30%		
Cabo Verde Multimédia, S.A.	Operation of mobile multimedia services	Cape Verde		30%		
Cabo Verde Telecom, S.A. R.L.	Operation of telecommunications service	Cape Verde		30%		
Contact Cabo Verde – Telemarketing e Serviços de Informação, S.A.	Management of a call and contact center	Cape Verde		100%		

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

Company	Business	Home country	Direct 2014	Indirect 2014	Direct 2013	Indirect 2013
CST – Companhia Santomense de Telecomunicações, S.A. R.L.	Operation of fixed and mobile telecommunication public services in São Tomé and Príncipe	São Tomé and Príncipe		38%		
Directel Cabo Verde – Serviços de Comunicação, Lda.	Telephone directory publishing and operation of related databases in Cape Verde	Cape Verde		57%		
Directel Uganda – Telephone Directories, Limited	Telephone directory publishing	Uganda		75%		
Elta - Empresa de Listas Telefónicas de Angola, Lda.	Telephone directory publishing	Angola		41%		
Openideia Marrocos, S.A.	Provision of systems and IT services	Morocco		100%		
Openideia Angola, S.A.	Provision of services in the telecommunications and information systems and services areas	Angola		100%		
Kenya Postel Directories, Ltd.	Production, publishing and distribution of telephone directories and other publications	Kenya		45%		
LTM - Listas Telefónicas de Moçambique, Lda.	Management, publishing, operation and sale of telecommunications subscriber and classified ads directories	Mozambique		38%		
Mobile Telecommunications Limited	Operation of mobile service	Namibia		26%		
TMM - Telecomunicações Móveis de Moçambique, S.A.	Operation of mobile service	Mozambique		98%		
Africatel GmbH	Investment management	Germany		100%		
Africatel Holdings, BV	Investment management	The Netherlands		75%		
CVTEL, BV	Investment management	The Netherlands		100%		
Portugal Telecom Internacional Finance B.V (“PTIF”)	Raising funds in the international market	The Netherlands		100%		
Timor Telecom, S.A.	Telecommunications services concessionaire in Timor	Timor		44%		
PT BlueClip	Provision of consulting services to Group companies	Portugal		100%		

(i) Company merged in February 2014, as described in Note 1.
(ii) On December 29, 2014 the company merged the former MEO – Serviços de Comunicações e Multimédia, which provides mobile telephony services in Portugal

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

Company	Business	Home country	Direct 2014	Indirect 2014	Direct 2013	Indirect 2013
Companhia AIX de Participações (“AIX”)	Data traffic	Brazil		50%		50%
Paggo Soluções e Meios de Pagamento S.A. (“Paggo Soluções”)	Financial company	Brazil		50%		50%
Ericsson Inovação, S.A.	Development and licensing of off-the-shelf software	Brazil		49%		

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies detailed below have been consistently applied in all fiscal years presented in these Individual and Consolidated financial statements, and have been consistently applied both by the Company and its subsidiaries.

(a) Reporting basis

The financial statements have been prepared based on the historic cost, except for certain financial instruments measured at their fair values, as described in the accounting policies in (b) below.

The preparation of financial statements requires the use of certain critical accounting estimates and the exercise of judgment by the Company's management in the application of the Group's accounting policies. Those areas that involve a higher degree of judgment or complexity or areas where assumptions and estimates are significant are disclosed in note (c) below.

There were no changes in the accounting policies adopted in the year ended December 31, 2014 as compared to those applicable in the year ended December 31, 2013, and there are no significant differences in the accounting policies adopted by PT Portugal as compared to those adopted by the Company.

For the purpose improving its financial reporting, the Company made the following changes in its financial statements: (i) presentation of revenue and expenses by nature in a single note; (ii) presentation of expenses on employee and officer profit sharing in line item personnel expenses. In order to ensure the comparability with current year, the corresponding 2013 figures have been reclassified.

Consolidated Financial Statements

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), and the accounting practices adopted in Brazil, including the pronouncements, guidelines and interpretations issued by the Accounting Pronouncements Committee (CPC), approved by the Brazilian Securities and Exchange Commission (CVM).

Individual Financial Statements

The individual financial statements of the parent company have been prepared and are presented in accordance with accounting practices adopted in Brazil, based on the provisions of the Brazilian Corporate Law, pronouncements, guidelines and interpretations issued by the CPC and approved by the CVM.

The revision of Technical Pronouncements No. 07 (approved in December 2014) amended CPC 35, CPC 37, and CPC 18, and authorized the use of the equity method of accounting in IFRS separate financial statements, thus eliminating this difference between the accounting practices adopted in Brazil and the IFRSs.

(b) Significant accounting policies

Consolidation criteria of subsidiaries by the full consolidation method

Full consolidation was prepared in accordance with IFRS 10/CPC 36 (R2) *Consolidated Financial Statements* and incorporates the financial statements of the Company's direct and indirect subsidiaries. The main consolidation procedures are as follows:

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

Functional and presentation currency

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

To define its functional currency, management considered the currency that influences:

- the sales prices of its goods and services;
- the costs of services and sales;
- the cash flows arising from receipts from customers and payments to suppliers;
- interest, investments and financing.

Transactions and balances

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

Group companies with a different functional currency

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

- assets and liabilities are translating at the rate prevailing at the end of the reporting period;

- revenue and expenses disclosed in the income statement are translated using the average exchange rate;

- all resulting foreign exchange differences are recognized as a separate component of equity, in line item ‘Valuation adjustments to equity’;

- the exchanges differences arising on translating the net investment in foreign operations and loans and other foreign currency instruments designated as hedges of these investments are recognized in equity. When a foreign transaction is partially disposed of or sold, the foreign exchange differences previously recognized in equity are recognized in the income statement as part of the gain or loss from the sale; and

- goodwill and fair value adjustments, arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate.

Segment information

The information about operating segments is presented consistently with the internal report provided to the chief operating decision maker of the Company, its management. The results of operations are regularly reviewed about the resources to be allocated to assess their performance and for strategic decision-making.

Business combinations

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

Cash and cash equivalents

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

Cash investments

Cash investments are classified according to their purpose as: (i) held for trading; (ii) held to maturity; and (iii) available for sale.

Held-for-trading investments are measured at fair value and their effects are recognized in profit or loss. Held-to-maturity investments are measured at cost plus income earned, less the allowance for adjustment to probable recoverable amount, when applicable, and its effects are recognized in profit or loss. Available-for-sale investments are measured at fair value and their effects are recognized in valuation adjustments to equity, when applicable.

Accounts receivable

Accounts receivable from telecommunications services provided are stated at the tariff or service amount on the date they are provided and do not differ from their fair values.
These receivables also include receivables from services provided and not billed by the end of the reporting period and receivables related to handset, SIM cards, and accessories. The allowance for doubtful accounts estimate is recognized in an amount considered sufficient to cover possible losses on the realization of these receivables. The allowance for doubtful accounts estimate is prepared based on a history of default.

Inventories

Inventories are segregated and classified as described below:

- Maintenance material inventories classified in current assets in accordance with the period in which they will be used are stated at average cost, not exceeding replacement cost.

- Inventories for expansion, classified in property, plant and equipment, are stated at average cost and are used to expand the telephone plant.

- Inventories of merchandise for resale classified in current assets are stated at average cost and are basically represented by handsets and accessories. Adjustments to net realizable value are recognized for handsets and accessories purchased for amounts that exceed their sales prices. Impairment losses are recognized for obsolete inventories.

Available-for-sale financial asset

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or that are not classified as (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through profit or loss. The Company initially records available-for-sale financial assets at their fair value plus any cost of cost directly attributable to the transaction. After their initial recognition, they are measured at fair value and any changes, other than impairment losses and foreign currency differences on translating available-for-sale debt instruments, are recognized in other comprehensive income and presented as part of equity. When an investment is derecognized, the gains or losses accumulated in other comprehensive income are transferred to profit or loss.

Non-current assets held for sale and discontinued operations

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

A discontinuing operation is a component of an entity or a business unit that can be clearly distinguished operationally from the rest of the Company. The classification of a discontinuing operation is made when the operation is sold or meets the criteria to be classified as held for sale. As at December 31, 2014 the Company classified as discontinued operation its businesses in Portugal held by PT Portugal and that are committed for sale to Altice, and classified its investments in the African businesses as held for sale.

Investments

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

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

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

Property, plant and equipment

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

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

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

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

Intangible assets

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

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

Software maintenance costs are recognized as expenses when incurred. The development costs that are directly attributable to the project and the tests of identifiable and exclusive software, controlled by the Company, are recognized as intangible assets when the following criteria are met:

- Completing the software so that it will be available for use is technically feasible.
- Management has the intention to complete the software and use or sell it.
- It can be demonstrated that the software will generate probable future economic benefits.
- There are adequate technical, financial and other resources available to complete the development and to use or sell the software.

- The expenditure attributable to the software during its development can be measure reliably.

Directly attributable costs that are capitalized as part of software include the costs on the employees allocated to software development and an adequate portion of the applicable direct expenditure. Costs also include borrowings costs incurred during the software development period.

Other development expenditure that does not meet these criteria is recognized as expenses, when incurred. Development costs previously recognized as expenses are not recognized as assets in a subsequent period.

Impairment of long-lived assets

Assets are tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets might be impaired. Long-lived assets may be identified as assets that have indefinite useful lives and assets subject to depreciation and amortization (property, plant and equipment and intangible assets). Impairment losses, if any, are recognized in the amount by which the carrying amount of an asset exceeds its recoverable value. Recoverable value is the higher of fair value less cost to sell and the value in use. In order to be tested for impairment, assets are grouped into the smallest identifiable group for which there are cash-generating units (CGUs), and projections are made based on discounted cash flows, supported by expectations on the Company's operations.

The CGUs are identifiable business units of the Company with cash generating ability.

Net Present Value (NPV) projections for the CGUs are prepared taking into consideration the following assumptions:

- Entity-specific inputs: evidence of obsolescence or damage, discontinuation plans, performance reports, etc.;

- External sources of inputs: market prices of the assets, technologic environment, market environment, economic environment, regulatory environment, legal environment, interest rates, return rates on investments, market value of Company shares, etc.

In regard to the assets with finite and indefinite useful lives, the recoverable amounts of the CGUs have been determined based on projections of value in use, and these projections support the recovery of such assets.

Discount to present value

The Company values its financial assets and financial liabilities to identify instances of applicability of the discount to present value. Leased assets are discounted to present value.

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

The Company believes that, except for unrecognized revenue from the assignment of fixed towers, none of the assets and liabilities as at December 31, 2014 and 2013 is subject to the discount to present value, in view of the following factors: (i) their nature; (ii) short-term realization of certain balances and transactions; (iii) absence of monetary assets and monetary liabilities with implicit or explicit embedded interest. Financial instruments measured at the amortized costs are adjusted for inflation using relevant contractual indices.

Impairment of financial assets

The Company assesses at the yearend whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is considered impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of the asset, that its recoverable amount has been reduced and when the estimated future cash flows have been impacted.

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

Borrowings and financing

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

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

Derivative financial instruments

Derivative financial instruments are contracted to mitigate exposure to market risks arising from changes in exchange rates on foreign currency-denominated debts and short-term investments held abroad, and also from changes in the floating rates of debt.

Derivatives are initially recognized at cost at the inception of the derivative contract and are subsequently measured at fair value. Changes in the fair value of any of these derivatives are recorded directly in the income statement.

Financial liabilities and equity instruments

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

The Company uses hedge accounting for derivative financial instruments. The purpose of this practice is to reduce the volatility of the gains or losses recognized due to changes in the fair values of these derivative financial instruments. Derivative financial instruments that qualify for hedge accounting are submitted to periodic prospective and retrospective effectiveness tests using the dollar offset method.

Derivative financial instruments contracted and designated for hedge accounting are formally identified through initial designation documentation prepared in accordance with the requirements of CPC 38 (IAS 39). Derivative financial instruments classified as cash flows hedges were designated for hedge accounting.

The effective portion, as defined in CPC 38 (IAS 39), is recognized is an equity line item called ‘Other comprehensive income’, net of taxes, and is reclassified to financial income (expenses) using the effective rate. The ineffective portion, measured after the quarterly effectiveness tests, is recognized in financial income (expenses) in the same period it occurs.

Changes in the fair values of derivative financial instruments that are not designated for purposes of hedge accounting are accounted as financial income or expenses in the income statement for the period they occur.

The hedge relationship expires and the designation is removed when:

(i) The derivative contract is exercised, terminated or settled, or if the Company or its subsidiary TMAR voluntarily removes the designation, according to the criteria set out in CPC 38 (IAS 39). If the hedged item continues to exist, the balances accumulated in other comprehensive income related to the changes in the fair value of the derivative are allocated to profit or loss for the year in which the hedged interest expenses and foreign exchange fluctuations are allocated.

(ii) The debt was either prepaid or extinct. In this case, the balance accumulated in other comprehensive income is immediately allocated to financial income or expenses in profit or loss for the year their designation is terminated.

The required information on derivative financial instruments and the effects recognized by the Company and its subsidiary TMAR for the year ended December 31, 2014 are described in Note 3.

Provisions

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

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

Employee benefits

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

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

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

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

  The actuarial gains and losses resulting from the changes in the actuarial valuations of the pension plans, whose actuarial obligations or actuarial assets are recorded by the Company, are fully recognized in other comprehensive income, in equity (Note 23).

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

- Employee profit sharing: the accrual includes the employee profit sharing plan is accounted for on the accrual basis and involves all eligible employees, proportionately to the period of time worked in the year, according to the Plan's rules. The amount, which is paid by April of the year subsequent to the year profit sharing is accrued, is determined based on the target program established with the employees' unions, under a specific collective bargaining agreement, and cost in recognized annually in personnel expenses.

Benefits to employees in Portugal included in liabilities associated to the assets held for sale and discontinued operations (Note 28)

<u>Liabilities with pension supplement benefits</u>

Under the defined benefit plans, MEO and PT Cloud e Data Centers, S.A. are responsible to pay pension supplements to a group of employees, and MEO incorporated various funds to fund these obligations.

The related liabilities with defined benefit plans are estimated using actuarial valuations periodically obtained of the liabilities using the “Projected Unit Credit Method”. Actuarial gains and losses are recognized directly in the statement of comprehensive income, namely those resulting from changes in actuarial assumptions and the differences between actual data and the same actuarial assumptions.

Changes in plans related to reductions or increases in the benefits granted to employees are recognized as past service gains or losses. Gains arising on the settlement of a plan are recognized when earned, in profit or loss.

The obligations recognized in the represent the present value of the obligations to defined benefit plans, less the adjusted fair value of the funds’ assets.

The plans posting an actuarial surplus are recognized as an asset when there is an express authorization to offset them against future employer contributions or if the reimbursement of such surpluses is expressly authorized or permitted.

The contributions made in the context of defined contribution pension plans are recognized in the income statement on the date they are due. Under these plans, in the event the fund lacks sufficient assets to pay all employees the benefits related to the current and prior years’ services, the sponsor has no legal or constructive obligation for making additional contributions.

Liabilities with healthcare

MEO and PT Cloud e Data Centers are responsible to grant some of their employees and eligible family members this healthcare after the retirement date, which qualifies as a defined benefit plan. This healthcare plan is managed by Portugal Telecom – Associação de Cuidados de Saúde (PT-ACS) and in 2004, an autonomous fund was incorporated to fund these liabilities, managed by PT Prestações – Mandatária de Aquisições e Gestão de Bens, SA (“PT Prestações”).

The liabilities related to the payment of said postretirement healthcare are estimated using actuarial valuations periodically obtained of the liabilities using the “Projected Unit Credit Method”. Actuarial gains and losses are recognized directly in the statement of comprehensive income, namely those resulting from changes in actuarial assumptions and the differences between actual data and the same actuarial assumptions.

Changes in plans related to reductions or increases in the benefits granted to employees are recognized as past service gains or losses in profit or loss. Gains arising on the settlement of a plan are recognized when earned, in profit or loss.

The healthcare liabilities recognized in the balance sheet represent the present value of the obligations to defined benefit plans, less the adjusted fair value of the fund’s assets.

The plans posting an actuarial surplus are recorded as an asset when there is an express authorization to offset them against future employer contributions or if the reimbursement of such surpluses is expressly authorized or permitted.

Pre-retired and suspended employees

As part of the preretirement or employment contract suspension programs, a liability is recognized in the balance sheet corresponding to the present value of salaries payable up to the retirement age. The related cost is recognized in profit or loss.

Revenue recognition

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

Revenue is recognized when it can be reliably measured, it is probable that future economic benefits will be transferred to the Company, the transaction costs incurred can be measured, the risks and rewards have been substantially transferred to the buyer, and certain specific criteria of each of the Company's activities have been met.

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

Revenue from sales of handsets and accessories is recognized when these items are delivered and accepted by the customers. Discounts on services provided and sales of cell phones and accessories are taken into consideration in the recognition of the related revenue. Revenues involving transactions with multiple elements are identified in relation to each one of their components and the recognition criteria are applied on an individual basis. Revenue is not recognized when there is significant uncertainty as to its realization.

Revenue from sales of payphone cards—Public Use Telephony (TUP)—is recognized when the credits are effectively consumed by the customers.

- Customer loyalty program ("Oi Pontos")

The subsidiary Oi Móvel implemented a customer loyalty program ("Oi Pontos"), under which mobile telephony customers accumulate points related to the amounts paid for mobile telephony, fixed telephony, internet and pay TV services, which can be exchanged for mobile telephony service packages, handset discounts, events available at "Oi experiences" and/or transferred to the Multiplus Fidelidade Program (partner of said subsidiaries) to be exchanged for several other awards of this program, such as air tickets, fuel in gas stations, etc.

The Company accounts for the points awarded under the program as a separately identifiable component of the sales transaction in which they are granted. The fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale. The consideration allocated to the points is measured by reference to their fair value, i.e., the amount for which the award credits could be sold separately. This amount is deferred and the related revenue is recognized when, and only when, the points are redeemed or transferred to partner programs. Revenue recognition is based on the number of points that have been redeemed in exchange for awards relative to the total number expected to be redeemed.

Expense recognition

Expenses are recognized on the accrual basis, considering their relation with revenue realization. Prepaid expenses attributable to future years are deferred over the related periods.

Financial income and expenses

Financial income is recognized on the accrual basis and comprises interest on receivables settled after due date, gains on short-term investments and gains on derivative instruments. Financial expenses represent interest effectively incurred and other charges on borrowings, financing, derivative contracts, and other financial transactions.

Current and deferred income tax and social contribution on profit

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

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

Government grants and government assistance

Government grants are initially recognized as deferred revenue at fair value when there is reasonable assurance that they will be received and that the Company will comply with the conditions attaching to them. Government grants received as compensation for Company's expenses incurred are recognized as income on a systematic basis in the same periods when such expenses are recognized, and grants received as compensation for the cost on an asset are recognized as income on a systematic basis over the useful life of the asset.

Earnings per share

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

Statements of value added

The Company prepared the individual and consolidated statements of value added ("DVA") as required by CPC 09 *Statements of Value Added*, which are presented as an integral part of the financial statements in accordance with the accounting practices adopted in Brazil applicable to publicly–traded companies, while under the IFRSs these statements represent additional disclosures.

Statements of cash flows

The statement of cash flows is prepared in accordance with CPC03 (R2)/IAS 7, under the indirect method. The Company classifies in line item 'Cash and cash equivalents' the balances amounts immediately convertible into cash and highly-liquid investments (usually with maturities of less than three months) subject to an immaterial risk of change in value.

Cash flows are classified, depending of their nature, as: (i) operating activities; (ii) investing activities; and (iii) financing activities. Cash flows arising from operating activities basically comprise trade receivables, trade payables, personnel expenses, financial charges, and losses on lawsuits. Cash flows arising from investing activities basically comprise the acquisition and disposal of investments, judicial deposits and withdrawals, and cash payments and cash receipts from the purchase and sale of capital assets. Cash flows arising from financing activities basically include cash payments and cash proceeds related to borrowings and financing, derivative financial instruments, and payments of dividends and interest on capital.

(c) Critical estimates and accounting judgments

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

Revenue recognition and trade receivables

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

Allowance for doubtful accounts

The allowance for doubtful accounts is set up to recognize probable losses on accounts receivable taking into account the measures implemented to restrict the provision of services to and collect late payments from customers.

The Company's management includes government entities, corporate customers, and other providers of telecommunications services in the base to calculate the allowance. There are cases of agreements with certain customers to collect past-due receivables, including agreements that allow customers to settle their debts in installments. The actual amounts not received may be different from the allowance recognized, and additional accruals might be required.

Depreciation and amortization of assets with finite useful lives

Property, plant and equipment items and intangible assets with finite useful lives are depreciated and amortized, respectively, on a straight-line basis, over the useful lives of the related asset. The depreciation and amortization rates of the most significant assets are shown in Notes 14 and 15, respectively.

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

Impairment of long-lived assets

The Company tests property, plant and equipment items and intangible assets for impairment either in light of decisions to discontinue activities where such assets are used or when there are evidences that the future operating revenue will not be sufficient to assure their realization.

Assets with finite useful lives are tested for impairment whenever events or changes in circumstances indicate that the asset might be impaired. The Company tests assets with indefinite useful lives (goodwill) for impairment annually in accordance with the accounting policy described in Note 2 (b).

The recoverable amounts of assets are determined by comparing the calculations of their value in use and their sales prices. These calculations require the use of judgments and assumptions. The determination of fair values and discounted future operating cash flows requires that the Company makes certain assumptions and estimates with respect to projected cash inflows and cash outflows related to future revenue, costs and expenses. These assumptions and estimates may be influenced by different external and internal factors, such as economic trends, industry trends and interest rates, changes in business strategies, and changes in the type of services and products sold by the Company to the market. The use of different assumptions may significantly change our financial statements.

Provisions

The Company recognizes provisions for losses on labor, tax and civil lawsuits, as well as administrative proceedings, as presented in Note 21. The recognition of a provision for contingent liabilities is based on the assessment of the risk of loss made for each proceeding, which includes assessing available evidences recent decisions and statistical assumptions, and reflects a reasonable estimate as assessed by management, the General Counsel, and the outside legal counsel. It is possible that the assumptions used to estimate the provision for contingent liabilities change, which can, therefore, result in changes in future provisions for contingent liabilities.

Fair value of derivative financial instruments and other financial instruments

Derivative instruments are recognized at fair value based on future cash flow estimates associated to each instrument contracted. The financial assets available for sale related to the investment in Unitel have been valued at fair value according to the operating assets used as basis in the valuation of PT's capital increase, as referred to in Note 1 (Risks related to the stake held in Unitel). The estimates presented may not necessarily be indicative of the amounts that could be obtained in the current market. The use of different assumptions to measure the fair value could have a material effect on the amounts obtained and not necessarily be indicative of the cash amounts that the Company would receive or to settle such transactions.

As a result of the execution of the agreement for the sale of PT Portugal's operations, this investment was valued by the Company at its fair value, as the lower of its carrying amount and its fair value less costs to sell (Note 28). The fair value calculation assumptions of the investment in PT Portugal are subject to the adjustments usually adopted in similar transactions.

Deferred income tax and social contribution

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

The Company regularly tests deferred tax assets for impairment and recognizes an allowance for impairment losses when it is probable that these assets may not be realized, based on the history of taxable income, the projection of future taxable income, and the time estimated for the reversal of existing temporary differences. These calculations require the use of estimates and assumptions. The use of different estimates and assumptions could result in the recognition of an allowance for impairment losses for the entire or a significant portion of the deferred tax assets.

Employee benefits

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

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

(d) New and revised standards and interpretations

The following new and revised standards and interpretations could be relevant for the Company and will become effective for annual periods beginning on and after January 1, 2015 and were not adopted in the preparation of these financial statements. Those that could be relevant for the Company and its subsidiaries are referred to below. The Company does not plan to early adopt these standards.

IAS 27 - Equity Method of Accounting in Separate Financial Statements: the updating allows an entity to use the equity method of accounting to account for investments in subsidiaries, joint ventures, and associates in its separate financial statements. The revised standard is effective for annual periods beginning on or after January 1, 2016, to be applied retrospectively. The Company assessed the impacts of the amendments to IAS 27 and did not identify any impacts of its set of financial statements.

IFRS 9 *Financial Instruments* replaces the guidance existing in IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 includes revised guidance in the classification and measurement of financial instruments, including a new expected credit loss model for the calculation to calculate the impairment loss on financial assets and the new requirements on hedge accounting. The standard maintains the existing guidance on the recognition and derecognition of financial instruments of IAS 39. This standard is effective for years beginning on or after January 1, 2018, with early adoption permitted. The Company is assessing the impact of IFRS 9 on its set of financial statements.

IFRS 15 *Revenue from Contracts with Customers*: requires that an entity recognize the revenue amount to reflect the consideration it expects to receive in exchange for the control of goods or services. This standard supersedes most of the detailed guidance on revenue recognition. The new standard is effective for years beginning on or after January 1, 2017, with early adoption permitted. This standard can be adopted retrospectively using a cumulative effect approach. The Company is assessing the impacts of IFRS 15 on its set of financial statements.

Because of the CPC's and the CVM's commitment to keep the set of standards issued updated according to the changes made by the IASB, we expect that all new pronouncements and revised pronouncements be issued by the CPC and approved by the CVM by the date they become effective.

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

3. FINANCIAL INSTRUMENTS AND RISK ANALYSIS

3.1. Overview

The table below summarizes our financial assets and financial liabilities carried at fair value at December 31, 2014 and 2013.

	Accounting measurement	COMPANY		CONSOLIDATED	
		2014			
		Carrying amount	Fair value	Carrying amount	Fair value
Assets					
Cash equivalents	Fair value	243,845	243,845	1,916,921	1,916,921
Cash investments	Fair value	42,902	42,902	282,700	282,700
Derivative financial instruments	Fair value	2,255,460	2,255,460	3,221,481	3,221,481
Due from related parties	Amortized cost	3,151,856	3,151,856		
Accounts receivable (i)	Amortized cost	1,978,558	1,978,558	7,455,687	7,455,687
Dividends and interest on capital receivable	Amortized cost	854,231	854,231		
Held-for-sale assets	Fair value	2,821,322	2,821,322	33,926,592	33,926,592
Liabilities					
Trade payables (i)	Amortized cost	1,397,610	1,397,610	4,331,286	4,331,286
Borrowings and financing					
Borrowings and financing (ii)	Amortized cost	16,036,198	15,779,521	28,072,519	27,534,247
Debentures	Amortized cost	8,605,234	8,364,946	7,776,876	7,513,867
Derivative financial instruments	Fair value	571,836	571,836	666,922	666,922
Dividends and interest on capital	Amortized cost	181,477	181,477	185,138	185,138
Licenses and concessions payable (iii)	Amortized cost	40,052	40,052	1,361,940	1,361,940
Tax refinancing program (iii)	Amortized cost	519,917	519,917	990,230	990,230
Other payables (payable for the acquisition of equity interest) (iii)	Amortized cost	408,978	408,978	408,978	408,978

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

	Accounting measurement	COMPANY		CONSOLIDATED	
		2013			
		Carrying amount	Fair value	Carrying amount	Fair value
Assets					
Cash equivalents	Fair value	418,699	418,699	2,118,646	2,118,646
Cash investments	Fair value	47,995	47,995	591,639	591,639
Derivative financial instruments	Fair value	1,356,071	1,356,071	2,073,179	2,073,179
Due from related parties	Amortized cost	228,269	228,269		
Accounts receivable (i)	Amortized cost	1,844,012	1,844,012	7,096,679	7,096,679
Dividends and interest on capital receivable	Amortized cost	673,508	673,508		
Other receivables	Amortized cost	1,775,691	1,775,691	1,775,691	1,775,691
Available-for-sale financial asset (iv)	Fair value			914,216	914,216
Liabilities					
Trade payables (i)	Amortized cost	1,659,794	1,659,794	4,732,174	4,732,174
Borrowings and financing					
Borrowings and financing (ii)	Amortized cost	13,418,258	13,043,219	26,478,941	26,103,901
Debentures	Amortized cost	10,393,168	10,396,157	9,374,685	9,303,058
Derivative financial instruments	Fair value	403,056	403,056	566,651	566,651
Dividends and interest on capital	Amortized cost	220,168	220,168	230,721	230,721
Licenses and concessions payable (iii)	Amortized cost			1,484,407	1,484,407
Tax refinancing program (iii)	Amortized cost	569,901	569,901	1,120,304	1,120,304
Other payables (payable for the acquisition of equity interest) (iii)	Amortized cost	418,069	418,069	418,069	418,069

As at December 31, 2014, the Company had the right to compensation from PT SGPS related to the subscription of the May 5, 2014 capital increase, measured at R$2,895 million (equivalent to €897 million) and has an obligation to acquire Oi shares from PT SGPS (which will be held in treasury) in exchange for this compensation asset, under the exchange agreement entered into on September 8, 2014, approved by PT SGPS's Extraordinary Shareholders' Meeting, the CVM, and subject to approval by the Company's Extraordinary Shareholders' Meeting scheduled for March 26, 2015. Considering that this asset and this liability have the same amount, they can be settle with the same entity and at the same time, the Company stated them on a net basis.

(i) The balances of accounts receivables and trade payables have near terms and, therefore, they are not adjusted to fair value.

(ii) A significant portion of this balance consists of borrowings and financing granted by the BNDES, export credit agencies, and other related parties, which correspond to exclusive markets and, therefore, their fair values is similar to their carrying amounts.

(iii) There is no active market for licenses and concessions payable, the tax refinancing program, and other payables (payable for the acquisition of equity interest); therefore, they are not adjusted to fair value.

(iv) As a result of the Company's capital increase subscribed by PT SGPS with PT Portugal assets, of the amount recognized at April 30 2014, R$570,990 was reclassified as PT Portugal's investment amount and R$263,028 was reclassified to treasury shares, since subsequently to the Company's capital increase a PT SGPS maintained only the investment in Oi.

3.2. Fair value of financial instruments

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

(a) Derivative financial instruments

The method used for calculating the fair value of derivative financial instruments was the future cash flows associated to each instrument contracted, discounted at market rates prevailing at December 31, 2014.

(b) Non-derivative financial instruments measured at fair value

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

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

(c) Fair value measurement hierarchy

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

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

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

Level 1—inputs consist of prices quoted (unadjusted) in active markets for identical assets or liabilities to which the entity has access on measurement date;

Level 2—inputs are different from prices quoted in active markets used in Level 1 and consist of directly or indirectly observable inputs for the asset or liability. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability or that can support the observed market inputs by correlation or otherwise for substantially the entire asset or liability.

Level 3—inputs used to measure an asset or liability are not based on observable market variables. These inputs represent management's best estimates and are generally measured using pricing models, discounted cash flows, or similar methodologies that require significant judgment or estimate.

There were no transfers between levels and/or allocations to Level 3 between December 31, 2013 and December 31, 2014.

	Fair value measurement hierarchy	COMPANY		CONSOLIDATED	
		Fair value	Fair value	Fair value	Fair value
		2014	2013	2014	2013
Assets					
Cash equivalents	Level 2	243,845	418,699	1,916,921	2,118,646
Cash investments	Level 2	42,902	47,995	282,700	591,639
Derivative financial instruments	Level 2	2,255,460	1,356,071	3,221,481	2,073,179
Available-for-sale financial asset	Level 1				914,216
Held-for-sale assets (i)	Level 3	4,284,416		4,284,416	
Liabilities					
Derivative financial instruments	Level 2	571,836	403,056	666,922	566,651

(i) Refers to the recognized fair value related to Unitel, transferred to held-for-sale assets, as referred to in Note 28. The fair value of this investment at the date de acquisition was estimated based on the valuation made by Banco Santander (Brasil), which used a series of estimates and assumptions, including the cash flows projections for a four-year period, the choice of a growth rate to extrapolate the cash flows projections, and definition of appropriate discount rates. As at December 31, 2014, the fair value of this investment was determined using a methodology identical to the one adopted by Banco Santander (Brasil), which updated the material estimates and assumptions, and also took into consideration the events described in Note 1 ("Risks related to the stake held in Unitel"). Accordingly, the Company believes that the fair value of Unitel represents the best estimate for the realization of this investment.

3.3. Measurement of financial assets and financial liabilities at amortized cost

We concluded that the discount to present value of financial assets and financial liabilities under the amortized cost method does not apply, based on the valuation made for this purpose, for the following main reasons:

- Accounts receivables: near-term maturity of bills.

- Trade payables, dividends and interests on capital: all obligations are due to be settled in the short term.

- Borrowings and financing and due from and to related parties: all transactions are adjusted for inflation based on contractual indices.

- Licenses and concessions payable, tax refinancing program and other payables (payable for the acquisition of equity interests): all payables are adjusted for inflation based on the contractual indices.

3.4. Financial risk management

The Company’s and its subsidiaries’ activities expose them to several financial risks, such as: market risk (including currency fluctuation risk, interest rate risk on fair value, interest rate risk on cash flows, and price risk), credit risk, and liquidity risk. The Company and its subsidiaries use derivative financial instruments to protect them against certain exposures to these risks.

Risk management is carried out by the Company's treasury officer, in accordance with the policies approved by management.

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

Under the Hedging Policy, market risks are identified based on the features of financial transactions contracted and to be contracted during the year. Several scenarios are then simulated for each of the risk factors using statistical models, used as basis to measure the impacts the on Group’s financial income (expenses). Based on this analysis, the Executive Committee annually agrees with the Board of Directors the Risk Guideline to be followed in each financial year. The Risk Guideline is equivalent to the worst expected impact of financial income (expenses) on the Group’s net income, with 95% of level of confidence. To ensure a proper risk management, according to the Risk Guideline, the treasury can contract hedging instruments, including derivative transactions such as swaps and currency forwards. The Company and its subsidiaries do not use derivative financial instruments for other purposes.

With the approval of the Policies, a Financial Risk Management Committee that meets monthly was created, currently consisting of the CEO, the CFO, the Executive Planning Officer, the Development and New Business Management Officer, the Tax Officer, the General Controller, and the Treasury Officer, and the Internal Audit Officer as observer.

According to their nature, financial instruments may involve known or unknown risks, and it is important to assess to the best judgment the potential of these risks.

3.4.1. Market risk

(a) Foreign exchange risk

Financial assets

Foreign currency-denominated cash equivalents and cash investments are basically maintained in securities issued by financial institutions abroad similar to Bank Certificates of Deposit (CDBs) traded in Brazil (time deposits).

The risk associated to these assets arises from the possible exchange rate fluctuations that may reduce the balance of these assets when translated into Brazilian reais. The Company's and its subsidiaries' assets subject to this risk represent approximately 11.41% (13.25% at December 31, 2013) of our total cash and cash equivalents and cash investments.

Net investment in foreign subsidiaries

The risks related to the Company's investments in foreign currency arise mainly from the investments in subsidiary PT Portugal and its subsidiaries. The Company does not have any contracted instrument to hedge against the risk associated to the net investments in foreign companies; however, the Company contracted non-deliverable forwards (NDFs) to hedge part of the euro-denominated debt of its foreign subsidiaries.

Financial liabilities

The Company and its subsidiaries have foreign currency-denominated or foreign currency-indexed borrowings and financing. The risk associated with these liabilities is related to the possibility of fluctuations in foreign exchange rates that could increase the balance of such liabilities. The Company's and subsidiaries' borrowings and financing exposed to this risk represent approximately 41.7% (41.1% at December 31, 2013) of total liabilities from borrowings and financing, less the currency hedging transactions contracted. In order to minimize this type of risk, we enter into foreign exchange hedges with financial institutions. Out of the consolidated foreign currency-denominated debt, 100.0% (99.6% at December 31, 2013) is protected by exchange swaps, currency forwards, and cash investments in foreign currency. Additionally, at the end of December 2014, the Company had contracted derivative transactions totaling €950 million to hedge against the foreign exchange risk on part of PT's the euro-denominated debt. The unrealized gains or losses on hedging transactions are measured at fair value, as described in 3.2 (a) above.

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

These financial assets and liabilities are presented in the balance sheet as follows:

	COMPANY			
	2014		2013	
	Amount Accounting	Fair value	Carrying amount	Fair value
Financial assets				
Cash equivalents	32,007	32,007	37,297	37,297
Cash investments	4,885	4,885	869	869
Derivative financial instruments	2,254,133	2,254,133	1,349,991	1,349,991
Financial liabilities				
Borrowings and financing	7,630,336	7,630,336	6,753,088	6,753,088
Derivative financial instruments	338,193	338,193	231,166	231,166

	CONSOLIDATED			
	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash equivalents	224,806	224,806	369,292	369,292
Cash investments	86,807	86,807	30,334	30,334
Available-for-sale financial asset			914,216	914,216
Derivative financial instruments	3,025,464	3,025,464	1,954,915	1,954,915
Financial liabilities				
Borrowings and financing	14,781,242	14,781,242	14,566,437	14,566,437
Derivative financial instruments	425,784	425,784	369,464	369,464

Derivative financial instruments are summarized as follows:

	Derivatives designated for hedge accounting		
	COMPANY		
	Maturity (years)	Fair value	
		Amounts (payable)/receivable	
		2014	2013
US$/R$ cross currency swaps	4.3 - 8.2	1,137,439	435,184
US$/fixed rate cross currency swaps	5.8	649,293	420,215
EUR/R$ non-deliverable forwards (NDFs)	< 1 year	23,524	

	Derivatives designated for hedge accounting		
	CONSOLIDATED		
	Maturity (years)	Fair value	
		Amounts (payable)/receivable	
		2014	2013
US$/R$ cross currency swaps	0.5 - 8.2	1,816,206	865,664
US$/fixed rate cross currency swaps	5.8	649,293	420,215
EUR/R$ non-deliverable forwards (NDFs)	< 1 year	23,524	

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

	Derivatives not designated for hedge accounting		
	COMPANY		
	Maturity (years)	Fair value	
		Amounts (payable)/receivable	
		2014	2013
US$/R$ non-deliverable forwards (NDFs)	< 1 year	95,577	130,675
EUR/R$ non-deliverable forwards (NDFs)	< 1 year	10,107	132,751

	Derivatives not designated for hedge accounting		
	CONSOLIDATED		
	Maturity (years)	Fair value	
		Amounts (payable)/receivable	
		2014	2013
US$/R$ cross currency swaps	1.1	24,122	21,649
R$/US$ cross currency swaps	1.1	(31,290)	(31,969)
US$/R$ non-deliverable forwards (NDFs)	< 1 year	107,718	177,140
EUR/R$ non-deliverable forwards (NDFs)	< 1 year	10,107	132,752

The main foreign currency hedge transactions contracted with financial institutions to minimize the foreign exchange risk are as follows:

Cross currency swap contracts (plain vanilla)

US$/R$: Refer to foreign exchange swaps to protect its US dollar-denominated debt payments. Under these contracts, the asset position is in US dollars plus a fixed interest rate or in US LIBOR plus a fixed interest rate, and the liability position a percentage of interbank deposit rate (CDI) or a fixed rate in real. The main risk of loss in the asset position of these instruments is the US dollar exchange rate fluctuation; however, such losses would be fully offset by the US dollar-denominated debt’s maturities.

R$/US$: Refer to foreign exchange swaps to reverse swap contracts. Under these contracts, the asset position is in US dollar plus a fixed rate and the liability position is a percentage of CDI. The main risk of loss in the liability position of these instruments is the US dollar exchange rate fluctuation; however, such possible losses would be fully offset by the maturities of the reversed US dollar-denominated swaps.

Non-deliverable forwards (NDFs)

US$/R$: Refer to future US dollar sales transactions using NDFs to protect against a depreciation of the Brazilian real in relation to the US dollar. The main strategy for these contracts is to set the foreign exchange rate for the contract period at a fixed amount, thus mitigating the risk of adverse fluctuations on US dollar-denominated debt. In order to extend the hedging period, we can roll over these instruments by selling US dollars for the period equivalent to the short-term NDF in the portfolio and simultaneously purchase US dollars for longer positions.

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

Euro/R$: Refer to future Euro dollar sales transactions using NDFs to protect against a depreciation of the Brazilian real in relation to the US dollar. The main strategy for these contracts is to set the foreign exchange rate for the contract period at a fixed amount, thus mitigating the risk of adverse fluctuations on euro-denominated debt. In order to extend the hedging period, we can roll over these instruments by selling Euro for the period equivalent to the short-term NDF in the portfolio and simultaneously purchase euro for longer positions.

As at December 31, 2014 and 2013, the amounts shown below were recorded as gain or loss on derivatives (see note 6):

	COMPANY		CONSOLIDATED	
	2014	2013	2014	2013
Gain (loss) on currency swaps	466,389	391,417	674,228	676,490
Currency forwards	(232,736)	498,693	(317,740)	478,152
Total	**233,653**	**890,110**	**356,488**	**1,154,642**

The movements below, related currency hedges designated for hedge accounting treatment, were recognized in other comprehensive income:

Table of movements in hedge accounting effects in other comprehensive income		
	COMPANY	CONSOLIDATED
Balance in 2013	**57,474**	**57,474**
Gain on designated hedges	153,799	143,524
Transfer on ineffective portion to profit or loss	11,019	10,443
Amortization of hedges to profit or loss at the effective rate	8,161	9,081
Deferred taxes on hedge accounting	(58,812)	(55,437)
Share of subsidiary's hedge accounting	(6,556)	
Balance in 2014	**165,085**	**165,085**

(a.1) Foreign exchange risk sensitivity analysis

As at December 31, 2014, management estimated the depreciation scenarios of the Brazilian real in relation to other currencies at yearend. The rates used for the probable scenario were the rates prevailing at the end of December 2014. The probable rates were then depreciated by 25% and 50% and used as benchmark for the possible and remote scenarios, respectively.

	Rate	
Description	**2014**	**Depreciation**
Probable scenario		
US dollar	2.65620	0%
Euro	3.22700	0%
Possible scenario		
US dollar	3.32025	25%
Euro	4.03375	25%
Remote scenario		
US dollar	3.98430	50%
Euro	4.84050	50%

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

As at December 31, 2014, management estimated the outflow for the payment of interest and principal of its debt pegged to exchange rates based on the interest rates prevailing at the end of this annual reporting period and the exchange rates above.

The impacts of foreign exchange exposure, in the sensitivity scenarios estimated by the Company, are shown in the table below:

COMPANY				
2014				
Description	**Individual risk**	***Probable scenario***	***Possible scenario***	***Remote scenario***
US dollar debt	Dollar appreciation	5,433,444	6,791,805	8,150,166
Derivative financial instruments (net position - US$)	Dollar depreciation	(9,537,220)	(11,921,525)	(14,305,830)
US dollar cash	Dollar depreciation	(36,892)	(46,115)	(55,338)
Euro debt	Euro appreciation	2,426,157	3,032,696	3,639,236
Derivative financial instruments (net position - euro)	Euro depreciation	(5,456,191)	(6,820,239)	(8,184,287)
Total pegged to exchange rate		**(7,170,702)**	**(8,963,378)**	**(10,756,053)**

CONSOLIDATED				
2014				
Description	**Individual risk**	***Probable scenario***	***Possible scenario***	***Remote scenario***
US dollar debt	Dollar appreciation	12,706,455	15,883,069	19,059,683
Derivative financial instruments (net position - US$)	Dollar depreciation	(12,835,310)	(16,044,138)	(19,252,965)
US dollar cash	Dollar depreciation	(286,628)	(358,285)	(429,942)
Euro debt	Euro appreciation	2,426,157	3,032,696	3,639,236
Derivative financial instruments (net position - euro)	Euro depreciation	(5,456,191)	(6,820,239)	(8,184,287)
Euro cash	Euro depreciation	(24,985)	(31,231)	(37,478)
Total pegged to exchange rate		**(3,470,502)**	**(4,338,128)**	**(5,205,753)**

(b) Interest rate risk

Financial assets

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

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

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

Financial liabilities

The Company and its subsidiaries have borrowings and financing subject to floating interest rates, based on the Long-term Interest Rate (TJLP) or the CDI, in the case of real-denominated debt, and on the LIBOR, in the case of U.S. dollar-denominated debt.

As at December 31, 2014, approximately 60.3% (63.2% at December 31, 2013) of the incurred debt, less adjustment for derivative transactions, was subject to floating interest rates. After the derivative transactions, approximately 79.4% (76.0% at December 31, 2013) of the consolidated debt was subject to floating interest rates. The most material exposure of Company's and its subsidiaries' debt after the hedging transactions is to CDI. Therefore, a continued increase in this interest rate would have an adverse impact on future interest payments and hedging adjustments. However, as the Company's and its subsidiaries' cash is invested mainly in securities pegged to the CDI fluctuation, the net exposure to CDI of current liabilities does not constitute a material risk for the Company and its subsidiaries.

We continuously monitor these market rates to assess the possible contracting of instruments to hedge against the risk of fluctuation of these rates.

These assets and liabilities are presented in the balance sheet as follows:

	COMPANY			
	2014		2013	
	Carrying amount	Market value	Carrying amount	Market value
Financial assets				
Cash equivalents	211,838	211,838	381,402	381,402
Cash investments	38,017	38,017	47,126	47,126
Due from related parties	3,151,856	3,151,856	228,269	228,269
Derivative financial instruments	1,327	1,327	6,080	6,080
Financial liabilities				
Borrowings and financing	12,986,020	12,986,020	13,070,601	13,070,601
Derivative financial instruments	233,643	233,643	171,890	171,890

	CONSOLIDATED			
	2014		2013	
	Carrying amount	Market value	Carrying amount	Market value
Financial assets				
Cash equivalents	1,692,115	1,692,115	1,749,354	1,749,354
Cash investments	195,893	195,893	561,305	561,305
Derivative financial instruments	196,017	196,017	118,264	118,264
Financial liabilities				
Borrowings and financing	17,722,928	17,722,928	19,115,168	19,115,168
Derivative financial instruments	241,138	241,138	197,187	197,187

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

The amounts of contracted derivatives to hedge against floating interest rates on outstanding debt are summarized below:

	Derivatives designated for hedge accounting		
	COMPANY		
	Maturity (years)	Fair value Amounts (payable)/receivable	
		2014	2013
Fixed rate/DI rate swaps	5.8	(37,626)	(53,625)

	Derivatives designated for hedge accounting		
	CONSOLIDATED		
	Maturity (years)	Fair value Amounts (payable)/receivable	
		2014	2013
Fixed rate/DI rate swaps	5.8	(37,627)	(53,625)
US$ LIBOR/US$ fixed rate swaps	0.5	(1,413)	(4,066)

	Derivatives not designated for hedge accounting		
	COMPANY		
	Maturity (years)	Fair value Amounts (payable)/receivable	
		2014	2013
US$ LIBOR/US$ fixed rate swaps	7.1	(194,690)	(112,185)

	Derivatives not designated for hedge accounting		
	CONSOLIDATED		
	Maturity (years)	Fair value Amounts (payable)/receivable	
		2014	2013
US$ LIBOR/US$ fixed rate swaps	1.1 - 7.1	(200,771)	(133,417)
US$ fixed rate/US$ LIBOR swaps	7.1	194,690	112,185

The main hedging transactions contracted with financial institutions to minimize the interest rate risk are as follows:

Interest rate swaps

US$ LIBOR/US$ fixed rate: Refer to interest rate swaps to protect debt payments pegged to US dollar floating rates from exchange fluctuation. Under these contracts, the asset position in US dollar LIBOR and the liability position is a fixed rate. The risk of loss in the asset position of these instruments is, therefore, the fluctuation of the US dollar LIBOR; however, such possible losses would be fully offset by maturities of US dollar-denominated debt pegged to LIBOR.

US$ fixed rate/US$ LIBOR: Refers to the interest rate swap transaction that changes US dollar-denominated debt payments from fixed rate to floating rate. Under this contract, the asset position is a US dollar fixed rate and a LIBOR liability position to reduce the cost of the backing debt, as part of the Company’s onerous liability management strategy.

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

R$ fixed rate/CDI: Refer to interest rate swaps to convert a foreign exchange swap liability position at a fixed rate into R$ to a liability subject to a DI percentage. This transaction is intended to swap the exchange peg of a certain dollar-denominated debt to a floating DI position, cancelling the debt's current fixed rate position.

As at December 31, 2014 and 2013, the amounts shown below were recorded as gain or loss on derivatives: (see Note 6)

	COMPANY		CONSOLIDATED	
	2014	2013	2014	2013
Gain (loss) on interest rate swap	(76,412)	(51,940)	70,896	3,878
Total	**(76,412)**	**(51,940)**	**70,896**	**3,878**

The movements below, related interest rate hedges designated for hedge accounting treatment, were recognized in other comprehensive income:

Table of movements in hedge accounting effects in other comprehensive income		
	COMPANY	CONSOLIDATED
Balance in 2013	**(56,624)**	**(56,624)**
Gain on designated hedges	18,042	20,029
Transfer on ineffective portion to profit or loss	(97)	(97)
Amortization of hedges to profit or loss at the effective rate	4,505	3,070
Deferred taxes on hedge accounting	(7,633)	(7,820)
Share of subsidiary's hedge accounting	365	
Balance in 2014	**(41,442)**	**(41,442)**

(b.1) Interest rate fluctuation risk sensitivity analysis

Management believes that the most significant risk related to interest rate fluctuations arises from its liabilities pegged to the TJLP, the USD LIBOR, and mainly the CDI. This risk is associated to an increase in those rates.

As at December 31, 2014, management estimated the fluctuation scenarios of the rates CDI, TJLP and USD LIBOR. The rates used for the probable scenario were the rates prevailing at the end of the reporting period. These rates have been stressed by 25 and 50 percent, and used as benchmark for the possible and remote scenarios. Note that the TJLP has remained stable since January 2013 at 5.0% per year.

2014								
Interest rate scenarios								
Probable scenario			Possible scenario			Remote scenario		
CDI	TJLP	6M USD LIBOR	CDI	TJLP	6M USD LIBOR	CDI	TJLP	6M USD LIBOR
11.57%	5.00%	0.36280%	14.46%	6.25%	0.45350%	17.36%	7.50%	0.54420%

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

As at December 31, 2014, management estimated the future outflows for the payment of interest and principal of its debt pegged to CDI, TJLP, and USD LIBOR based on the interest rates above. The outflows for repayment of Oi Group related party debt were not considered.

Such sensitivity analysis considers payment outflows in future dates. Thus, the aggregate of the amounts for each scenario is not equivalent to the fair values, or even the present values of these liabilities. The fair values of these liabilities, should the Company's credit risk remain unchanged, would not be impacted in the event of fluctuations in interest rates, as the interest rates used to estimate future cash outflows would be the same rates that discount such flows to present value.

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

COMPANY				
2014				
Transaction	**Individual risk**	***Probable scenario***	***Possible scenario***	***Remote scenario***
CDI-indexed debt	CDI increase	2,453,576	2,960,503	3,463,527
Derivative financial instruments (net position - CDI)	CDI increase	3,897,314	4,800,933	5,693,678
TJLP-indexed debt	TJLP increase	251,601	280,691	298,881
US LIBOR-indexed debt	US LIBOR increase	22,899	23,898	24,898
Derivative financial instruments (net position - LIBOR)	US LIBOR decrease	(1,020,678)	(1,046,620)	(1,072,562)
Total pegged to interest rates		**5,604,712**	**7,019,405**	**8,408,422**

CONSOLIDATED				
2014				
Transaction	**Individual risk**	***Probable scenario***	***Possible scenario***	***Remote scenario***
CDI-indexed debt	CDI increase	3,253,387	3,919,869	4,580,353
Derivative financial instruments (net position - CDI)	CDI increase	4,574,062	5,614,431	6,642,085
TJLP-indexed debt	TJLP increase	1,380,926	1,550,066	1,681,962
US LIBOR-indexed debt	US LIBOR increase	144,220	150,194	156,167
Derivative financial instruments (net position - LIBOR)	US LIBOR decrease	(103,482)	(108,081)	(112,679)
Total pegged to interest rates		**9,249,113**	**11,126,479**	**12,947,888**

3.4.2. Credit risk

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

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

Transactions with financial institutions (cash investments and borrowings and financing) are made with prime entities, avoiding the concentration risk. The credit risk of financial investments is assessed by setting caps for investment in the counterparts, taking into consideration the ratings released by the main international risk rating agencies for each one of such counterparts. As at December 31, 2014, approximately 99.49% of the consolidated cash investments were made with counterparties with an AAA, AA or sovereign risk rating.

The Company had credit risks related to dividends receivable associated to the investment in Unitel. The credit risks associated to these dividends receivable from Unitel are detailed in Note 1 (Risks related to the stake held in Unitel).

3.4.3. Liquidity risk

The liquidity risk also arises from the possibility of the Company being unable to discharge its liabilities on maturity dates and obtain cash due to market liquidity restrictions.

Management uses its resources mainly to fund capital expenditures incurred on the expansion and upgrading of the network, invest in new businesses, pay dividends, and refinance its debt.

Conditions are met with internally generated cash flows, short- and long-term debt, and third party financing. These sources of funds, coupled with the Company's solid financial position, will continue to ensure the compliance with established capital requirements.

The Oi Group has two revolving credit facilities that increases short-term liquidity and increases the cash management efficiency, and is consistent with its capital cost reduction strategic focus. The revolving credit facilities were contracted in November 2011 and December 2012 with syndicates consisting of several global banks.

The following are the contractual maturities of the financial liabilities, including estimated interest payments, where applicable:

	COMPANY				
	Less than a year	**One to three year**	**Four to five years**	**Over five years**	**Total**
Balance at December 31, 2014					
Borrowings and financing, and derivative financial instruments (i)	2,748,610	6,915,701	9,629,806	(971,900)	18,322,217
Debentures (i)	1,094,384	6,182,472	5,118,046		12,394,902
Trade payables (ii)	265,074				265,074
Licenses and concessions (iii)	40,052				40,052
Tax refinancing program (iv)	52,590	158,619	105,746	202,962	519,917

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

	CONSOLIDATED				
	Less than a year	**One to three year**	**Four to five years**	**Over five years**	**Total**
Balance at December 31, 2014					
Borrowings and financing, and derivative financial instruments (i)	6,316,935	15,891,380	6,730,358	3,899,588	32,838,261
Debentures (i)	1,094,384	6,206,427	5,165,382	8,179	12,474,372
Trade payables (ii)	1,486,268				1,486,268
Licenses and concessions (iii)	675,965	685,693	282		1,361,940
Tax refinancing program (iv)	94,041	302,115	201,410	392,664	990,230

The amounts disclosed in the tables take into account the contractual undiscounted payment outflow estimates, these amounts are not reconciled with the amounts disclosed in the balance sheet for borrowings and financing, derivative financial instruments, and trade payables.

(i) Includes the future interest payment estimates, calculated based on the applicable interest rates and takes into account all the interest and principal payments that would be made on the contractual settlement dates;

(ii) Consists of the estimated obligations for the purchase of fixed-line and mobile telephony equipment in Brazil with contractual obligations entered into with our suppliers, including all the significant terms and conditions, and the approximate transaction life;

(iii) Consists of obligations due to ANATEL related to the radiofrequency licenses. Includes accrued, unpaid interest for each period; and

(iv) Consists of obligations installment of taxes that were included in tax refinancing program. Includes accrued, unpaid interest for each period.

Capital management

The Company manages its equity structure according to best market practices.

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

The Company may change its capital structure, according to existing economic and financial conditions, to optimize its financial leverage and debt management.

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

The indicators used to measure capital structure management are: gross debt to accumulated twelve-month EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization), net debt (gross debt less cash and cash equivalents and cash investments) to accumulated twelve-month EBITDA, and the interest coverage ratio, as follows:

Gross debt to EBITDA .... from 2x to 4.0x
Net debt to EBITDA .... from 1.4x to 3x
Interest coverage ratio (*) .... greater than 1.75
(*) Measures the Company's ability to settle its future interest obligations.

3.4.4. Risk of acceleration of maturity of borrowings and financing

Under some debt instruments of the Company, default events can trigger the accelerated maturity of other debt instruments. The impossibility to incur in new debt might prevent such companies from investing in their business and incur in required or advisable capital expenditures, which would reduce future sales and adversely impact their profitability. Additionally, the funds necessary to meet the payment commitments of the borrowings raised can reduce the amount of funds available for capital expenditures.

The risk of accelerated maturity arising from noncompliance of financial covenants associated to the debt is detailed in Note 17, 'Covenants'.

4. NET OPERATING REVENUE

	COMPANY		CONSOLIDATED	
	2014	2013	2014	2013
Gross operating revenue	**13,748,891**	**13,810,668**	**45,357,481**	**45,252,584**
Deductions from gross revenue	**(7,217,790)**	**(6,927,298)**	**(17,110,382)**	**(16,830,437)**
Taxes	(2,129,791)	(2,392,581)	(8,906,909)	(9,538,623)
Other deductions	(5,087,999)	(4,534,717)	(8,203,473)	(7,291,814)
Net operating revenue	**6,531,101**	**6,883,370**	**28,247,099**	**28,422,147**

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

5. REVENUE AND EXPENSES BY NATURE

	COMPANY		CONSOLIDATED	
	2014	2013	2014	2013
Net operating revenue	**6,531,101**	**6,883,370**	**28,247,099**	**28,422,147**
Operating income (expenses):				
Interconnection	(1,151,464)	(1,555,349)	(2,689,815)	(3,965,623)
Personnel	(667,824)	(635,600)	(2,829,307)	(2,534,222)
Third-party services	(1,507,380)	(1,438,002)	(6,258,606)	(6,119,733)
Grid maintenance service	(561,042)	(678,702)	(1,923,074)	(2,328,140)
Handset and other costs			(730,444)	(515,377)
Advertising and publicity	(69,491)	(34,490)	(674,275)	(556,500)
Rentals and insurance	(491,641)	(425,140)	(3,119,521)	(2,119,684)
Provisions/reversals	(400,890)	(288,715)	(779,314)	(656,849)
Allowance for doubtful accounts	(94,170)	(179,295)	(649,463)	(922,779)
Taxes and other income (expenses) (i)	1,415,358	1,216,706	(1,628,867)	(1,507,701)
Other operating income (expenses), net (ii)	683,914	1,788,429	3,245,643	2,369,555
Operating expenses excluding depreciation and amortization	**(2,844,630)**	**(2,230,158)**	**(18,037,043)**	**(18,857,053)**
Depreciation and amortization	(862,796)	(821,613)	(4,535,418)	(4,278,477)
Total operating expenses	**(3,707,426)**	**(3,051,771)**	**(22,572,461)**	**(23,135,530)**
Profit before financial income (expenses) and taxes	**2,823,675**	**3,831,599**	**5,674,638**	**5,286,617**
Financial income (expenses):				
Financial income	840,628	543,404	1,344,767	1,375,217
Financial expenses	(3,722,218)	(2,904,087)	(5,891,332)	(4,649,665)
Total financial income (expenses)	**(2,881,590)**	**(2,360,683)**	**(4,546,565)**	**(3,274,448)**
Pre-tax profit	**(57,915)**	**1,470,916**	**1,128,073**	**2,012,169**
Income tax and social contribution	64,743	22,099	(1,119,955)	(519,154)
Profit for the year from continuing operations	**6,828**	**1,493,015**	**8,118**	**1,493,015**
Discontinued operations				
Loss for the year from discontinued operations, net (net of taxes)	(4,414,539)		(4,414,539)	
Profit (loss) for the year	**(4,407,711)**	**1,493,015**	**(4,406,421)**	**1,493,015**
Profit (loss) attributable to owners of the Company	(4,407,711)	1,493,015	(4,407,711)	1,493,015
Profit attributable to non-controlling interests			1,290	
Operating expenses by function:				
Cost of sales and/or services	(2,860,665)	(3,304,864)	(15,229,602)	(15,259,215)
Selling expenses	(1,311,597)	(1,320,752)	(5,611,772)	(5,571,891)
General and administrative expenses	(1,247,489)	(1,271,104)	(3,751,410)	(3,581,544)
Other operating income	966,668	2,156,750	4,466,914	3,193,024
Other operating expenses	(613,893)	(374,986)	(2,440,710)	(1,898,154)
Share of profits of subsidiaries	1,359,550	1,063,185	(5,881)	(17,750)
Total operating expenses	**(3,707,426)**	**(3,051,771)**	**(22,572,461)**	**(23,135,530)**

(i) Includes share of profits of subsidiaries totaling income of R$1,359,550 in the company (R$1,063,185 in 2013) and expense of R$5,881 (R$17,750 in 2013) on a consolidated basis.

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

(ii) In 2014, revenue (expenses) basically include: (i) R$2,399 million, net of transaction expenses, related to the sale of 100% of the capital of two subsidiaries, owners of telecommunications towers used in the mobile telephony services; (ii) R$355 million from the provision reversal due to the revision of the calculation methodology of provisions for losses in corporate lawsuits; (iii) R$476 million reversal of the provision due to the adherence to the REFIS. In 2013, revenue (expenses) basically include: (i) R$201 million resulting from the reversal recognized following the revision of the calculation methodology of provisions for losses in labor lawsuits; (ii) R$330 million resulting from the reversal of accrued employee profit sharing; (iii) R$173 million related to the sale of a property; and (iv) R$1,497 million, less related transaction expenses, associated to the sale of GlobeNet.

6. FINANCIAL INCOME (EXPENSES)

	COMPANY		CONSOLIDATED	
	2014	2013	2014	2013
Financial income				
Interest on and inflation adjustment to other assets	384,385	352,074	762,498	694,734
Income from cash investments	168,907	67,746	354,526	278,598
Dividends received (i)			32,060	78,173
Exchange differences on translating foreign cash investments	4,928	1,652	32,444	69,626
Interest on and inflation adjustment to intragroup loans	154,920	83,559	1,066	
Other income	127,488	38,373	162,173	254,086
Total	**840,628**	**543,404**	**1,344,767**	**1,375,217**
Financial expenses and other charges				
a) Borrowing and financing costs				
Interest on borrowings payable to third parties	(789,961)	(719,069)	(1,979,414)	(1,591,915)
Inflation adjustment to and exchange losses on third-party borrowings	(1,109,302)	(1,421,097)	(1,464,510)	(2,013,066)
Interest on debentures	(951,032)	(857,738)	(953,863)	(860,400)
Derivative transactions	157,241	838,170	427,384	1,158,520
Interest on and inflation adjustment to intragroup borrowings	(261,837)	(271,264)		
Subtotal:	**(2,954,891)**	**(2,430,998)**	**(3,970,403)**	**(3,306,861)**
b) Other charges				
Interest on and inflation adjustment to other liabilities	(264,697)	(202,709)	(811,791)	(615,810)
Tax on transactions and bank fees	(188,020)	(77,144)	(385,824)	(193,048)
Inflation adjustment to provisions	(114,912)	(68,605)	(233,276)	(246,205)
Interest on taxes in installments - tax financing program	(82,282)	(40,728)	(132,194)	(81,262)
Other expenses	(117,416)	(83,903)	(357,844)	(206,479)
Subtotal:	**(767,327)**	**(473,089)**	**(1,920,929)**	**(1,342,804)**
Total	**(3,722,218)**	**(2,904,087)**	**(5,891,332)**	**(4,649,665)**
Financial income (expenses)	**(2,881,590)**	**(2,360,683)**	**(4,546,565)**	**(3,274,448)**

(i) In May 2014, subsidiary TMAR received dividends from PT of € 0.10 per share, totaling €8,965 million, which had been attributed on April 30, 2014.

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

7. INCOME TAX AND SOCIAL CONTRIBUTION

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

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

	COMPANY		CONSOLIDATED	
	2014	2013	2014	2013
Income tax and social contribution				
Current taxes	(11,970)	62,115	(622,001)	(418,498)
For the year	(16,997)	(12,685)	(617,528)	(493,298)
For previous year (i)	5,027	74,800	(4,473)	74,800
Deferred taxes	76,713	(40,016)	(497,954)	(100,656)
Total	**64,743**	**22,099**	**(1,119,955)**	**(519,154)**
Current and deferred taxes (for the year)	**59,716**	**(52,701)**	**(1,115,482)**	**(593,954)**
Current taxes (for previous year)	**5,027**	**74,800**	**(4,473)**	**74,800**

	COMPANY		CONSOLIDATED	
	2014	2013	2014	2013
Pre-tax profit (loss)	(123,630)	1,470,916	1,128,073	2,012,169
Profit of companies not subject to income tax and social contribution calculation			69,984	38,372
Total taxed income	**(123,630)**	**1,470,916**	**1,198,057**	**2,050,541**
Income tax and social contribution				
Income tax and social contribution on taxed income	42,034	(500,111)	(407,339)	(697,184)
Share of profits of subsidiaries	439,904	361,483	(2,000)	(6,035)
Tax effects of interest on capital	(210,141)			
Tax incentives (basically, operating profit) (ii)	24	24	36,281	31,573
Permanent deductions (add-backs) (ii)	(212,105)	85,903	(755,879)	145,688
Utilization of tax loss carryforwards			446	25,783
Unrecognized deferred tax assets (iv)			(46,917)	(93,779)
Recognized deferred tax assets			52,438	
Effects of differentiated tax rates (v)			7,488	
Income tax and social contribution effect on profit or loss	**59,716**	**(52,701)**	**(1,115,482)**	**(593,954)**

(i) In 2014, refers to the derecognition of expired tax credits and the recognition of a negative balance in 2010. In 2013, refers to adjustments to the negative balance of income tax and social contribution in calendar 2008.

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

(iii) The main components of permanent deduction (addition) tax effects are: nondeductible fines, sponsorships and nondeductible donations, income from expired dividends, goodwill amortization (pre-merger period), settlement of principal, fine and interest utilizing tax loss carryforwards as permitted by Article 2 of Law 12996/2014 and Article 33 of Law 13043/2014 (R$366 million in the Company and R$443 million on a consolidated basis), and write-off of tax credits for unlikely realization, related to potential loss on the PT SGPS shares held subsidiary TMAR (R$266 million on a consolidated basis).

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

(iv) Refer to adjustments to deferred tax assets because of subsidiaries that do not recognize tax credits on tax loss carryforwards.

(v) This line item corresponds to the effects of the difference between the tax rate levied in Brazil and the tax rates levied on other Group companies, namely in Africa.

The financial statements for the year ended December 31, 2014 have been prepared considering management's best estimates and the criteria set out in the Transitional Tax Regime (RTT).

Management conducted an early assessment of the material aspects of its operations/activities, based on the new provisions of the tax introduced by Provisional Act 627, of November 11, 2013 ("MP 627/2013"), as subsequently amended during its approval procedure by the National Congress, resulting in Bill 02/2014 ("PLV 02/2014"), and the provisions of Regulatory Instruction 1397, of September 16, 2013, as amended by Regulatory Instruction 1422, of December 19, 2013 ("IN 1397/2013"). Based on this valuation, Management did not identify any material impacts as compared to the currently used regime.

We emphasize that the PLV 02/2014 resulted in the publication of the Law 12973/2014 on May 14, 2014, which, in a preliminary analysis, does not change the conclusions described above. The Company elected not to anticipate the effects of this law. The necessary adjustments have not been determined since the early adoption was not elected.

8. CASH, CASH EQUIVALENTS AND CASH INVESTMENTS

Cash investments made by the Company and its subsidiaries in the years ended December 31, 2014 and 2013, are classified as held for trading securities and are measured at their fair values.

(a) Cash and cash equivalents

	COMPANY		CONSOLIDATED	
	2014	**2013**	**2014**	**2013**
Cash and banks	110,239	23,317	532,285	306,184
Cash equivalents	243,845	418,699	1,916,921	2,118,646
Total	**354,084**	**442,016**	**2,449,206**	**2,424,830**

	COMPANY		CONSOLIDATED	
	2014	**2013**	**2014**	**2013**
Exclusive investment funds	159,412	360,053	1,007,728	1,354,627
Bank certificates of deposit (CDBs)	15,383	20,352	652,948	500,984
Time deposits	31,426	32,887	187,117	225,944
Repurchase agreements	36,184	4,997	66,183	30,250
Other	1,440	410	2,945	6,841
Cash equivalents	**243,845**	**418,699**	**1,916,921**	**2,118,646**

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

(b) Cash investments

	COMPANY		CONSOLIDATED	
	2014	**2013**	**2014**	**2013**
Exclusive investment funds	24,437	31,113	171,415	492,510
Private securities	18,465	16,882	111,285	99,129
Total	**42,902**	**47,995**	**282,700**	**591,639**
Current	24,437	31,113	171,415	492,510
Non-current	18,465	16,882	111,285	99,129

(c) Breakdown of the exclusive investment funds portfolios

	COMPANY		CONSOLIDATED	
	2014	**2013**	**2014**	**2013**
Repurchase agreements	124,438	210,540	707,304	772,862
Bank certificates of deposit (CDBs)	33,492	145,595	267,168	445,981
Time deposits		3,356	18,406	117,224
Other	1,482	562	14,850	18,560
Securities classified as cash equivalents	**159,412**	**360,053**	**1,007,728**	**1,354,627**
Government securities	19,551	30,244	171,415	462,177
Other	4,886	869		30,333
Securities classified as short-term investments	**24,437**	**31,113**	**171,415**	**492,510**
Total invested in exclusive funds	**183,849**	**391,166**	**1,179,143**	**1,847,137**

The Company and its subsidiaries have cash investments in exclusive investment funds in Brazil and abroad, for the purpose of obtaining a return on its cash, and which are benchmarked against the CDI in Brazil and LIBOR abroad.

9. ACCOUNTS RECEIVABLE

	COMPANY		CONSOLIDATED	
	2014	**2013**	**2014**	**2013**
Billed services	1,576,128	1,495,414	5,481,028	5,589,716
Unbilled services	620,740	599,264	1,450,777	1,467,865
Mobile handsets and accessories sold	62,135	43,546	1,032,022	693,140
Allowance for doubtful accounts	(280,445)	(294,212)	(513,787)	(654,042)
Total	**1,978,558**	**1,844,012**	**7,450,040**	**7,096,679**

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

The aging list of trade receivables is as follows:

	COMPANY		CONSOLIDATED	
	2014	**2013**	**2014**	**2013**
Current	1,779,255	1,581,166	5,878,915	5,857,598
Past-due up to 60 days	368,536	422,578	1,388,330	1,161,464
Past-due from 61 to 90 days	33,351	41,468	136,200	170,111
Past-due from 91 to 120 days	23,723	35,830	113,212	150,222
Past-due from 121 to 150 days	20,395	24,690	102,139	118,171
Over 150 days past-due (i)	33,743	32,492	345,031	293,155
Total	**2,259,003**	**2,138,224**	**7,963,827**	**7,750,721**

The movements in the allowance for doubtful accounts were as follows:

	COMPANY	CONSOLIDATED
Balance at Jan 1, 2013	**(332,732)**	**(751,287)**
Allowance for doubtful accounts	(138,195)	(849,779)
Trade receivables written off as uncollectible	176,715	947,024
Balance in 2013	**(294,212)**	**(654,042)**
Acquisition of investments - PT Portugal		(652,964)
Allowance for doubtful accounts (1)	(94,170)	(684,017)
Trade receivables written off as uncollectible	107,937	712,128
Foreign exchange differences		6,841
Transfer to assets held for sale		758,267
Balance in 2014	**(280,445)**	**(513,787)**

(1) The movements in the allowance for doubtful accounts in 2014 include the movements in continuing operations and in discontinued operations. The allowance for doubtful accounts include expenses related to continuing operations totaling R$649,463 (Note 5), and the remaining amount refers to discontinued operations.

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

10. CURRENT AND DEFERRED TAXES

	Assets			
	COMPANY		CONSOLIDATED	
	2014	**2013**	**2014**	**2013**
Current recoverable taxes				
Recoverable income tax (IRPJ) (i)	18,299	17,736	485,929	411,782
Recoverable social contribution (CSLL) (i)	6,597	6,395	182,772	158,475
IRRF/CSLL - withholding income taxes (ii)	194,785	48,984	428,488	336,883
Total current	**219,681**	**73,115**	**1,097,189**	**907,140**
Deferred taxes recoverable				
Income tax on tax credits – merged goodwill (iii)	1,180,524	1,311,330	1,180,524	1,311,330
Social contribution on tax credits – merged goodwill (iii)	424,989	472,079	424,989	472,079
Income tax on temporary differences (iv)	921,367	1,216,978	2,073,875	2,739,904
Social contribution on temporary differences (iv)	326,848	387,278	655,156	848,677
Income tax on tax loss carryforwards (iv)	1,136,874	603,760	2,353,806	1,859,941
Social contribution on tax loss carryforwards (iv)	360,169	213,608	876,478	747,316
Subtotal - deferred recoverable taxes	**4,350,771**	**4,205,033**	**7,564,828**	**7,979,247**
Other deferred taxes (v)	30,490	113,571	60,944	295,185
Non-total current	**4,381,261**	**4,318,604**	**7,625,772**	**8,274,432**

	Liabilities			
	COMPANY		CONSOLIDATED	
	2014	**2013**	**2014**	**2013**
Current taxes payable				
Income tax payable	12,491	9,217	306,366	275,735
Social contribution payable	59,386	58,207	170,916	156,582
Total current	**71,877**	**67,424**	**477,282**	**432,317**

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

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

(iii) The Company merged the deferred income tax and social contribution amounts calculated as tax benefit originating from the goodwill paid on acquisition and recognized by the acquirees in 2009. The tax credits are realized as goodwill based on the STFC license and the appreciation of tangible assets is amortized, and should be utilized in tax offsetting estimated until 2034.

(iv) Deferred income tax and social contribution assets are recognized only to the extent that it is probable that there will be a positive tax base for which temporary differences can be used and tax loss carryforwards can be offset. Deferred income tax and social contribution assets are reviewed at the end of each annual period and are written down as their realization is no longer possible. The Company and its subsidiaries offset their tax loss carryforwards against taxable income up to a limit of 30% per year, pursuant to the prevailing tax law.

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

Additionally, as at December 31, 2014, only part of tax credits on tax loss carryforwards or tax credits on temporary differences has been recognized for direct and indirect subsidiaries that do not have a profitability history and or do not expect to generate sufficient taxable profit. Unrecognized tax credits total R$217,655 (R$223,503 at December 31, 2013).

The table below shows the expected realization periods of deferred tax assets resulting from tax credits on tax loss carryforwards and temporary differences:

	COMPANY	CONSOLIDATED
2015		360,631
2016	181,629	387,429
2017	191,179	426,881
2018	340,523	526,947
2019	474,487	988,339
2020 to 2022	1,281,195	2,877,700
2023 to 2024	276,245	391,388
Total	**2,745,258**	**5,959,315**

(v) Refer mainly to prior years' prepaid income tax and social contribution that will be offset against federal taxes payable.

Movements in deferred income tax and social contribution

	COMPANY			
	Balance in 2013	Recognized in deferred tax income/ expenses	Recognized in financial income (expenses)	Balance in 2014
Deferred tax assets arising on:				
Temporary differences				
Provisions	1,170,920	(166,260)		1,004,660
Provisions for suspended taxes	160,795	(126,834)		33,961
Provisions for pension funds and impacts of CPC 33 (R1) (IAS 19 R)	228,027	(15,062)	(30,023)	182,942
Allowance for doubtful accounts	107,442	(5,846)		101,596
Profit sharing	24,459	7,560		32,019
Foreign exchange differences	155,202	169,479		324,681
Merged goodwill	1,783,409	(177,896)		1,605,513
Hedge accounting	2,919		(66,445)	(63,526)
Other temporary add-backs and deductions	(245,508)	(131,708)	9,098	(368,118)
Tax loss carryforwards				
Income tax loss carryforwards	603,760	418,118	114,996	1,136,874
Social contribution carryforwards	213,608	105,162	41,399	360,169
Total	**4.205,033**	**76,713**	**69,025**	**4.350,771**

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

	CONSOLIDATED							
	Balance in 2013	Acquisition of investment - PT Portugal	Recognized in deferred tax income/ expenses	Add-backs/ (offsets)	Recognized directly in equity	Foreign exchange differences	Held-for-sale assets	Balance in 2014
Deferred tax assets arising on:								
Temporary differences								
Business combination with PT		(1,508,157)	66,370			(68,868)	1,510,655	
PROVISIONS	1,704,234	134,714	(167,146)	(936)		6,530	(142,604)	1,534,792
Provisions for suspended taxes	206,653		(72,695)					133,958
Provisions for pension funds and impacts of CPC 33 (R1) (IAS 19 R)	228,124	857,606	(178,148)		166,260	42,484	(933,178)	183,148
Allowance for doubtful accounts	611,713	32,271	(13,270)			1,829	(40,264)	592,279
Profit sharing	63,031		23,503					86,534
Foreign exchange differences	493,488		62,901					556,389
Merged goodwill	1,783,409		(177,896)					1,605,513
Adjustment to fair value of financial assets	238,974		(238,974)					
Hedge accounting	(438)				(63,257)			(63,695)
Other temporary add-backs and deductions	42,802	25,334	(355,144)	14,495	8,485	1,418	(31,764)	(294,374)
Tax loss carryforwards								
Income tax loss carryforwards	1,859,941	1,751	483,270	(1,752)	114,996	4,979	(109,379)	2,353,806
Social contribution carryforwards	747,316		87,763		41,399			876,478
Total	**7,979,247**	**(456,481)**	**(479,466)**	**11,807**	**267,883**	**(11,628)**	**253,466**	**7.564,828**
Deferred tax liabilities related to:								
Unattributed dividends		(201,270)	(642)		(269)	(161)	202,342	
Other temporary differences		(56,542)	(116)			(3,572)	60,230	
Total		**(257,812)**	**(758)**		**(269)**	**(3,733)**	**262,572**	

(1) The movements in deferred income tax and social contribution in 2014 include the movements in continuing operations and in discontinued operations. The deferred income tax and social contribution expenses recognized in profit for the year include expenses related to continuing operations totaling R$497,954 (Note 7), and the remaining amount refers to discontinued operations.

11. OTHER TAXES

	ASSETS			
	COMPANY		CONSOLIDATED	
	2014	2013	2014	2013
Recoverable State VAT (ICMS) (i)	414,280	756,615	1,512,543	2,102,249
Taxes on revenue (PIS and COFINS)	17,184	43,865	181,772	197,036
Other	14,811	14,586	101,851	65,958
Total	**446,275**	**815,066**	**1,796,166**	**2,365,243**
Current	247,507	569,079	1,054,255	1,474,408
Non-current	198,768	245,987	741,911	890,835

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

	Liabilities			
	COMPANY		CONSOLIDATED	
	2014	2013	2014	2013
State VAT (ICMS)	278,999	712,584	709,126	1,248,232
ICMS Agreement No. 69/1998	16,884	20,568	80,287	443,305
Taxes on revenue (PIS and COFINS)	385,613	832,106	664,278	1,141,601
FUST/FUNTTEL/broadcasting fees	107,637	107,730	807,576	762,289
Other	109,993	116,433	281,059	264,183
Total	**899,126**	**1,789,421**	**2,542,326**	**3,859,610**
Current	810,513	1,179,803	1,667,599	2,112,598
Non-current	88,613	609,618	874,727	1,747,012

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

12. JUDICIAL DEPOSITS

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

	COMPANY		CONSOLIDATED	
	2014	2013	2014	2013
Civil	6,967,000	6,556,381	8,919,658	8,355,816
Tax	639,013	584,377	2,466,187	2,277,236
Labor	1,161,776	998,855	2,007,822	1,734,136
Total	**8,767,789**	**8,139,613**	**13,393,667**	**12,367,188**
Current	881,595	1,070,693	1,133,639	1,316,252
Non-current	7,886,194	7,068,920	12,260,028	11,050,936

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

13. INVESTMENTS

	COMPANY		CONSOLIDATED	
	2014	2013	2014	2013
Investment in subsidiaries	19,160,523	19,411,927		
Joint arrangements			74,803	86,633
Tax incentives, net of allowances for losses	10,273	10,273	31,579	31,656
Goodwill	11,618	11,618		
Other investments	3,799	3,799	42,029	55,351
Total	**19,186,213**	**19,437,617**	**148,411**	**173,640**

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

Summary of the movements in investment balances

	COMPANY	CONSOLIDATED
Balance at Jan 1, 2013	**24,464,188**	**179,594**
Share of profits of subsidiaries (i)	1,063,185	(17,750)
Write-off of investment (ii)	(3,914,237)	
Capital increase	270,488	5,500
Share of other comprehensive income of subsidiaries	(19,181)	
Dividends	(2,426,064)	
Other	(762)	6,296
Balance in 2013	**19,437,617**	**173,640**
Share of profits of subsidiaries (i)	1,359,550	(5,881)
PT Portugal share of profits of subsidiaries transferred to discontinued operations	(250,061)	
Acquisition of investment – PT Portugal (Note 1)	5,709,900	
PT Portugal capital increase (iii)	3,849,423	
Subsidiaries' share of other comprehensive income - PT Portugal	(582,774)	
Exchange differences on translating the investment in PT Portugal	441,899	
Transfer to treasury shares (Note 3.1. iv)	(263,028)	
Subsidiaries' share of other comprehensive income	(5,078)	
PT Portugal investment transferred to assets held for sale	(9,805,091)	
Subsidiaries' dividends and interest on capital	(685,951)	(4,968)
Other	(20,193)	(14,380)
Balance in 2014	**19,186,213**	**148,411**

(i) In consolidated, the share of profits of subsidiaries refers to the investments in joint arrangements, AIX, and Paggo Soluções.

(ii) The decrease in the investments held by the Company is related to: (i) the transfer of investments and other assets to subsidiary TMAR amounting to R$3,552,148 in exchange for the settlement of intercompany debentures held by the Company and (ii) capital reduction of subsidiary BrT Cabos, of GlobeNet, and write-off for sale of the investments held in the GlobeNet group companies—see Note 28 (d) for further details—totaling R$362,089.

(iii) In May 2014, a capital contribution was made to PT Portugal amounting to €1,250 million to prepay debt and thus reduce the Company's euro-denominated debt.

The main data related to direct equity interests in subsidiaries are as follows:

			COMPANY			
			2014			
			In thousands		Equity interests - %	
			Shares			
Subsidiaries	**Equity**	**Profit (loss) for the year**	**Common**	**Preferred**	**Total capital**	**Voting capital**
TMAR	18,642,154	1,099,709	154,032,213	189,400,783	100	100
Rio Alto	538,889	171,087	215,538,129		50	100
Oi Holanda	140,570	76,866	100		100	100
Oi Serviços Financeiros	6,740	8,986	799		100	100

	COMPANY	
	2014	
Subsidiaries	**Share of profits of subsidiaries**	**Investment value**
TMAR	1,099,709	18,642,154
Rio Alto	93,013	269,445
Oi Holanda	76,922	140,570
Oi Serviços Financeiros	8,986	6,740
BrT Venezuela	(603)	
Unrealized results on investees	15,808	101,614
Operations in Africa (i)	65,715	
Total	**1,359,550**	**19,160,523**

(i) Refers to the share of profits of investments in operations in Africa, classified as assets held for sale, for the period from May 5 to December 31, 2014.

			COMPANY			
			2013			
			In thousands		Equity interests - %	
			Shares			
Subsidiaries	**Equity**	**Profit (loss) for the year**	**Common**	**Preferred**	**Total capital**	**Voting capital**
TMAR	18,999,604	736,710	154,032,213	189,400,783	100	100
Rio Alto	478,231	47,156	215,538,129		50	100
Oi Holanda	63,704	(9,006)	100		100	100
BrT Venezuela	20,739	166	100		100	100
Oi Serviços Financeiros	2,959	4,329	799		100	100

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

	COMPANY	
	2013	
Subsidiaries	**Share of profits of subsidiaries**	**Investment value**
TMAR	736,710	18,999,604
BrT CS	223,284	
Rio Alto	21,362	239,115
Oi Serviços Financeiros	4,329	2,959
BrT Venezuela	166	20,739
Oi Holanda	(8,472)	
Unrealized results on investees	85,806	85,806
Total	**1,063,185**	**19,411,927**

Summarized financial information

	2014		
Subsidiaries	**Assets**	**Liabilities**	**Revenue**
TMAR	36,502,209	17,860,055	11,599,983
Oi Serviços Financeiros	63,239	56,499	
Oi Holanda	4,211,322	4,070,752	
Rio Alto	659,246	120,357	
Operations in Africa (Note 28)	7,642,738	851,273	633,939

	2013		
Subsidiaries	**Assets**	**Liabilities**	**Revenue**
BrT Venezuela	26,649	5,910	11,358
TMAR	36,968,904	17,969,300	12,686,440
Oi Serviços Financeiros	53,058	50,099	
Oi Holanda	3,653,460	3,589,756	
Rio Alto	530,882	52,651	

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

14. PROPERTY, PLANT AND EQUIPMENT

	COMPANY						
	Works in progress	**Automatic switching equipment**	**Transmission and other equipment (1)**	**Infrastructure**	**Buildings**	**Other assets**	**Total**
Cost of PP&E (gross amount)							
Balance at Jan 1, 2013	**627,434**	**5,167,035**	**15,835,704**	**4,059,647**	**950,204**	**1,722,988**	**28,363,012**
Additions	914,575	279	224,735	29,019	770	250,733	1,420,111
Write-offs	(14,135)	(1,732)	(47,908)	(38,126)		(3,906)	(105,807)
Transfers	(693,770)	29,654	480,043	122,972	8,355	52,746	
Balance in 2013	**834,104**	**5,195,236**	**16,492,574**	**4,173,512**	**959,329**	**2,022,561**	**29,677,316**
Additions	885,845		54,100	385		2,126	942,456
Write-offs		(1,782)	(28,887)	(32,366)		(5,861)	(68,896)
Transfers	(1,249,722)	67,069	1,404,364	(247,251)	60,933	(35,393)	
Transfers of assets held for sale				5,841	46,677	111	52,629
Balance in 2014	**470,227**	**5,260,523**	**17,922,151**	**3,900,121**	**1,066,939**	**1,983,544**	**30,603,505**
Accumulated depreciation							
Balance at Jan 1, 2013		**(4,991,657)**	**(13,252,659)**	**(3,242,342)**	**(613,452)**	**(1,539,339)**	**(23,639,449)**
Depreciation expenses		(28,227)	(433,145)	(197,585)	(21,183)	(32,207)	(712,347)
Write-offs		1,684	34,166	36,615		740	73,205
Transfers			(513)	463	(31)	81	
Balance in 2013		**(5,018,200)**	**(13,652,151)**	**(3,402,849)**	**(634,666)**	**(1,570,725)**	**(24,278,591)**
Depreciation expenses		(40,572)	(374,910)	(303,251)	(21,736)	(42,592)	(783,061)
Write-offs		1,017	26,784	29,343		5,710	62,854
Transfers		(31,579)	(967,109)	916,217	(61,505)	143,976	
Transfers of assets held for sale				(3,183)	(26,113)	(90)	(29,386)
Balance in 2014		**(5,089,334)**	**(14,967,386)**	**(2,763,723)**	**(744,020)**	**(1,463,721)**	**(25,028,184)**
Property, plant and equipment, net							
Balance in 2013	**834,104**	**177,036**	**2,840,423**	**770,663**	**324,663**	**451,836**	**5,398,725**
Balance in 2014	**470,227**	**171,189**	**2,954,765**	**1,136,398**	**322,919**	**519,823**	**5,575,321**
Annual depreciation rate (average)		11%	10%	8%	8%	12%	

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

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

	CONSOLIDATED						
	Works in progress	**Automatic switching equipment**	**Transmission and other equipment (1)**	**Infrastructure**	**Buildings**	**Other assets**	**Total**
Cost of PP&E (gross amount)							
Balance at Jan 1, 2013	**4,127,123**	**17,927,129**	**38,362,151**	**25,665,996**	**3,448,139**	**4,829,266**	**94,359,804**
Additions	2,962,149	250,669	1,748,747	624,339	44,182	172,192	5,802,278
Write-offs	(395,610)	(1,834)	(483,638)	(268,723)	(12,504)	(65,411)	(1,227,720)
Transfers	(2,123,980)	257,082	1,159,470	665,141	(129,241)	171,528	
Transfer to non-current assets held for sale				(125,920)	(448,815)		(574,735)
Balance in 2013	**4,569,682**	**18,433,046**	**40,786,730**	**26,560,833**	**2,901,761**	**5,107,575**	**98,359,627**
Acquisition of investments - PT Portugal	452,844	6,004,681	4,537,199	16,357,177	2,957,154	9,693,740	40,002,795
Additions	3,029,820	63,899	1,000,298	308,985	92,788	271,954	4,767,744
Write-offs	(2,083)	(1,782)	(62,981)	(103,997)	(268)	(8,410)	(179,521)
Transfers	(4,944,777)	317,773	6,045,939	(1,711,939)	537,675	(368,441)	(123,770)
Foreign exchange differences	20,468	288,829	255,552	785,557	148,022	469,466	1,967,894
Transfers to assets held for sale	(468,545)	(6,338,824)	(4,900,950)	(17,171,247)	(2,995,379)	(10,373,620)	(42,248,565)
Balance in 2014	**2,657,409**	**18,767,622**	**47,661,787**	**25,025,369**	**3,641,753**	**4,792,264**	**102,546,204**
Accumulated depreciation							
Balance at Jan 1, 2013		**(15,867,104)**	**(28,888,749)**	**(20,526,497)**	**(2,258,125)**	**(3,716,231)**	**(71,256,706)**
Depreciation expenses		(340,215)	(1,782,551)	(776,526)	(78,654)	(213,307)	(3,191,253)
Write-offs		1,684	289,858	157,705	6,640	25,182	481,069
Transfers		(2)	(570)	(529)	1,542	(441)	
Transfer to non-current assets held for sale				39,090	354,459		393,549
Balance in 2013		**(16,205,637)**	**(30,382,012)**	**(21,106,757)**	**(1,974,138)**	**(3,904,797)**	**(73,573,341)**
Acquisition of investments - PT Portugal		(5,685,512)	(3,169,003)	(11,029,655)	(1,238,292)	(7,840,705)	(28,963,167)
Depreciation expenses (2)		(400,354)	(2,452,283)	(746,509)	(151,149)	(580,115)	(4,330,410)
Write-offs		1,017	50,470	50,394	186	7,697	109,764
Transfers		(3,027)	(2,132,253)	2,022,793	381,324	(145,499)	123,338
Foreign exchange differences		(275,108)	(168,315)	(534,544)	(63,973)	(393,646)	(1,435,586)
Transfers to assets held for sale		6,032,368	3,559,523	11,706,376	1,273,000	8,621,957	31,193,224
Balance in 2014		**(16,536,253)**	**(34,693,873)**	**(19,637,902)**	**(1,773,042)**	**(4,235,108)**	**(76,876,178)**
Property, plant and equipment, net							
Balance in 2013	**4,569,682**	**2,227,409**	**10,404,718**	**5,454,076**	**927,623**	**1,202,778**	**24,786,286**
Balance in 2014	**2,657,409**	**2,231,369**	**12,967,914**	**5,387,467**	**1,868,711**	**557,156**	**25,670,026**
Annual depreciation rate (average)		11%	10%	8%	8%	12%	

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

(2) The movements in property, plant and equipment in 2014 include the movements in continuing operations and in discontinued operations. The depreciation expenses include expenses related to continuing operations totaling R$3,451,043, and the remaining amount refers to discontinued operations.

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

Additional disclosures

Pursuant to ANATEL's concession agreements, all property, plant and equipment items capitalized by the Company that are indispensable for the provision of the services granted under said agreements are considered returnable assets and are part of the concession's cost. These assets are handed over to ANATEL upon the termination of the concession agreements that are not renewed.

As at December 31, 2014, the residual balance of the Company's returnable assets is R$2,841,541 (R$2,825,719 in 2013) and consist of assets and installations in progress, switching and transmission equipment, payphones, outside network equipment, power equipment, and systems and operation support equipment. In consolidated, this balance amounts to R$8,199,356 (R$7,685,240 in 2013).

In the year ended December 31, 2014, financial charges and transaction costs incurred on works in progress were capitalized at the average rate of 9% per year.

15. INTANGIBLE ASSETS

	COMPANY			
	Intangibles in progress	**Data processing systems**	**Other**	**Total**
Cost of intangibles (gross amount)				
Balance at Jan 1, 2013	**6,714**	**2,219,787**	**117,192**	**2,343,693**
Additions	36,938	22,274	30,385	89,597
Write-offs	(15,427)			(15,427)
Transfers	(22,404)	21,521	883	
Balance in 2013	**5,821**	**2,263,582**	**148,460**	**2,417,863**
Additions	56,726		12,966	69,692
Transfers	60,703		(60,703)	
Balance in 2014	**123,250**	**2,263,582**	**100,723**	**2,487,555**
Accumulated amortization				
Balance at Jan 1, 2013		**(2,011,830)**	**(46,893)**	**(2,058,723)**
Amortization expenses		(98,584)	(10,682)	(109,266)
Balance in 2013		**(2,110,414)**	**(57,575)**	**(2,167,989)**
Amortization expenses		(65,162)	(14,573)	(79,735)
Balance in 2014		**(2,175,576)**	**(72,148)**	**(2,247,724)**
Intangible assets, net				
Balance in 2013	**5,821**	**153,168**	**90,885**	**249,874**
Balance in 2014	**123,250**	**88,006**	**28,575**	**239,831**
Annual amortization rate (average)		20%	20%	

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

	CONSOLIDATED						
	Goodwill	**Intangibles in progress**	**Data processing systems**	**Regulatory licenses**	**Customer portfolio**	**Other**	**Total**
Cost of intangibles (gross amount)							
Balance at Jan 1, 2013	**615,473**	**292,081**	**6,133,834**	**3,962,822**		**620,836**	**11,625,046**
Additions		177,302	292,658	78,189		263,945	812,094
Write-offs			(4,163)			(2,217)	(6,380)
Transfers		(284,996)	235,596			49,400	
Balance in 2013	**615,473**	**184,387**	**6,657,925**	**4,041,011**		**931,964**	**12,430,760**
Acquisition of investments - PT Portugal	10,574,704	52,819	575,983	1,656,050	3,215,523	3,091,687	19,166,766
Additions		487,895	248,470			282,688	1,019,053
Write-offs	(1,754)	(1,574)				(15,031)	(18,359)
Transfers		(519,904)	451,615			36,401	(31,888)
Foreign exchange differences	507,532	1,256	44,200	78,963	153,469	124,238	909,658
Transfers to assets held for sale	(11,082,236)	(48,161)	(667,884)	(1,735,013)	(3,368,992)	(3,291,736)	(20,194,022)
Balance in 2014	**613,719**	**156,718**	**7,310,309**	**4,041,011**		**1,160,211**	**13,281,968**
Accumulated amortization							
Balance at Jan 1, 2013	**(461,078)**		**(4,857,715)**	**(1,828,483)**		**(282,218)**	**(7,429,494)**
Amortization expenses			(493,715)	(244,124)		(349,385)	(1,087,224)
Write-offs			3,370			2,074	5,444
Transfers			3			2	5
Balance in 2013	**(461,078)**		**(5,348,057)**	**(2,072,607)**		**(629,527)**	**(8,511,269)**
Acquisition of investments - PT Portugal			(428,721)	(514,850)		(2,155,564)	(3,099,135)
Amortization expenses (1)			(571,298)	(359,396)	(169,982)	(392,628)	(1,493,304)
Write-offs	1,433		11,673			26,373	39,479
Transfers			(28,171)	(26,246)	(7,970)	(89,734)	(152,121)
Foreign exchange differences			(260)			260	
Transfers to assets held for sale			489,838	578,878	177,952	2,378,692	3,625,360
Balance in 2014	**(459,645)**		**(5,874,996)**	**(2,394,221)**		**(862,128)**	**(9,590,990)**
Intangible assets, net							
Balance in 2013	**154,395**	**184,387**	**1,309,868**	**1,968,404**		**302,437**	**3,919,491**
Balance in 2014	**154,074**	**156,718**	**1,435,313**	**1,646,790**		**298,083**	**3,690,978**
Annual amortization rate (average)			20%	9%		16%	

(1) The movements in intangible assets in 2014 include the movements in continuing operations and in discontinued operations. The amortization expenses include expenses related to continuing operations totaling R$1,084,375 and the remaining amount refers to discontinued operations.

Goodwill

The Company and its subsidiaries also recognize goodwill arising on the acquisition of investments based on expected future earnings.

In December 2014, annual impairment tests were conducted based on ten-year discounted cash flow projections, using perpetuity-based amounts in the last year, which is the period in which the entity expected to recover the investments made when the business was acquired, by applying an average growth rate of 24.2% for Pay TV, 14.5% for Means of Payment, 6.0% for RII Internet provider, and 4.7% for RII Multimedia, discount rate of 12.3%, and use of perpetuity-based amounts in the last year. The tests did not show any impairment losses, as summarized below:

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

Cash-generating unit (CGU)	Asset balance	Goodwill allocated to the CGU	Recoverable amount valuation basis	Value in use
Pay TV	46,723	37,690	84,413	912,893
Means of payment	77,591	36,211	113,802	139,781
RII Internet service provider	27,189	72,828	100,017	287,755
RII multimedia	169,474	7,345	176,819	650,116
Total	**320,977**	**154,074**	**475,051**	**1,990,545**

Regulatory licenses

	CONSOLIDATED		
	Execution date	Termination	Acquisition cost
Concession/license			
Oi Móvel's Region 2 radiofrequencies and SMP (2G)	12/18/2002	12/17/2017	191,502
Oi Móvel's Region 2 radiofrequencies and SMP (2G)	05/03/2004	12/22/2017	28,624
Oi Móvel's Region 2 radiofrequencies and SMP (3G)	04/29/2008	04/30/2023	488,235
Oi Móvel's Region 2 radiofrequencies and SMP (H Band)	05/26/2011	04/30/2023	1,073
TNL PCS's Region 1 radiofrequencies and SMP (2G)	03/13/2001	03/13/2016	1,102,007
TNL PCS's Region 1 radiofrequencies and SMP (2G)	07/11/2003	03/13/2016	66,096
TNL PCS's Region 1 radiofrequencies and SMP (2G)	01/22/2004	03/13/2016	45,218
TNL PCS's Region 3 radiofrequencies and SMP (2G)	04/29/2008	04/30/2023	131,106
TNL PCS's Region 1 and 3 radiofrequencies and SMP (3G)	04/29/2008	04/30/2023	867,018
TNL PCS's Region 3 (inland) radiofrequencies and SMP (2G)	09/08/2008	12/07/2022	126,820
TNL PCS's radiofrequencies and SMP	12/07/2007	12/07/2022	8,868
Fair value of Amazônia Celular's SMP licenses	04/03/2008	03/13/2016	230,030
Oi Móvel's and TNL PCS's radiofrequencies (sub-bands 2.5 GHz (4G) and 450 MHz)	06/30/2012	06/30/2027	368,848
2013 Oi Móvel Sobras 1.8MHz Concession Agreement	06/30/2013	04/30/2023	78,189
Other licenses			307,377
Total			**4,041,011**

16. TRADE PAYABLES

	COMPANY		CONSOLIDATED	
	2014	2013	2014	2013
Infrastructure, network and plant maintenance materials	218,879	318,014	1,708,777	1,806,553
Services	828,806	855,811	1,985,629	2,057,117
Rental of polls and rights-of-way	274,261	419,850	422,423	608,006
Other	75,664	66,119	219,737	260,498
Total	**1,397,610**	**1,659,794**	**4,336,566**	**4,732,174**

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

17. BORROWINGS AND FINANCING

Borrowings and financing by type

	COMPANY		CONSOLIDATED			
	2014	2013	2014	2013	Maturity (principal and interest)	TIR %
Development Banks - BNDES	1,007,146	859,803	5,871,576	5,915,781	Dec 2014 to Jul 2021	10.64
Public debentures	7,760,378	9,370,060	7,807,389	9,414,240	Dec 2014 to Jul 2021	11.49
Private debentures	875,369	1,062,664			Dec 2014 to May 2022	13.42
Financial institutions	10,910,435	8,626,892	22,644,230	21,053,207		
Bank Credit Note (CCB)	1,310,573		4,503,810	3,192,051	Dec 2014 to Jan 2028	11.82
Senior Notes - local currency	1,136,801	1,136,599	1,136,801	1,136,599	Dec 2014 to Sep 2016	11.91
- Certificates of Real Estate Receivables (CRI)	482,302	460,732	1,496,674	1,428,511	Dec 2014 to Aug 2022	8.08
ECA - Export Credit Agency	246,260		3,532,048	4,354,639	Dec 2014 to May 2022	8.26
Senior Notes - foreign currency (i)	7,613,340	7,000,548	11,600,563	10,593,584	Dec 2014 to Feb 2022	12.56
Other	121,159	29,013	374,334	347,823	Dec 2014 to Dec 2033	11.97
Loans from subsidiaries	4,377,484	4,203,834			Dec 2014 to Feb 2022	13.42
Subtotal	**24,930,812**	**24,123,253**	**36,323,195**	**36,383,228**		
Incurred debt issuance cost	(289,380)	(311,827)	(473,800)	(529,602)		
Total	**24,641,432**	**23,811,426**	**35,849,395**	**35,853,626**		
Current	1,901,051	2,288,654	4,463,728	4,158,708		
Non-current	22,740,381	21,522,772	31,385,667	31,694,918		

(i) In 2014 the Company bought back own obligations maturing in 2022, in the nominal amount of US$33 million (R$87 million at December 31, 2014), which the Company intends to cancel or hold to maturity.

Debt issuance costs by type

	COMPANY		CONSOLIDATED	
	2014	2013	2014	2013
Financial institutions	258,227	271,535	438,690	484,494
BNDES	640	736	4,597	5,552
Public debentures	30,513	39,556	30,513	39,556
Total	**289,380**	**311,827**	**473,800**	**529,602**
Current	63,711	52,583	107,695	97,055
Non-current	225,669	259,244	366,105	432,547

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

Breakdown of the debt by currency

	COMPANY		CONSOLIDATED	
	2014	2013	2014	2013
Brazilian reais	17,011,096	17,058,338	21,068,153	21,287,189
US dollar	5,217,645	4,345,261	12,368,551	12,158,610
Euro	2,412,691	2,407,827	2,412,691	2,407,827
Total	**24,641,432**	**23,811,426**	**35,849,395**	**35,853,626**

Breakdown of the debt by currency

	COMPANY		CONSOLIDATED	
	2014	2013	2014	2013
Fixed rate	8,765,810	8,117,419	14,146,444	13,078,474
CDI	11,982,478	12,440,372	9,811,490	10,233,218
TJLP	777,669	630,229	5,149,392	5,138,940
LIBOR	225,873		2,762,046	3,743,010
IPCA	2,768,443	2,600,117	3,798,431	3,576,429
INPC	121,159	23,289	181,592	83,555
Total	**24,641,432**	**23,811,426**	**35,849,395**	**35,853,626**

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

	Long-term debt		Debt issuance costs	
	COMPANY	CONSOLIDATED	COMPANY	CONSOLIDATED
	2014			
2016	2,853,305	5,129,882	53,384	88,271
2017	4,858,064	7,284,801	49,832	77,207
2018	1,049,673	3,509,024	43,387	70,324
2019	2,946,467	3,944,732	39,646	61,647
2020 and following years	11,258,541	11,883,333	39,420	68,656
Total	**22,966,050**	**31,751,772**	**225,669**	**366,105**

Description of main borrowings and financing

Local currency-denominated financing

Development Banks

The Company and its subsidiary obtained financing facilities with BNDES to fund the expansion and improve the quality of their fixed and mobile nationwide networks and meet their regulatory obligations.

In April 2014, the Company and its subsidiaries disbursed R$836 million (of which R$209.7 million to Oi, R$408.4 million to TMAR, and R$217.9 million to Oi Móvel). The related debt issuance costs, totaling R$3.4 million, are being amortized through profit or loss for the year, according to this issuance's contractual terms, using its effective interest rate.

In 2014, the Company amortized principal installments plus adjusted interest totaling R$133 million in the company and R$1,356 million on a consolidated basis.

Additionally, the Company and its subsidiaries are parties to current financing agreements with the BNDES and other development banks from the North and Northeast of Brazil, entered into in 2004 and 2009 to finance investment projects with goals the referred to above.

Revolver credit facilities

In August 2014, R$1,300 million were disbursed through a Bank Credit Note (CCB), under a revolver credit facility transaction entered into by Oi with Banco do Brasil, Bradesco, HSBC and Santander in December 2012, totaling R$1,500 billion.

Foreign currency-denominated financing

ECA credit facilities

The Company and TMAR contract financing facilities with export credit agencies to finance part of the investments in equipment and services that incorporate foreign technology.

In June 2014, US$382.5 million (R$855.8 million) were repaid of a financing agreement entered into by TMAR with the China Development Bank in July 2011.

In May 2014, US$30.3 million (R$67.8 million) were repaid of a financing agreement entered into by TMAR with Cisco System Capital in March 2011.

In April 2014, US$104.0 million (R$276.9 million) were disbursed under a financing agreement entered into by TMAR with the Export Development Canada in July 2012.

In March 2014, US$92.5 million (R$209.4 million) were disbursed under a financing agreement entered into by Oi with the ONDD (Office National Du Ducroire/Nationale Delcrederedienst) amounting to US$257 million to finance part of Oi’s investments for the next two years.

TMAR is a party to current agreements with major export credit agencies, including: SEK – Swedish Export Corporation; CDB – China Development Bank; and ONDD – Office National Du Ducroire; and FEC – Finnish Export Credit.

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

Public and private debentures

				COMPANY		CONSOLIDATED	
Issuer	**Issue**	**Principal**	**Maturity**	**2014**	**2013**	**2014**	**2013**
Oi	10th	R$1,500 million	2019	1,633,137	1,604,207	1,633,137	1,604,207
Oi	9th	R$2,000 million	2020	2,386,594	2,262,961	2,386,594	2,262,961
Oi	8th	R$2,350 million	2018	2,352,258	2,350,976	2,352,258	2,350,976
Oi	7th	R$1,000 million	2017	1,047,432	1,039,569	1,047,432	1,039,569
Oi	5th (1st series) (i)	R$1,754 million	2014		1,792,259		1,792,259
Oi	5th (2nd series)	R$246 million	2020	340,957	320,088	340,957	320,088
TMAR	2nd	R$31 million	2021			47,011	44,180
			Public debentures	**7,760,378**	**9,370,060**	**7,807,389**	**9,414,240**
Oi	8th	R$2,500 million	2016		189,966		
Oi	6th	R$999 million	2022	875,369	872,698		
			Private debentures	**875,369**	**1,062,664**		

(i) In April 2014, the Company fully repaid R$1,754 million of the 1st issue of the 5th series of public debentures of Oi S.A.

The debentures issued by the Company and its subsidiaries do not contain renegotiation clauses.

Guarantees

BNDES financing facilities are collateralized by receivables of the Company and its subsidiaries TMAR and Oi Móvel. The Company provides guarantees to its subsidiaries TMAR and Oi Móvel for such financing facilities, totaling R$4,864 million.

Covenants

The financing agreements of the Company and subsidiaries TMAR and Oi Móvel with the BNDES and other financial institutions, and the debentures issued requires compliance with financial ratios (covenants). The financial ratios of the BNDES agreements are calculated semiannually, in June and December. Other financial ratios are calculated on a quarterly and annually basis.

Specifically for the subsidiaries’ BNDES agreements, the financial ratios are calculated based on the Company’s consolidated financial reporting.

On February 12, 2015, the General Debentureholders' Meeting of the 9th Issue Debentures ratified the permission for the sale of PT Portugal to Altice, including undertaking the corporate reorganization necessary to implement sale. Also on this date, the General Debentureholders' Meeting of the 5th Issue Debentures approved: (i) the permission to undertake the corporate reorganization, through the merger of Company shares with and into Telemar Participações S.A. that results in the increase of the Company's governance level on the BM&FBOVESPA; and (ii) temporary change of the ratios resulting from the calculation of the maximum leverage financial covenants to be determined by the Company for the four quarters of 2015, obtained by dividing the Company's Total Gross Debt by EBITDA, which must be 4.5 times or lower, except if before or after the actual transfer of PT Portugal shares to Altice and their payment to the Company it is necessary to take into account PT Portugal's and its subsidiaries' debts to calculate the Total Gross Debt, which must be 6.0 times or lower, calculated using the Company's 2015 quarterly financial information and annual financial statements.

Beginning in the first quarter of 2016 (included), the ratios resulting from the calculation of the financial covenants referred to above shall return to the ratios described in the Debenture Indentures, i.e., the Company's total debt to EBITDA must be 4.0 times or lower, calculated based on the consolidated balance sheet or an EBITDA-to-debt service ratio of 1.75 or higher, also based on the consolidated balance sheet, with the corresponding amendment to the Debenture Indenture.

As a result of the approval of the terms above, the Company approved the payment of a waiver fee to the 5th Issue Debentureholders of R$143.107735 per 2nd series debenture (Cetip Code: TNLE25), totaling R$3,521, and to the 9th Issue Debentureholders of R$105.378745 and R$126.997862 per 1st series (Oi BR-D91) and 2nd series (Oi BR-D92) debenture, totaling R$4,215 and R$20,320, respectively.

The Company has negotiated with its creditors the temporary amendment of the financial covenant ceilings for the leverage ratio (gross debt to EBITDA) for the four quarters of 2015 in context of the sale of PT Portugal to Altice.

As at December 31, 2014 all ratios had been complied with.

Committed and not used credit facilities

In December 2014 the Company signed a financing agreement with Banco do Nordeste do Brasil (BNB) amounting to R$370.6 million to finance part of the investments in the Northeast of Brazil in the next two years. There was no disbursement from this facility to date.

In October 2014 the Company entered into a financing agreement with the agency Finnvera (Finnish Export Credit Ltd.) totaling US$397.4 million to finance part of the investments to be made in the next two years. There was no disbursement from this facility to date.

The revolver credit facility transactions were structured so that the Company and its subsidiaries can use the credit facility at any time, over the contractual periods. These transactions provide a comfortable liquidity cushion, strengthening the Group's capital structure and credit profile, and increase our cash management efficiency.

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

18. DERIVATIVE FINANCIAL INSTRUMENTS

	COMPANY		CONSOLIDATED	
	2014	**2013**	**2014**	**2013**
Assets				
Currency swaps	2,113,061	1,073,000	2,871,904	1,631,015
Interest rate swaps	1,327	6,080	196,017	118,264
Non-deliverable forwards (NDFs)	141,072	276,991	153,560	323,900
Total	**2,255,460**	**1,356,071**	**3,221,481**	**2,073,179**
Current	141,096	283,071	340,558	452,234
Non-current	2,114,364	1,073,000	2,880,923	1,620,945
Liabilities				
Currency swaps	326,329	217,601	413,573	355,456
Interest rate swaps	233,643	171,890	241,138	197,187
Non-deliverable forwards (NDFs)	11,864	13,565	12,211	14,008
Total	**571,836**	**403,056**	**666,922**	**566,651**
Current	444,106	309,532	523,951	409,851
Non-current	127,730	93,524	142,971	156,800

19. LICENSES AND CONCESSIONS PAYABLE

	COMPANY		CONSOLIDATED	
	2014	**2013**	**2014**	**2013**
SMP			1,238,209	1,484,407
STFC concessions	40,052		123,731	
Total	**40,052**		**1,361,940**	**1,484,407**
Current	40,052		675,965	457,173
Non-current			685,975	1,027,234

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

The payment schedule is as follows:

	COMPANY	CONSOLIDATED
2015	40,052	675,965
2016		679,977
2017		2,858
2018		2,858
2019		282
Total	**40,052**	**1,361,940**

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

20. TAX REFINANCING PROGRAM

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

	COMPANY		CONSOLIDATED	
	2014	2013	2014	2013
Law 11941/09 and Law 12865/2013 tax financing program	515,581	565,565	983,904	1,108,435
REFIS II - PAES	4,336	4,336	6,326	11,869
Total	**519,917**	**569,901**	**990,230**	**1,120,304**
Current	52,590	52,838	94,041	100,302
Non-current	467,327	517,063	896,189	1,020,002

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

	CONSOLIDATED				
	2014				2013
	Principal	Fines	Interest	Total	Total
Tax on revenue (COFINS)	268,148	16,453	279,245	563,846	610,313
Income tax	59,753	4,476	55,218	119,447	186,882
Tax on revenue (PIS)	68,916	1,640	32,042	102,598	80,575
Social security (INSS – SAT)	2,900	2,742	8,210	13,852	43,204
Social contribution	15,842	806	14,337	30,985	50,679
Tax on banking transactions (CPMF)	16,962	1,670	21,085	39,717	35,471
Other	46,903	5,581	67,301	119,785	113,180
Total	**479,424**	**33,368**	**477,438**	**990,230**	**1,120,304**

The payment schedule is as follows:

	COMPANY	CONSOLIDATED
2015	52,590	94,041
2016	52,873	100,705
2017	52,873	100,705
2018	52,873	100,705
2019	52,873	100,705
2020 to 2022	158,619	302,115
2023 to 2025	97,216	191,254
Total	**519,917**	**990,230**

The tax refinancing plans under Law 11941/2009 and Law 12865/2013 are divided into 180 monthly installments. Companies are required to ensure the timely payment of all the installments and will be excluded from the program if they have three installments outstanding, whether consecutive or otherwise, or fail to pay one installment, if all the others have been paid.

The Company’s and its subsidiaries’ debt is being consolidated by the Federal Revenue Service and still depend on confirmation. The judicial deposits related to the lawsuits transferred to the new installment plan will be converted, pursuant to the applicable law, into Federal Government revenue.

The Company’s and some of its subsidiaries’ joined the new tax installment program governed by Article 2 of Law 12996/2014, under which they can include federal tax debts past due until December 31, 2013. In its application to the new program, the Company elected to pay its debt in 30 monthly installments.

In November 2014 the balances of the tax installment plans entered into by the Company and its subsidiaries under Article 2 of Law 12996/2014 were fully settled as provided for by Article 33 of Law 13043/2014, i.e., the companies offset their own tax loss carryforwards against 70% of their tax debts R$256,118 in Company and R$302,014 on a consolidated basis, and settled the remaining 30% of R$109,765 in Company and R$129,435 on a consolidated basis in cash. The Company and its subsidiaries with all the requirements set out in said Law and the administrative order that regulated its application and the related deadlines, including the payment of amounts that had to be paid in cash, while the utilization of tax loss carryforwards is still subject to analysis and confirmation by the Federal Revenue Service.

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

21. PROVISIONS

Broken down as follows:

		COMPANY		CONSOLIDATED	
	Type	**2014**	**2013**	**2014**	**2013**
	Labor				
(i)	Overtime	258,072	246,841	471,506	474,910
(ii)	Indemnities	71,460	73,511	152,113	150,612
(iii)	Sundry premiums	56,054	57,145	131,963	128,765
(iv)	Stability/reintegration	73,958	74,632	126,070	120,863
(v)	Additional post-retirement benefits	54,080	43,363	83,417	75,048
(vi)	Salary Differences and related effects	31,719	33,668	52,852	56,997
(vii)	Lawyer/expert fees	17,891	20,439	29,382	30,969
(viii)	Severance pay	6,810	8,428	20,235	24,945
(ix)	Labor fines	3,981	4,201	15,562	16,758
(x)	Severance Pay Fund (FGTS)	5,822	6,345	9,359	10,723
(xi)	Employment relationship	249	380	5,717	5,467
(xii)	Joint liability	850	1,262	1,581	2,292
(xiii)	Other claims	31,990	26,233	55,267	43,925
	Total	**612,936**	**596,448**	**1,155,024**	**1,142,274**
	Tax				
(i)	State VAT (ICMS)	92,292	124,594	363,025	361,540
(ii)	FUST/FUNTTEL				147,350
(iii)	Tax on services (ISS)	536	1,629	71,666	67,350
(iv)	Tax on net income (ILL)			20,691	19,998
(v)	INSS (joint liability, fees, and severance pay)	3,634	3,024	31,735	12,462
(vi)	Other claims	2,360	1,584	45,504	31,672
	Total	**98,822**	**130,831**	**532,621**	**640,372**
	Civil				
(i)	Corporate	1,549,525	2,062,709	1,549,525	2,062,709
(ii)	ANATEL estimates	222,308	210,118	597,437	557,960
(iii)	ANATEL fines	106,592	96,572	506,726	487,548
(iv)	Small claims courts	148,122	48,720	282,209	137,859
(v)	Other claims	203,767	286,354	508,226	587,595
	Total	**2,230,314**	**2,704,473**	**3,444,123**	**3,833,671**
	Total provisions	**2,942,072**	**3,431,752**	**5,131,768**	**5,616,317**
	Current	637,244	770,294	1,058,521	1,223,526
	Non-current	2,304,828	2,661,458	4,073,247	4,392,791

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

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

Breakdown of contingent liabilities, per nature

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

	COMPANY		CONSOLIDATED	
	2014	**2013**	**2014**	**2013**
Labor	540,345	467,388	1,082,677	877,287
Tax	5,505,144	5,097,600	21,059,009	17,995,906
Civil	358,735	343,943	1,146,745	1,037,903
Total	**6,404,224**	**5,908,931**	**23,288,431**	**19,911,096**

Summary of movements in provision balances

	COMPANY			
	Labor	**Tax**	**Civil**	**Total**
Balance at Jan 1, 2013	**867,001**	**261,561**	**2,933,511**	**4,062,073**
Inflation adjustment	10,799	(16,138)	73,944	68,605
Additions/(reversals)	(114,977)	(53,792)	272,100	103,331
Write-offs for payment/terminations	(166,375)	(60,800)	(575,082)	(802,257)
Balance in 2013	**596,448**	**130,831**	**2,704,473**	**3,431,752**
Inflation adjustment	44,236	(367)	71,043	114,912
Additions/(reversals)	68,822	(4,825)	(16,729)	47,268
Write-offs for payment/terminations	(96,570)	(26,817)	(528,473)	(651,860)
Balance in 2014	**612,936**	**98,822**	**2,230,314**	**2,942,072**

	CONSOLIDATED			
	Labor	**Tax**	**Civil**	**Total**
Balance at Jan 1, 2013	**1,579,138**	**765,294**	**4,075,205**	**6,419,637**
Inflation adjustment	139,698	63,633	42,874	246,205
Additions/(reversals)	(154,616)	8,223	528,342	381,949
Write-offs for payment/terminations	(421,946)	(196,778)	(812,750)	(1,431,474)
Balance in 2013	**1,142,274**	**640,372**	**3,833,671**	**5,616,317**
Acquisition of investments - PT Portugal	7,471	86,198	48,040	141,709
Inflation adjustment	147,825	(29,680)	115,131	233,276
Additions/(reversals) (1) (i)	116,230	13,895	340,472	470,597
Write-offs for payment/terminations	(250,830)	(82,593)	(848,190)	(1,181,613)
Foreign exchange differences	5	69	36	110
Liabilities on held-for-sale assets	(7,951)	(95,640)	(45,037)	(148,628)
Balance in 2014	**1,155,024**	**532,621**	**3,444,123**	**5,131,768**

(1) The movements in the provision in 2014 include the movements in continuing operations and in discontinued operations. The increase (reversal) of the provision include expenses related to continuing operations totaling R$463,087, and the remaining amount refers to discontinued operations.

(i) In September 2014, Management reviewed the methodology used to calculate the provisions for losses in civil lawsuits—corporate lawsuits involving the financial participation agreements—including statistical techniques as a result of the higher experience accumulated in the matter. The change in estimate generated a reversal amounting to R$354,869 in Company and on a consolidated, recognized in other operating income (expenses), net, which also include R$46,347 related to other expenses on the provision of contingencies.

In 2013, Management reviewed the methodology used to calculate the provisions for losses in labor lawsuits including statistical techniques as a result of the higher experience accumulated in the matter. The change in estimate generated a reversal amounting to R$163,474 in Company and R$315,648 on a consolidated basis.

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

Provisions

Labor

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

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

(iii) Sundry premiums - refer to claims of hazardous duty premium, based on Law 7369/85, regulated by Decree 93412/86, due to the alleged risk from employees' contact with the electric power grid, health hazard premium, pager pay, and transfer premium;

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

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

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

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

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

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

(x) Supplement to FGTS fine - arising from understated inflation, refers to claims to increase the FGTS severance fine as a result of the adjustment of accounts of this fund due to inflation effects.

The Company filed a lawsuit against Caixa Econômica Federal to assure the reimbursement of all amounts paid for this purpose;

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

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

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

Tax

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

(ii) FUNTTEL - Provision recognized based on the change in the Universal Telecom Service Fund (FUST) fee calculation methodology, under ANATEL Abstract 7 (which no longer allows the deduction of Industrial Exploitation of Dedicated Lines (EILD) and interconnection charges from the calculation basis, not even retrospectively) and the potential impact on the FUNTTEL calculation basis. Based to the assessment conducted by the legal counsel retained by the Company to handle these administrative proceedings and lawsuits that the risk of an unfavorable outcome is possible, Management reversed the related provision.

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

(iv) ILL - TMAR offset the ILL paid up to calendar 1992 based on Federal Supreme Court ("STF") decisions that declare the unconstitutionality of this tax. However, even though there is case law on the matter, a provision is maintained as there is no final decision of the criteria for the adjustments of these credits.

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

(vi) Other claims - Refer basically to provisions to cover Real Estate Tax (IPTU) assessments and several tax assessments related to income tax and social contribution collection.

Civil

(i) Corporate – Financial Participation Agreements - these agreements were governed by Administrative Rules 415/1972, 1181/1974, 1361/1976, 881/1990, 86/1991, and 1028/1996. Subscribers held a financial interest in the concessionaire after paying in a certain amount, initially recorded as capitalizable funds and subsequently recorded in the concessionaire's equity, after a capital increase was approved by the shareholders' meeting, thus generating the issuance of shares. The lawsuits filed against the former CRT - Companhia Riograndense de Telecomunicações, a company merged by the Company, challenge the way shares were granted to subscribers based on said financial participation agreements.

The Company used to recognize a provision for the risk of unfavorable outcome in these lawsuits based on certain legal doctrine. During 2009, however, decisions issued by appellate courts led the Company to revisit the amount accrued and the risk classification of the relevant lawsuits. The Company, considering obviously the peculiarities of each decision and based on the assessment made by its legal department and outside legal counsel, changed its estimate on the likelihood of an unfavorable outcome from possible to probable. In 2009, the Company's management, based on the opinions of its legal department and outside legal counsel, revised the measurement criteria of the provision related to the financial interest agreements. Said revision contemplated additional considerations regarding the dates and the arguments of the final and unappealable decisions on ongoing lawsuits, as well as the use of statistical criteria to estimate the amount of the provision for those lawsuits. The Company currently accrues these amounts mainly taking into consideration (i) the criteria above, (ii) the number of ongoing lawsuits by matter discussed, and (iii) the average amount of historical losses, broken down by matter in dispute. In addition to these criteria, in 2013 the courts recognized, in several decisions, the enforcement of the twenty-year statute of limitations for the lawsuits that met this criterion and the Company, based on the opinion of its in-house and outside legal counsel, understands that the likelihood of loss is remote. Therefore, it is not necessary to set up a provision.

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

Based on current information, management believes that its estimate would not be materially impacted as at December 31, 2014, had these criteria already been adopted. There may be, however, significant changes in the items above, mainly regarding the market price of Company shares.

(ii) ANATEL estimates - refer basically to alleged noncompliance with General Universal Service Targets Plan (“PGMU”) and General Quality Targets Plan (“PGMQ”) obligations;

(iii) ANATEL fines - they largely refer to provisions for fines arising from failures to meet quality targets under the terms of the Procedures to Determine Noncompliance with Obligations (“PADOs”) of the PGMQ and the Quality Indicators Regulation (“RIQ”); and

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

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

Contingent liabilities

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

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

Labor

Refer to several lawsuits claiming, but not limited to, the payment of salary differences, overtime, hazardous duty and health hazard premium, and joint liability, which total approximately R$1,082,677 (R$877,287 in 2013).

Tax

The main ongoing lawsuits have the following matters:

(i) ICMS - several ICMS assessment notifications, including two main matters: ICMS levied on certain revenue from services already subject to ISS or which are not part of the ICMS tax base, and utilization of ICMS credits claimed on the purchase of goods and other inputs, amounting approximately to R$7,554,421 (R$5,865,591 in 2013);

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

(ii) ISS - alleged levy of this tax on subsidiary telecommunications services and discussion regarding the classification of the services taxed by the cities listed in Supplementary Law 116/2003, amounting approximately to R$2,588,849 (R$2,078,234 in 2013);

(iii) INSS - tax assessments to add amounts to the contribution salary allegedly due by the Company, amounting approximately to R$995,994 (1,002,090 in 2013); and

(iv) Federal taxes - several tax assessment notifications regarding basically the disallowances made on the calculation of taxes, errors in the completion of tax returns, transfer of PIS and COFINS and FUST related to changes in the interpretation of these taxes tax bases by ANATEL. These lawsuits amount approximately to R$9,919,745 (R$9,049,991 in 2013).

Civil

The main ongoing lawsuits do not have any lawsuits for which no court decision has been issued, and are mainly related, but not limited to, challenging of network expansion plans, compensation for pain and suffering and material damages, collection lawsuits, and bidding processes. These lawsuits total approximately R$1,146,745 (R$1,037,903 in 2013).

Guarantees

The Company has bank guarantee letters and guarantee insurance granted by several financial institutions and insurers to guarantee commitments arising from lawsuits, contractual obligations, and biddings with the ANATEL. The total adjusted amount of contracted guarantees and guarantee insurance, effective at December 31, 2014, corresponds to R$5,816,071 (R$5,370,896 in 2013), Company, and R$16,488,245 (R$15,498,243 in 2013), on a consolidated basis. The commission charges on these contracts are based on market rates.

22. OTHER PAYABLES

	COMPANY		**CONSOLIDATED**	
	2014	**2013**	**2014**	**2013**
Unearned revenues	632,669	625,689	2,388,086	2,387,336
Advances from customers	95,036	75,076	635,681	485,619
Payable for the acquisition of equity interest	408,978	418,069	408,978	418,069
Payables for surety received from related companies	636	157,482		
Consignation to third parties	9,785	15,467	43,062	59,291
Provision for asset decommissioning	5,839	5,611	14,835	14,256
Amounts payable - reverse share split		10,064		8,881
Other	183,132	7,812	46,229	7,810
Total	**1,336,075**	**1,315,270**	**3,536,871**	**3,381,262**
Current	347,650	325,365	1,021,719	847,810
Non-current	988,425	989,905	2,515,152	2,533,452

23. EQUITY

(a) Issued capital

Capital increase as a result of the business combination of Oi S.A. and PT

The Board of Directors approved, at the meetings held on April 30, 2014 and May 5, 2014, the capital increase of the Company totaling R$13,960 million (of which R$8,250 million in cash and R$5,710 million through the assignment of PT assets (Note 1)), through the issue and subscription of 2,262,544,570 common shares and 4,525,089,141 preferred shares, all of which are registered, book-entry and without par value.

Capital increase through the capitalization of reserves

The Board of Directors approved, at the meeting held on June 18, 2014, the capital increase of the Company totaling R$7,111, without the issue of new shares, through the capitalization of the profit reserve, aimed at incorporating into issued capital the reinvestment tax incentive of calendar year 2008. This capitalization shall be in due time submitted to the Company's Extraordinary Shareholders' Meeting for a decision on the amendment to Article 5 of our Bylaws.

Reverse Share Split

On November 18, 2014, the Company approved a 10 for 1 reverse share split of all Company common shares and preferred shares. i.e., consolidating 10 shares into a single common or preferred share, as applicable. The Company's shares traded on the NYSE as ADSs were also be subject to this reverse share slip, following the same reverse share slip ratio used in Brazil, so that these ADSs will continue to be traded at the ratio of one ADS per each share.

As a result of the reverse share slip, the previous 2,861,553,190 common shares and 5,723,166,910 preferred shares are now represented by 286,155,319 common shares and 572,316,691 preferred shares, respectively.

As a result of the changes above, subscribed and paid-in capital is represented by the following shares without par value:

	Number of shares (in thousands)		
	12/31/2014	**05/05/2014**	**12/31/2013**
Total capital in shares			
Common shares	286,155	2,861,553	599,009
Preferred shares	572,317	5,723,167	1,198,078
Total	**858,472**	**8,584,720**	**1,797,087**
Treasury shares			
Common shares	8,425	84,251	84,251
Preferred shares	7,281	72,808	72,808
Total	**15,706**	**157,059**	**157,059**
Outstanding shares			
Common shares	277,730	2,777,302	514,758
Preferred shares	565,036	5,650,359	1,125,270
Total outstanding shares	**842,766**	**8,427,661**	**1,640,028**

The Company is authorized to increase its capital under a Board of Directors' resolution, in common and preferred shares, up to the share capital ceiling of R$34,038,701,741.49, within the legal ceiling of 2/3 for the issuance of new nonvoting preferred shares.

By resolution of the Shareholders' Meeting or Board of Directors' Meeting, the Company's capital can be increased by capitalizing retained earnings or reserves previously set up for this purpose by the Shareholders' Meeting. Under these conditions, the capitalization can be made without any change in the number of shares.

Capital is represented by common and preferred shares without par value, and the Company is not required to maintain the current proportion of these types of share on capital increases.

By resolution of the Shareholders' Meeting or the Board of Directors, the preemptive right on issuance of shares, warrants or convertible debentures can be cancelled in the cases provided for in Article 172 of the Brazilian Corporate Law.

(b) Treasury shares

Treasury shares as at December 31, 2014 originate from the corporate events that took place in the first half of 2012 and the second quarter of 2014, described below:

(i) on February 27, 2012 the Extraordinary Shareholders' Meeting of Oi S.A. approved the Merger Protocol and Justification of Coari with and into the Company and, as a result, the cancelation of the all the treasury shares held by the Company on that date;

(ii) on February 27, 2012 the Extraordinary Shareholders' Meeting of Oi S.A. approved the Merger Protocol and Justification of TNL with and into the Company, and the Company's shares then held by TNL, as a result of the merger of Coari with and into the Company, were canceled, except for 24,647,867 common shares that remained in treasury;

(iii) starting April 9, 2012 Oi paid the reimbursement of shares to withdrawing shareholders;

(iv) as a result of the Company's capital increase approved by the Board of Directors on April 30 and May 5, 2014, and due to subscription made by PT in PT Portugal assets, R$263,028 was reclassified to treasury shares (Note 3.1 - iv).

The treasury shares position corresponding to items (i), (ii) and (iii) referred to above, not taking into consideration item (iv) because this refers to a reclassification derived from cross-shareholdings, is as follows:

	Common shares (*)	Amount	Preferred shares (*)	Amount
Balance at Jan 1, 2013	**84,251**	**880,378**	**72,808**	**1,224,146**
Balance in 2013	**84,251**	**880,378**	**72,808**	**1,224,146**
Reverse share split	(75,826)		(65,527)	
Balance in 2014	**8,425**	**880,378**	**7,281**	**1,224,146**

(*) Number of shares in thousands

Historical cost in purchase of treasury shares (R$ per share)	2014	2013
Weighted average	13.40	13.40
Minimum	3.79	3.79
Maximum	15.25	15.25

Fair value of treasury shares

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

	2014		2013	
	Preferred	Common	Preferred	Common
Number of treasury shares (in thousands)	7,281	8,425	72,808	84,251
Quotation per share on BOVESPA (R$)	8.61	9.15	3.59	3.61
Market value	62,689	77,089	261,381	304,146

The table below shows the deduction of the amount of treasury shares from the reserve used in the repurchase:

	2014	2013
Carrying amount of capital reserves	3,977,623	3,977,623
Treasury shares	(2,104,524)	(2,104,524)
Balance, net of treasury shares	**1,873,099**	**1,873,099**

(c) Capital reserves

Capital reserves are recognized pursuant to the following practices:

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

Special merger reserve: net assets: represents the net assets merged by the Company under the corporate reorganization approved on February 27, 2012.

Investment grant reserve: recognized due to the investment grants received before the beginning of FY 2008 as a balancing item to an asset received by the Company.

Law 8200/91 special inflation adjustment reserve: recognized due to the special inflation adjustments to capital assets, the purpose of which was to offset distortions in inflation adjustment indices prior to 1991.

Interest on works in progress: consists of the balancing item to interest on works in progress incurred through December 31, 1998.

Other capital reserves: consist of the funds invested in income tax incentives before the beginning of FY 2008.

(d) Profit reserves

Profit reserves are recognized pursuant to the following practices:

Legal reserve: allocation of 5% of profit for the year up to the limit of 20% of capital. This allocation is optional when the legal reserve plus the capital reserves exceeds 30% of capital. This reserve is only used for capital increases or offset losses.

Investments reserve: consists of the balances of profit for the year, adjusted pursuant to Article 202 of Law 6404/76 and allocated after the payment of dividends. The profits for the year used to recognize this reserve were fully allocated as retained earnings by the related shareholders' meetings in light of the Company's investment budget and in accordance with Article 196 of the Brazilian Corporate Law.

(e) Dividends and interest on capital

The Company's Board of Directors approved the cancellation of the shareholder compensation policy for FYs 2013-2016, disclosed in a Material Fact Notice of August 13, 2013; therefore, the Company is subject only to the provisions of Law 6404/1976 and its Bylaws.

Dividends are calculated pursuant to the Company's Bylaws and the Brazilian Corporate Law. Mandatory minimum dividend are calculated in accordance with Article 202 of Law 6404/76, and preferred or priority dividends are calculated pursuant to the Company's Bylaws.

Preferred shares are nonvoting, except in the cases specified in paragraphs 1-3 of Article 12 of the Bylaws, but are assured priority in the payment of the noncumulative minimum dividends equal to the higher of 6% per year of the amount obtained by dividing capital stock by the total number of shares of the Company or 3% per year of the amount obtained by dividing book equity by the total number of shares of the Company.

By decision of the Board of Directors, the Company can pay or credit, as dividends, interest on capital pursuant to Article 9, paragraph 7, of Law 9249/1995. The interest paid or credited will be offset against the annual mandatory minimum dividend amount, pursuant to Article 43 of the Bylaws.

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

On February 25, 2015, the Board of Directors approved the capitalization of the investment reserve balance totaling R$1,933,354, as follows: (i) R$154 to capital increase and (ii) R$1,933,200 to recognize the capital reserves, without the issue of new shares.

The Company recorded loss for the year ended December 31, 2014 amounting to R$4,407,711. On March 25, 2015 the Board of Directors approved the Company profit allocation proposal, subject to approval by the da Annual Shareholders' Meeting, as follows: (i) absorption of the legal reserve amounting to R$383,527 and R$4,024,184 for accumulated losses.

Mandatory minimum dividends calculated in accordance with Article 202 of Law 6404/1976:

	2014	2013
Profit (loss) for the year	**(4,407,711)**	**1,493,015**
% of mandatory dividends		x 25%
Mandatory minimum dividends		373,254
Addition related to the distribution of interim dividends		126,746
Total dividends paid to shareholders		**500,000**

The Company did not recognize a legal reserve of 5% of profit for the year in 2013 because the balance of this reserve, plus the amount of the capital reserves, exceeds 30% of capital.

(f) Share issue costs

We recognized in this line item the share issue costs related to the corporate transactions: (1) capital increase, in accordance with the plan for the business combination between the Company and PT (Note 1) and (2) corporate reorganization of February 27, 2012. These costs directly attributable to the mentioned events are basically represented by expenses on the preparation of prospectus and reports, third-party professional services, fees and commissions, transfer costs, and registration costs.

(g) Obligations in equity instruments

Under the exchange agreement entered into with PT SGPS on September 8, 2014, already approved at a PT SGP'S extraordinary shareholders' meeting, the CVM, and still subject to approval at Oi's extraordinary shareholders' meeting, the Company assumed the obligation of acquiring for PT SGPS its own shares to settle the compensation right. Taking into account the nature of the asset received by the Company to consummate the Exchange, the contractual obligation was recognized as a contra entry to equity (Note 3.1).

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

(h) Other comprehensive income

We recognize in this line item other comprehensive income, which includes hedge accounting gains and losses, actuarial gains and losses, foreign exchange differences arising on translating the net investment in foreign subsidiaries, including exchange differences in intragroup loans that are part of the net investment in foreign subsidiaries, reclassification adjustments, and the tax effects related to these components, which are not recognized in the income statements.

The financial statements form filed with CVM's Empresas.Net system presents in the balance sheet only with the 'Valuation adjustment to equity' and 'Other comprehensive income' line items - equity (and not line items 'Share issue costs' and 'Changes in equity interest percentage') and the statement of changes in equity only the 'Other comprehensive income' line item (not presenting the 'Valuation adjustment to equity' or 'Changes in equity interest percentage' line items).

As a result, the effects discussed in the topic above are presented in aggregate in the relevant existing line items, referred to above, as shown below:

	Other comprehensive income	Share issue costs	Obligations in equity instruments	Changes in equity interest percentage	Total
Balance at Jan 1, 2013	**(67,093)**	**(56,609)**		**3,916**	**(119,786)**
Share issue costs		62			62
Actuarial gains and (losses)	113,972				113,972
Subsidiaries' actuarial gains and (losses)	924				924
Hedge accounting losses	(119,229)				(119,229)
Subsidiaries' hedge accounting losses	(20,105)				(20,105)
Balance in 2013	**(91,531)**	**(56,547)**		**3,916**	**(144,162)**
Share issue costs		(253,045)			(253,045)
Hedge accounting gain	128,982				128,982
Subsidiaries' hedge accounting gain	(6,191)				(6,191)
Actuarial loss	58,885				58,885
Subsidiaries' actuarial loss	(714,654)				(714,654)
Exchange gains on investment abroad (i)	441,899				441,899
Exchange gains on subsidiaries' investment abroad	132,993				132,993
Obligations in equity instruments			(2,894,619)		(2,894,619)
Other comprehensive income	94,743				94,743
Balance in 2014	**45,126**	**(309,592)**	**(2,894,619)**	**3,916**	**(3,155,169)**

(i) Includes foreign exchange gains of approximately R$ 1.02 billion related to the assets that will be sold to Altice.

(i) Basic and diluted earnings (loss) per share

The Company's Bylaws award different rights to holders of common and preferred shares with respect to dividends, voting rights, and in case of liquidation of the Company. Accordingly, basic and diluted earnings (losses) per share were calculated based on profit for the year available to common and preferred shareholders.

Basic

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

Diluted

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

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

	2014	2013
Profit for the year from continuing operations	6,828	1,493,015
Loss for the year from discontinued operations (net of taxes)	(4,414,539)	
Profit (loss) attributable to owners of the Company	**(4,407,711)**	**1,493,015**
Profit (loss) allocated to common shares – basic and diluted	(4,407,711)	468,615
Profit allocated to preferred shares – basic and diluted		1,024,400
Weighted average number of outstanding shares (in thousands of shares)		
Common shares – basic and diluted	202,312	51,476
Preferred shares – basic and diluted	414,200	112,527
Earnings (losses) per share (in reais):		
Common shares – basic and diluted	(7.15)	9.10
Preferred shares – basic and diluted	(7.15)	9.10
Earnings per share – continuing operations		
Common shares – basic and diluted	0,01	9.10
Preferred shares – basic and diluted	0.01	9.10
Earnings (losses) per share – discontinued operations:		
Common shares – basic and diluted	(7.16)	
Preferred shares – basic and diluted	(7.16)	

Retrospective adjustment

As required by CPC 41/IAS 33, we have adjusted retrospectively the calculation of basic and diluted earnings per share taking into consideration the new shareholding structure resulting from the reverse share split described in item (a) above.

24. EMPLOYEE BENEFITS

(a) Pension funds

The Company and its subsidiaries sponsor retirement benefit plans ("pension funds") for their employees, provided that they elect to be part of such plan, and current beneficiaries. The table below shows the existing pension plans at December 31, 2014.

Benefit plans	Sponsors	Manager
TCSPREV	Oi, Oi Móvel, BrT Multimídia, Oi Internet and BrTI	FATL
BrTPREV	Oi, Oi Móvel, BrT Multimídia, Oi Internet and BrTI	FATL
TelemarPrev	Oi, TMAR, Oi Móvel and Telemar Internet	FATL
PAMEC	Oi	Oi
PBS-A	TMAR and Oi	Sistel
PBS-Telemar	TMAR	FATL
PBS-TNCP	Oi Móvel	Sistel
CELPREV	Oi Móvel	Sistel

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

Telemar Participações S.A., the Company's parent, is one of the sponsors the TelemarPrev benefit plan.

For purposes of the pension plans described in this note, the Company can also be referred to as the "Sponsor".

The sponsored plans are valued by independent actuaries at the end of the annual reporting period. For the year ended December 31, 2014, the actuarial valuations were performed by Mercer Human Resource Consulting Ltda. The Bylaws provide for the approval of the supplementary pension plan policy, and the joint liability attributed to the defined benefit plans is ruled by the agreements entered into with the pension fund entities, with the agreement of the National Pension Plan Authority (PREVIC), as regards the specific plans. PREVIC is the official agency that approves and oversees said plans.

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

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

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

Provisions for pension funds

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

	COMPANY		CONSOLIDATED	
	2014	**2013**	**2014**	**2013**
BrTPREV plans	473,209	639,646	473,554	640,145
PAMEC plan	2,981	3,417	2,981	3,417
Total	**476,190**	**643,063**	**476,535**	**643,562**
Current	129,401	184,075	129,662	184,295
Non-current	346,789	458,988	346,873	459,267

Assets recognized to be offset against future employer contributions

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

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

	COMPANY		CONSOLIDATED	
	2014	**2013**	**2014**	**2013**
TCSPREV Plan	43,772	67,086	47,496	69,793
Total	**43,772**	**67,086**	**47,496**	**69,793**
Current	1,623	8,757	1,744	9,596
Non-current	42,149	58,329	45,752	60,197

Features of the sponsored supplementary pension plans

1) FATL

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

Plans

(i) BrTPREV

Variable contribution pension Benefit Plan, enrolled with the CNPB under No. 2002.0017-74.

On July 31, 2012 the Fundador/Alternativo Benefit Plan, enrolled with the CNPB under No. 1991.0015-92, was effectively merged with and into the BrTPREV Benefit Plan, approved by PREVIC Administrative Rule 378, of July 11, 2012.

Upon the effective merger (on July 31, 2012), the Participants and Beneficiaries of the Fundador/Alternativo Benefit Plan automatically become Participants and Beneficiaries of BrTPREV, maintaining the same categories they had on the day immediately before that date.

The monthly, mandatory Basic Contribution of the BrTPREV group Participants corresponds to the product obtained, in whole numbers, by applying a percentage to the Contribution Salary (SP), according to the Participant's age and option, as follows: (i) Age up to 25 years old - Basic Contribution cohort of 3 and 8 percent of the SP; (ii) Age 26 to 30 years old - Basic Contribution cohort of 4 to 8 percent of the SP; (iii) Age 31 to 35 years old - Basic Contribution cohort of 5 to 8 percent of the SP; (iv) Age 36 to 40 years old - Basic Contribution cohort of 6 to 8 percent of the SP; (v) Age 41 to 45 years old - Basic Contribution cohort of 7 to 8 percent of the SP; and (vi) Age 46 years old or more - Basic Contribution cohort of 8 percent of the SP.

The monthly Contribution of the Fundador/Alternativo group (merged) Participants corresponds to the sum of: (i) 3 percent charged on the Contribution Salary; (ii) 2 percent charged on the Contribution Salary that exceeds half of the highest Official Pension Scheme Contribution Salary, and (iii) 6.3 percent charged on the Contribution Salary that that exceeds the highest Official Pension Scheme Contribution Salary.

A BrTPREV group Participant's Voluntary Contribution corresponds to the product obtained, in whole numbers, by applying a percentage of up 22 percent, elected by the Participant, to the Participation Salary. The Sporadic Contribution of a BrTPREV group Participant is optional and both its amount and frequency are freely chosen by the Participant, provided it is not lower than one (1) UPBrT (BrT's pension unit). The Sponsor does not make any counterpart contribution to the Participant's Voluntary or Sporadic Contribution.

The Plan's Charter provides for contribution parity by the Participants and the Sponsors. The plan is funded under the capitalization approach.

(ii) PBS-Telemar

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

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

(iii) TelemarPrev

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

A participant's regular contribution is comprised of two portions: (i) basic - equivalent to 2% of the contribution salary; and (ii) standard - equivalent to 3% of the positive difference between the total contribution salary and the social security contribution. The additional extraordinary contributions from participants are optional and can be made in multiples of 0.5 percent of the Contribution Salary, for a period of not less than six (6) months. Nonrecurring extraordinary contributions from a participant are also optional and cannot be lower than 5 percent of the Contribution Salary ceiling. The Plan's Charter requires the parity between participants' and sponsors' contributions, up to the limit of 8% of the Contribution Salary, even though a sponsor is not required to match Extraordinary Contributions made by participants. The plan is funded under the capitalization approach.

(iv) TCSPREV

Variable contribution pension Benefit Plan, enrolled with the National Register of Benefit Plans (CNPB) under No. 2000.0028-38.

The monthly, mandatory Basic Contribution of the TCSPREV group Participants corresponds to the product obtained, in whole numbers, by applying a percentage, chosen by the Participant, to the Contribution Salary (SP) as follows: (i) Age up to 25 years old - basic contribution cohort of 3 and 8 percent of the SP; (ii) Age 26 to 30 years old - basic contribution cohort of 4 to 8 percent of the SP; (iii) Age 31 to 35 years old - basic contribution cohort of 5 to 8 percent of the SP; (iv) Age 36 to 40 years old - basic contribution cohort of 6 to 8 percent of the SP; (v) Age 41 to 45 years old - basic contribution cohort of 7 to 8 percent of the SP; and (vi) Age 46 years old or more - basic contribution cohort of 8 percent of the SP.

The TCSPREV group Participant's Voluntary Contribution corresponds to the product obtained, in whole numbers, by applying a percentage of up 22 percent, elected by the Participant, to the Participation Salary. The Sporadic Contribution of a Participant is optional and both its amount and frequency are freely chosen by the Participant, provided it is not lower than one (1) UPTCS (TCSPREV's pension unit). The Sponsor does not make any counterpart contribution to the Participant's Voluntary or Sporadic contribution.

The Plan's Charter provides for contribution parity by the Participants and the Sponsors. The plan is funded under the capitalization approach.

2) Sistel

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

Plans

(i) PBS-A

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

Contributions to the PBS-A are contingent on the determination of an accumulated deficit. As at December 31, 2014, date of the last actuarial valuation, the plan presented a surplus.

(ii) PBS-TNCP

Defined benefit plan, which, in addition to the official pension supplementation benefit, grants medical care (PAMA) to retirees and their dependents, on shared-cost basis. Contributions to the PBS-TNCP and PAMA plans are set based on actuarial studies prepared by independent actuaries according to the regulations in force in Brazil. Funding is determined using the capitalization system and the contribution due by the sponsor is 5.39% of the payroll of its employees participating in the plan, of which 6.39% are used to fund the PBS-TNCP plan.

The pension benefit is defined as the difference between 90% of average salary of the previous 36 months, adjusted for inflation up to the retirement date, and the retirement benefit paid by the INSS.

PBS-TNCP has been closed to new participants since April 2004.

(iii) CELPREV

In 2004, Amazônia (merged with and into TNL PCS) obtained from PREVIC the approval to create a new Pension Plan. The variable contribution plan, called CelPrev Amazônia (“CELPREV”), was offered to the employees who did not participate of the PBS-TNCP plan, and to new employees hired by its subsidiary. The participants of the PBS-TNCP plan were offered the possibility and encouraged to migrate to the CELPREV plan.

A participant can make three types of contributions: (i) basic regular contribution: percentage ranging from 0 to 2 percent of his/her contribution salary; (ii) additional regular contribution: percentage from 0 to 6 percent of the share of his/her contribution salary that exceeds one Standard Reference Unit of the Plan; and (iii) voluntary contribution: percentage of the contribution salary freely chosen by the participant.

The sponsor can make four types of contributions: (i) basic regular contribution: contribution equal to the participant’s basic regular contribution, less the contributions made to fund sick pay and administrative expenses; (ii) additional regular contribution: equal to the participant’s additional regular contribution, less the contributions to administrative expense; (iii) nonrecurring contribution: made voluntarily and with the frequency set by the sponsor; and (iv) special contribution: contribution intended exclusively for the sponsor’s employees who are not part of the PBS plan and who have joined the plan within 90 days from the effective date of CELPREV.

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

3) PAMEC-BrT - Assistance plan managed by the Company

Defined benefit plan intended to provide medical care to the retirees and survivor pensioners linked to the TCSPREV pension plan managed by FATL.

The contributions for PAMEC-BrT were fully paid in July 1998, through a bullet payment. However, as this plan is now administrated by the Company, after the transfer of management by Fundação 14 in November 2007, there are no assets recognized to cover current expenses, and the actuarial obligation is fully recognized in the Company’s liabilities.

Status of the sponsored plans, revalued at the end of the reporting period (FATL)

The table below shows the data of the sponsored defined benefit pension plans:

	COMPANY			
	2014			
	BrTPREV	TCSPREV	PBS-Telemar	TelemarPrev
RECONCILIATION OF ASSETS AND LIABILITIES				
Actuarial obligations on vested benefits	1,997,659	441,380	5,725	84,476
Actuarial obligations on unvested benefits	24,713	59,046		27,610
(=) Total present value of actuarial	**2,022,372**	**500,426**	**5,725**	**112,086**
Fair value of plan assets	**(1,549,163)**	**(1,429,105)**	**(5,958)**	**(124,301)**
(=) Actuarial liability/(asset), net	**473,209**	**(928,679)**	**(233)**	**(12,215)**
Effect of the asset/onerous liability recognition ceiling		884,907	233	12,215
(=) Recognized net actuarial liability/(asset) (1)	**473,209**	**(43,772)**		

	CONSOLIDATED			
	2014			
	BrTPREV	TCSPREV	PBS-Telemar	TelemarPrev
RECONCILIATION OF ASSETS AND LIABILITIES				
Actuarial obligations on vested benefits	1,998,671	441,505	240,702	2,489,091
Actuarial obligations on unvested benefits	25,178	60,928	7,131	392,919
(=) Total present value of actuarial	**2,023,849**	**502,433**	**247,833**	**2,882,010**
Fair value of plan assets	**(1,550,295)**	**(1,434,836)**	**(257,937)**	**(3,118,897)**
(=) Actuarial liability/(asset), net	**473,554**	**(932,403)**	**(10,104)**	**(236,887)**
Effect of the asset/onerous liability recognition ceiling		884,907	10,104	236,887
(=) Recognized net actuarial liability/(asset) (1)	**473,554**	**(47,496)**		

	COMPANY			
	2013			
	BrTPREV	TCSPREV	PBS-Telemar	TelemarPrev
RECONCILIATION OF ASSETS AND LIABILITIES				
Actuarial obligations on vested benefits	1,915,540	415,144	5,489	77,506
Actuarial obligations on unvested benefits	24,647	64,557		27,013
(=) Total present value of actuarial	**1,940,187**	**479,701**	**5,489**	**104,519**
Fair value of plan assets	**(1,300,541)**	**(1,438,595)**	**(6,148)**	**(127,522)**
(=) Actuarial liability/(asset), net	**639,646**	**(958,894)**	**(659)**	**(23,003)**
Effect of the asset/onerous liability recognition ceiling		891,808	659	23,003
(=) Recognized net actuarial liability/(asset) (1)	**639,646**	**(67,086)**		

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

	CONSOLIDATED			
	2013			
	BrTPREV	TCSPREV	PBS-Telemar	TelemarPrev
RECONCILIATION OF ASSETS AND LIABILITIES				
Actuarial obligations on vested benefits	1,916,503	415,262	227,664	2,318,635
Actuarial obligations on unvested benefits	25,198	65,793	8,220	404,307
(=) Total present value of actuarial	**1,941,701**	**481,055**	**235,884**	**2,722,942**
Fair value of plan assets	**(1,301,556)**	**(1,442,656)**	**(264,224)**	**(3,203,900)**
(=) Actuarial liability/(asset), net	**640,145**	**(961,601)**	**(28,340)**	**(480,958)**
Effect of the asset/onerous liability recognition ceiling		891,808	28,340	480,958
(=) Recognized net actuarial liability/(asset) (1)	**640,145**	**(69,793)**		

(1) The Company determines the amount available to deduct from future contributions according to the applicable legal provisions and the benefit plan charter. The amount of he asset linked to the TCSPREV plan recognized in the Company's financial statements, totaling R$47,496 (R$69,793 in 2013), does not exceed the present value of future contributions.

	COMPANY			
	2014			
	BrTPREV	TCSPREV	PBS-Telemar	TelemarPrev
MOVEMENTS IN NET ACTUARIAL LIABILITIES/(ASSETS)				
Present value of actuarial obligation at beginning of year	**1,940,187**	**479,701**	**5,489**	**104,519**
Interest on actuarial liabilities	219,460	54,530	617	11,949
Cost of current service	184	741		223
Benefits paid, net	(167,590)	(36,558)	(534)	(7,546)
Result of the benefit obligation allocated to other comprehensive income	30,131	2,012	153	2,941
Present value of actuarial obligation at end of year	**2,022,372**	**500,426**	**5,725**	**112,086**
Fair value of assets at beginning of year	**1,300,541**	**1,438,595**	**6,148**	**127,522**
Return of plan assets	151,032	167,967	695	14,670
Amortizing contributions received from sponsor	123,304			
Payment of benefits	(167,590)	(36,558)	(534)	(7,546)
Result of the benefit obligation allocated to other comprehensive income	141,876	(140,899)	(351)	(10,345)
Fair value of plan assets at yearend	**1,549,163**	**1,429,105**	**5,958**	**124,301**
(=) Net actuarial liability/(asset) amount	**473,209**	**(928,679)**	**(233)**	**(12,215)**
Effect of the asset/onerous liability recognition ceiling		884,907	233	12,215
(=) Net actuarial liability/(asset) recognized	**473,209**	**(43,772)**		

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

	CONSOLIDATED			
	2014			
	BrTPREV	TCSPREV	PBS-Telemar	TelemarPrev
MOVEMENTS IN NET ACTUARIAL LIABILITIES/(ASSETS)				
Present value of actuarial obligation at beginning of year	**1,941,701**	**481,055**	**235,884**	**2,722,942**
Interest on actuarial liabilities	219,629	54,689	26,755	310,463
Cost of current service	230	797	121	3,589
Participant contributions made in the year			52	
Benefits paid, net	(167,661)	(36,569)	(18,507)	(216,057)
Result of the benefit obligation allocated to other comprehensive income	29,950	2,461	3,528	61,073
Present value of actuarial obligation at end of year	**2,023,849**	**502,433**	**247,833**	**2,882,010**
Fair value of assets at beginning of year	**1,301,556**	**1,442,656**	**264,224**	**3,203,900**
Return of plan assets	151,143	168,446	30,117	367,360
Amortizing contributions received from sponsor	123,304			
Regular contributions received by plan			129	
Sponsor			77	
Participants			52	
Payment of benefits	(167,661)	(36,569)	(18,507)	(216,057)
Result of the benefit obligation allocated to other comprehensive income	141,953	(139,697)	(18,026)	(236,306)
Fair value of plan assets at yearend	**1,550,295**	**1,434,836**	**257,937**	**3,118,897**
(=) Net actuarial liability/(asset) amount	**473,554**	**(932,403)**	**(10,104)**	**(236,887)**
Effect of the asset/onerous liability recognition ceiling		884,907	10,104	236,887
(=) Net actuarial liability/(asset) recognized	**473,554**	**(47,496)**		

	COMPANY			
	2013			
	BrTPREV	TCSPREV	PBS-Telemar	TelemarPrev
MOVEMENTS IN NET ACTUARIAL LIABILITIES/(ASSETS)				
Present value of actuarial obligation at beginning of year	**2,259,992**	**570,179**	**6,179**	**120,303**
Interest on actuarial liabilities	193,877	49,168	527	10,427
Cost of current service	649	1,713		502
Benefits paid, net	(160,566)	(35,494)	(532)	(6,976)
Result of the benefit obligation allocated to other comprehensive income	(353,765)	(105,865)	(685)	(19,737)
Present value of actuarial obligation at end of year	**1,940,187**	**479,701**	**5,489**	**104,519**
Fair value of assets at beginning of year	**1,395,052**	**1,538,770**	**7,206**	**131,445**
Return of plan assets	121,585	135,267	618	11,418
Amortizing contributions received from sponsor	116,803			
Payment of benefits	(160,566)	(35,494)	(532)	(6,976)
Result of the benefit obligation allocated to other comprehensive income	(172,333)	(199,948)	(1,144)	(8,365)
Fair value of plan assets at yearend	**1,300,541**	**1,438,595**	**6,148**	**127,522**
(=) Net actuarial liability/(asset) amount	**639,646**	**(958,894)**	**(659)**	**(23,003)**
Effect of the asset/onerous liability recognition ceiling		891,808	659	23,003
(=) Net actuarial liability/(asset) recognized	**639,646**	**(67,086)**		

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

	CONSOLIDATED			
	2013			
	BrTPREV	TCSPREV	PBS-Telemar	TelemarPrev
MOVEMENTS IN NET ACTUARIAL LIABILITIES/(ASSETS)				
Present value of actuarial obligation at beginning of year	**2,262,524**	**571,785**	**277,397**	**3,266,856**
Interest on actuarial liabilities	194,093	49,310	23,839	282,499
Cost of current service	782	1,836	235	12,197
Participant contributions made in the year			52	
Benefits paid, net	(160,633)	(35,504)	(18,309)	(203,607)
Result of the benefit obligation allocated to other comprehensive income	(355,065)	(106,372)	(47,330)	(635,003)
Present value of actuarial obligation at end of year	**1,941,701**	**481,055**	**235,884**	**2,722,942**
Fair value of assets at beginning of year	**1,396,614**	**1,543,104**	**323,480**	**3,526,899**
Return of plan assets	121,714	135,651	27,942	305,614
Amortizing contributions received from sponsor	116,803			
Regular contributions received by plan			137	
Sponsor			85	
Participants			52	
Payment of benefits	(160,633)	(35,504)	(18,309)	(203,607)
Result of the benefit obligation allocated to other comprehensive income	(172,942)	(200,595)	(69,026)	(425,006)
Fair value of plan assets at yearend	**1,301,556**	**1,442,656**	**264,224**	**3,203,900**
(=) Net actuarial liability/(asset) amount	**640,145**	**(961,601)**	**(28,340)**	**(480,958)**
Effect of the asset/onerous liability recognition ceiling		891,808	28,340	480,958
(=) Net actuarial liability/(asset) recognized	**640,145**	**(69,793)**		

	COMPANY			
	2014			
	BrTPREV	TCSPREV	PBS-Telemar	TelemarPrev
BENEFIT EXPENSE (INCOME) COMPONENT				
Cost of current service	184	741		223
Interest on actuarial liabilities	219,460	54,530	617	11,949
Return of plan assets	(151,032)	(167,967)	(695)	(14,670)
Interest on onerous liability		105,501	78	2,721
Effect of the unrecognized net actuarial asset				(223)
Expense (income) recognized in income statement	**68,612**	**(7,195)**		
Expense (income) recognized in other comprehensive income	(111,745)	30,509		
Total expense (income) recognized	**(43,133)**	**23,314**		

	CONSOLIDATED			
	2014			
	BrTPREV	TCSPREV	PBS-Telemar	TelemarPrev
BENEFIT EXPENSE (INCOME) COMPONENT				
Cost of current service	230	797	121	3,589
Interest on actuarial liabilities	219,629	54,689	26,755	310,463
Return of plan assets	(151,143)	(168,446)	(30,117)	(367,360)
Interest on onerous liability		105,501	3,353	56,897
Effect of the unrecognized net actuarial asset			(112)	(3,589)
Expense (income) recognized in income statement	**68,716**	**(7,459)**		
Expense (income) recognized in other comprehensive income	(112,003)	29,756		
Total expense (income) recognized	**(43,287)**	**22,297**		

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

	COMPANY			
	2013			
	BrTPREV	**TCSPREV**	**PBS-Telemar**	**TelemarPrev**
BENEFIT EXPENSE (INCOME) COMPONENT				
Cost of current service	649	1,713		502
Interest on actuarial liabilities	193,877	49,168	527	10,427
Return of plan assets	(121,585)	(135,266)	(618)	(11,417)
Interest on onerous liability		76,507	91	990
Effect of the unrecognized net actuarial asset				(502)
Expense (income) recognized in income statement	**72,941**	**(7,878)**		
Expense (income) recognized in other comprehensive income	(181,432)	48,687		
Total expense (income) recognized	**(108,491)**	**40,809**		

	CONSOLIDATED			
	2013			
	BrTPREV	**TCSPREV**	**PBS-Telemar**	**TelemarPrev**
BENEFIT EXPENSE (INCOME) COMPONENT				
Cost of current service	782	1,837	235	12,197
Interest on actuarial liabilities	194,092	49,310	23,839	282,499
Return of plan assets	(121,714)	(135,651)	(27,942)	(305,614)
Interest on onerous liability		76,507	4,096	23,115
Effect of the unrecognized net actuarial asset			(228)	(12,197)
Expense (income) recognized in income statement	**73,160**	**(7,997)**		
Expense (income) recognized in other comprehensive income	(182,121)	48,826		
Total expense (income) recognized	**(108,961)**	**40,829**		

The sponsors' contributions to the pension plans estimated for 2015 amount R$129,378.

The main actuarial assumptions used in the calculations of the TelemarPREV, PBS-Telemar, BrTPREV, and TCSPREV plans were as follows:

	2014			
	BrTPREV	**TCSPREV**	**PBS-Telemar**	**TelemarPrev**
MAIN ACTUARIAL ASSUMPTIONS USED				
Nominal discount rate of actuarial liability	11.83%	11.83%	11.83%	11.83%
Estimated inflation rate	5.50%	5.50%	5.50%	5.50%
Estimated nominal salary increase index	7.08%	6.45%	5.5%	6.56% to 8.24%
Estimated nominal benefit growth rate	5.50%	5.50%	5.50%	5.50%
Total expected rate of return on plan assets	11.83%	11.83%	11.83%	11.83%
General mortality biometric table	AT-2000	AT-2000	AT-2000	AT-2000
Biometric disability table	Zimmermann Nichzugs	Zimmermann Nichzugs	Zimmermann Nichzugs	Zimmermann Nichzugs
Biometric disabled mortality table	Winklevoss	Winklevoss	Winklevoss	Winklevoss
Turnover rate	7.3%	8.2%	Nil	0% to 12%

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

	2013			
	BrTPREV	**TCSPREV**	**PBS-Telemar**	**TelemarPrev**
MAIN ACTUARIAL ASSUMPTIONS USED				
Nominal discount rate of actuarial liability	11.83%	11.83%	11.83%	11.83%
Estimated inflation rate	5.50%	5.50%	5.50%	5.50%
Estimated nominal salary increase index	7.93%	7.93%	7.93%	5.5% to 10.9%
Estimated nominal benefit growth rate	5.50%	5.50%	5.50%	5.50%
Total expected rate of return on plan assets	11.83%	11.83%	11.83%	11.83%
General mortality biometric table	AT2000	AT2000	AT2000	AT2000
Biometric disability table	Zimmermann Nichzugs	Zimmermann Nichzugs	Zimmermann Nichzugs	Zimmermann Nichzugs
Biometric disabled mortality table	Winklevoss	Winklevoss	Winklevoss	Winklevoss
Turnover rate	6%	6%	Nil	0% to 14.5%

ADDITIONAL DISCLOSURES - 2014
a) Plans’ assets and liabilities correspond to the amounts as at December 31, 2014.
b) Master file data used for the plans managed by FATL are as at August 31, 2014, projected for December 31, 2014.

Status of the sponsored plans, revalued at the end of the annual reporting period (SISTEL and PAMEC)

	COMPANY			
	PBS-A		PAMEC	
	2014	2013	2014	2013
RECONCILIATION OF ASSETS AND LIABILITIES				
Actuarial obligations on vested benefits	820,774	789,342	2,981	3,417
(=) Total present value of actuarial	**820,774**	**789,342**	**2,981**	**3,417**
Fair value of plan assets	**(1,584,655)**	**(1,481,593)**		
(=) Actuarial liability/(asset), net	**(763,881)**	**(692,251)**	**2,981**	**3,417**
Effect of the asset/onerous liability recognition ceiling	586,047	535,141		
(=) Actuarial liability/(asset), net	**(177,834)**	**(157,110)**	**2,981**	**3,417**
Unrecognized net actuarial asset	177,834	157,110		
(=) Net actuarial liability/(asset) recognized			**2,981**	**3,417**

	CONSOLIDATED			
	2014			
	PBS-A	PAMEC	PBS-TNCP	CELPREV
RECONCILIATION OF ASSETS AND LIABILITIES				
Actuarial obligations on vested benefits	3,869,773	2,981	23,551	
Actuarial obligations on unvested benefits			2,291	94
(=) Total present value of actuarial	**3,869,773**	**2,981**	**25,842**	**94**
Fair value of plan assets	**(7,452,866)**		**(48,794)**	**(2,367)**
(=) Actuarial liability/(asset), net	**(3,583,093)**	**2,981**	**(22,952)**	**(2,273)**
Effect of the asset/onerous liability recognition ceiling	2,741,475		22,952	2,273
(=) Actuarial liability/(asset), net	**(841,618)**	**2,981**		
Unrecognized net actuarial asset	841,618			
(=) Net actuarial liability/(asset) recognized		**2,981**		

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

	CONSOLIDATED			
	2013			
	PBS-A	PAMEC	PBS-TNCP	CELPREV
RECONCILIATION OF ASSETS AND LIABILITIES				
Actuarial obligations on vested benefits	3,727,809	3,417	22,229	
Actuarial obligations on unvested benefits			1,968	117
(=) Total present value of actuarial	**3,727,809**	**3,417**	**24,197**	**117**
Fair value of plan assets	**(6,968,153)**		**(45,312)**	**(1,668)**
(=) Actuarial liability/(asset), net	**(3,240,344)**	**3,417**	**(21,115)**	**(1,551)**
Effect of the asset/onerous liability recognition ceiling	2,496,803		21,115	1,551
(=) Actuarial liability/(asset), net	**(743,541)**	**3,417**		
Unrecognized net actuarial asset	743,541			
(=) Net actuarial liability/(asset) recognized		**3,417**		

	COMPANY			
	PBS-A		PAMEC	
	2014	2013	2014	2013
MOVEMENTS IN NET ACTUARIAL LIABILITIES/(ASSETS)				
Present value of actuarial obligation at beginning of year	**789,342**	**906,853**	**3,417**	**4,877**
Interest on actuarial liabilities	89,158	77,658	396	426
Benefits paid, net	(75,440)	(80,980)	(110)	(253)
Result of the benefit obligation allocated to other comprehensive income	17,714	(114,189)	(722)	(1,633)
Present value of actuarial obligation at end of year	**820,774**	**789,342**	**2,981**	**3,417**
Fair value of assets at beginning of year	**1,481,593**	**1,428,362**		
Expected return for the year	171,051	124,021		
Regular contributions received by plan - sponsor			110	253
Payment of benefits	(75,440)	(80,980)	(110)	(253)
Result of the benefit obligation allocated to other comprehensive income	7,451	10,190		
Fair value of plan assets at yearend	**1,584,655**	**1,481,593**		
(=) Net actuarial liability/(asset) amount	**(763,881)**	**(692,251)**	**2,981**	**3,417**
Effect of the asset/onerous liability recognition ceiling	586,047	535,141		
(=) Actuarial liability/(asset), net	**(177,834)**	**(157,110)**	**2,981**	**3,417**
Unrecognized net actuarial asset	177,834	157,110		
(=) Net actuarial liability/(asset) recognized			**2,981**	**3,417**

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

	CONSOLIDATED			
	2014			
	PBS-A	PAMEC	PBS-TNCP	CELPREV
MOVEMENTS IN NET ACTUARIAL LIABILITIES/(ASSETS)				
Present value of actuarial obligation at beginning of year	**3,727,809**	**3,417**	**24,197**	**117**
Interest on actuarial liabilities	420,619	396	2,758	13
Cost of current service			58	5
Benefits paid, net	(354,808)	(110)	(1,835)	
Participant contributions made in the year			56	2
Result of the benefit obligation allocated to other comprehensive income	76,153	(722)	608	(43)
Present value of actuarial obligation at end of year	**3,869,773**	**2,981**	**25,842**	**94**
Fair value of assets at beginning of year	**6,968,153**		**45,312**	**1,668**
Expected return for the year	803,952		5,258	197
Regular contributions received by plan		110	77	7
Sponsor		110	21	5
Participants			56	2
Payment of benefits	(354,808)	(110)	(1,835)	
Result of the benefit obligation allocated to other comprehensive income	35,569		(18)	495
Fair value of plan assets at yearend	**7,452,866**		**48,794**	**2,367**
(=) Net actuarial liability/(asset) amount	**(3,583,093)**	**2,981**	**(22,952)**	**(2,273)**
Effect of the asset/onerous liability recognition ceiling	2,741,475		22,952	2,273
(=) Actuarial liability/(asset), net	**(841,618)**	**2,981**		
Unrecognized net actuarial asset	841,618			
(=) Net actuarial liability/(asset) recognized		**2,981**		

	CONSOLIDATED			
	2013			
	PBS-A	PAMEC	PBS-TNCP	CELPREV
MOVEMENTS IN NET ACTUARIAL LIABILITIES/(ASSETS)				
Present value of actuarial obligation at beginning of year	**4,269,767**	**4,877**	**28,570**	**128**
Interest on actuarial liabilities	365,303	426	2,464	11
Cost of current service			82	5
Benefits paid, net	(380,863)	(253)	(1,929)	
Participant contributions made in the year			23	5
Result of the benefit obligation allocated to other comprehensive income	(526,398)	(1,633)	(5,013)	(32)
Present value of actuarial obligation at end of year	**3,727,809**	**3,417**	**24,197**	**117**
Fair value of assets at beginning of year	**6,717,801**		**53,299**	**1,933**
Expected return for the year	582,933		4,664	172
Regular contributions received by plan		253	62	9
Sponsor		253	39	4
Participants			23	5
Payment of benefits	(380,863)	(253)	(1,929)	
Result of the benefit obligation allocated to other comprehensive income	48,282		(10,784)	(446)
Fair value of plan assets at yearend	**6,968,153**		**45,312**	**1,668**
(=) Net actuarial liability/(asset) amount	**(3,240,344)**	**3,417**	**(21,115)**	**(1,551)**
Effect of the asset/onerous liability recognition ceiling	2,496,803		21,115	1,551
(=) Actuarial liability/(asset), net	**(743,541)**	**3,417**		
Unrecognized net actuarial asset	743,541			
(=) Net actuarial liability/(asset) recognized		**3,417**		

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

	COMPANY			
	PBS-A		PAMEC	
	2014	2013	2014	2013
BENEFIT EXPENSE (INCOME) COMPONENT				
Interest on actuarial liabilities	89,158	77,658	396	426
Return (loss) on plan assets	(171,051)	(124,021)		
Interest on onerous liability	63,307	39,189		
Effect of the unrecognized net actuarial asset	18,586	7,174		
Expense (income) recognized in income statement			**396**	**426**
Expense (income) recognized in other comprehensive income	2,137	69,245	(723)	(1,632)
Effect of the unrecognized net actuarial asset	(2,137)	(69,245)		
Total expense (income) recognized			**(327)**	**(1,206)**

	CONSOLIDATED			
	2014			
	PBS-A	PAMEC	PBS-TNCP	CELPREV
BENEFIT EXPENSE (INCOME) COMPONENT				
Cost of current service		396	58	5
Interest on actuarial liabilities	420,619		2,758	13
Return of plan assets	(803,951)		(5,258)	(197)
Interest on onerous liability	295,371		2,498	184
Effect of the unrecognized net actuarial asset	87,961		(56)	(5)
Expense (income) recognized in income statement		**396**		
Expense (income) recognized in other comprehensive income	10,116	(723)	(35)	
Effect of the unrecognized net actuarial asset	(10,116)		35	
Total expense (income) recognized		**(327)**		

	CONSOLIDATED			
	2013			
	PBS-A	PAMEC	PBS-TNCP	CELPREV
BENEFIT EXPENSE (INCOME) COMPONENT				
Cost of current service		426	82	5
Interest on actuarial liabilities	365,304		2,464	11
Return of plan assets	(582,934)		(4,664)	(171)
Interest on onerous liability	183,681		2,199	160
Effect of the unrecognized net actuarial asset	33,949		(81)	(5)
Expense (income) recognized in income statement		**426**		
Expense (income) recognized in other comprehensive income	327,711	(1,632)	(42)	(1)
Effect of the unrecognized net actuarial asset	(327,711)		42	1
Total expense (income) recognized		**(1,206)**		

The sponsors’ contributions to the pension plans managed by Sistel estimated for 2015 amount R$30.

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

The main actuarial assumptions used in the calculations of the PBS-A, PAMEC, PBS-TNCP and CELPREV plans were as follows:

	2014			
	PBS-A	PAMEC	PBS-TNCP	CELPREV
MAIN ACTUARIAL ASSUMPTIONS USED				
Nominal discount rate of actuarial liability	11.83%	11.83%	11.83%	11.83%
Estimated inflation rate	5.50%	5.50%	5.50%	5.50%
Estimated nominal salary increase index	N.A.	N.A.	10.45%	5.50%
Estimated nominal benefit growth rate	5.50%	N.A.	5.50%	5.50%
Nominal medical costs growth rate	N.A.	8.67%	N.A.	N.A.
Total expected rate of return on plan assets	11.83%	11.83%	11.83%	11.83%
General mortality biometric table	AT2000	AT2000	AT2000	AT2000
Biometric disability table	Zimmermann Nichzugs	Zimmermann Nichzugs	Zimmermann Nichzugs	Zimmermann Nichzugs
Biometric disabled mortality table	Winklevoss	Winklevoss	Winklevoss	Winklevoss
Starting age of benefit	N.A.	N.A.	57 years	55 years
Turnover rate	N.A.	N.A.	Nil	Nil

	2013			
	PBS-A	PAMEC	PBS-TNCP	CELPREV
MAIN ACTUARIAL ASSUMPTIONS USED				
Nominal discount rate of actuarial liability	11.83%	11.83%	11.83%	11.83%
Estimated inflation rate	5.50%	5.50%	5.50%	5.50%
Estimated nominal salary increase index	N.A.	N.A.	10.92%	8.80%
Estimated nominal benefit growth rate	5.50%	N.A.	5.50%	5.50%
Nominal medical costs growth rate	N.A.	7.67%	N.A.	N.A.
Total expected rate of return on plan assets	11.83%	11.83%	11.83%	11.83%
General mortality biometric table	AT2000	AT2000	AT2000	AT2000
Biometric disability table	Zimmermann Nichzugs	Zimmermann Nichzugs	Zimmermann Nichzugs	Zimmermann Nichzugs
Biometric disabled mortality table	Winklevoss	Winklevoss	Winklevoss	Winklevoss
Starting age of benefit	N.A.	N.A.	N.A.	55 years
Turnover rate	N.A.	Nil	Nil	Nil

N.A. = Not applicable.

ADDITIONAL DISCLOSURES - 2014
a) The plans' assets and liabilities correspond to the amounts as at December 31, 2014.
b) Master file data used for the SISTEL plans are as at July 31, 2014 and for PAMEC plans are as at October 31, 2014, both projected for December 31, 2014.

The amounts above do not consider the assets and liabilities of the PAMA plan because it is multi-sponsored and similar to defined contribution plans (benefits paid are limited to the amount of the contributions received by the plan), and there are no other obligations in addition to the existing balances.

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

Investment policy of the plans

The investment strategy of the benefit plans is described in their investment policy, which is annually approved by the governing board of the sponsored funds. This policy establishes that investment decision-making must take into consideration: (i) the preservation of capital; (ii) the diversification of investments; (iii) the risk appetite according to conservative assumptions; (iv) the expected return rate based on actuarial requirements; (v) the compatibility of investment liquidity with the plans' cash flows, and (vi) reasonable management costs. The policy also defines the volume interval for different types of investment allowed for the pension funds, as follows: local fixed income, local variable income, loans to participants, and real estate investments. The fixed income portfolio can only include low credit risk securities. Derivatives are only allowed for hedging purposes. Loans are restricted to certain credit limits. Tactical allocation is decided by the investment committee consisting of the benefit plans' executives. Execution is undertaken by the finance department.

The average ceilings set for the different types of investment permitted for pension funds are as follows:

ASSET SEGMENT	PBS-Telemar	Telemar Prev	CEL PREV	PBS-TNCP	BrTPREV	TCS PREV	PBS-A
Fixed income	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Variable income	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%
Structured investments	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%
Investments abroad	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Real estate	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Loans to participants	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%

The allocation of plan assets as at December 31, 2014 is as follows:

ASSET SEGMENT	PBS-Telemar	Telemar Prev	CEL PREV	PBS-TNCP	BrTPREV	TCS PREV	PBS-A
Fixed income	83.00%	81.00%	85.00%	90.00%	83.00%	83.00%	77.00%
Variable income	4.00%	6.00%	13.00%	9.00%	4.00%	4.00%	15.00%
Structured investments	11.00%	11.00%	-	-	11.00%	11.00%	-
Investments abroad	-	-	-	-	-	-	-
Real estate	1.00%	1.00%	-	-	1.00%	1.00%	7.00%
Loans to participants	1.00%	1.00%	2.00%	1.00%	1.00%	1.00%	1.00%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

(b) Employee profit sharing

In the period ended December 31, 2014, the Company and its subsidiaries recognized provisions for employee profit sharing based on individual and corporate goal attainment estimates totaling R$94,173 in Company and R$290,137 on a consolidated basis.

(c) Share-based compensation

The Company requested the CVM's approval of the transfer of Company treasury shares, specifically as regards the shares linked to the Special Long-term Bonus Program, as prescribed by Article 2 of CVM Instruction 10/1980. On December 3, 2013, the CVM's board unanimously decided to (i) authorize the transfer of Company treasury share to the Long-term Incentive (ILP) beneficiaries, provided that all the requirements of CVM Instruction 10/1980 were met, and (ii) require the approval of the Company's ILP plan at a shareholders' meeting. However, the Company and the Board of Directors are revising the Long-term Incentive Plan to ensure it is better greater aligned with the new Company management cycle and priorities.

25. SEGMENT INFORMATION

The Company's management uses operating segment information for decision-making. The operating segments are identified according to the nature of the services and the technology used to provide the telecommunications services.

The revenue generation of each business segment is assessed by Management based on a view segmented by customer, into the following categories:

- Residential Services, focused on the sale of fixed telephony services, including voice services, data communication services (broadband), and pay TV;
- Personal Mobility, focused on the sale of mobile telephony services to subscription and prepaid customers, and mobile broadband customers; and
- SMEs/Corporate, which includes corporate solutions offered to our small, medium-sized, and large corporate customers.

The performance of each business segment of the continuing operations is obtained in the Company's and its subsidiaries' accounting records and is segregated as follows:

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

Breakdown of results from operations

	2014	2013
Residential	9,995,205	10,302,910
Personal mobility	9,011,200	9,289,893
SMEs/Corporate	8,311,458	8,454,923
Other services and businesses	929,236	374,421
Net operating revenue	**28,247,099**	**28,422,147**
Operating expenses		
Depreciation and amortization	(4,535,418)	(4,278,477)
Interconnection	(2,689,815)	(3,965,623)
Personnel	(2,829,307)	(2,534,222)
Third-party services	(6,258,606)	(6,119,733)
Grid maintenance service	(1,923,074)	(2,328,140)
Handset and other costs	(730,444)	(515,377)
Advertising and publicity	(674,275)	(556,500)
Rentals and insurance	(3,119,521)	(2,119,684)
Provisions/reversals	(779,314)	(656,849)
Allowance for doubtful accounts	(649,463)	(922,779)
Taxes and other expenses	(1,628,867)	(1,507,701)
Other operating income, net	3,245,643	2,369,555
OPERATING INCOME BEFORE FINANCIAL INCOME (EXPENSES) AND TAXES	**5,674,638**	**5,286,617**
FINANCIAL INCOME (EXPENSES)		
Financial income	1,344,767	1,375,217
Financial expenses	(5,891,332)	(4,649,665)
PRETAX INCOME	**1,128,073**	**2,012,169**
Income tax and social contribution	(1,119,955)	(519,154)
PROFIT (LOSS) FOR THE YEAR	**8,118**	**1,493,015**

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

26. RELATED-PARTY TRANSACTIONS

Transactions with consolidated related parties

	COMPANY	
	2014	**2013**
Assets		
Securities issued by related parties (Senior Notes)	**4,886**	
Oi Holanda	4,886	
Accounts receivable	**701,840**	**422,863**
BrT Call Center	20,057	5,278
BrTI	9,032	7,281
Oi Internet	2,469	7,019
BrT Multimídia	28,205	2,747
Oi Móvel	468,145	284,754
TMAR	168,606	110,323
Telemar Internet	4,119	2,705
PT Portugal	1,207	
TNL PCS		2,756
Receivables from related parties (current and non-current)	**3,151,856**	**228,269**
TMAR	670,530	190,976
BrT Call Center	37,160	35,618
BrT Multimídia		69
BrTI		1,606
Oi Móvel	112	
PTIF (i)	2,444,054	
Dividends and interest on capital receivable	**854,231**	**673,508**
TMAR	848,041	672,522
Oi Serviços Financeiros	6,190	986
Other	**218,509**	**214,142**
TMAR	65,148	68,022
TNL PCS		11,316
BrT Call Center	37,242	37,242
BrTI	266	266
Oi Internet		241
BrT Multimídia	30,500	37,358
Oi Móvel	85,353	59,697

(i) In August 2014, PTIF issued notes totaling €750,000, maturing in 2015 and paying interest equivalent to the 6M Euribor + 2.5% p.a. The Company purchased all these notes.

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

	COMPANY	
	2014	**2013**
Liabilities		
Trade payables	**502,909**	**640,874**
BrT Call Center	202,840	156,860
Oi Internet	532	295
BrT Multimídia	90,014	50,789
Oi Móvel	138,034	137,106
TMAR	53,185	220,239
TNL PCS		71,306
Telemar Internet	203	2,071
Paggo Administradora	14,196	2,208
PT Portugal	538	
PT Inovação e Sistemas	3,367	
Borrowings and financing	**4,377,484**	**4,203,834**
Oi Móvel	194,088	664,498
Oi Holanda	4,012,062	3,539,336
Telemar Internet	171,334	
Debentures	**875,369**	**1,062,664**
TMAR	875,369	1,062,664
Other payables	**103,474**	**81,893**
BrT Call Center	411	411
BrTI	24,915	24,915
Oi Internet	210	30
BrT Multimídia	61,347	37,196
Oi Móvel	16,470	13,247
TNL PCS		5,952
TMAR	121	142

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

	COMPANY	
	2014	**2013**
Revenue		
Revenue from services rendered	**527,683**	**497,983**
BrTI	2,490	2,937
BrT CS		71
Oi Internet	2,562	5,959
BrT Multimídia	15,383	11,552
Oi Móvel	383,514	323,497
TMAR	107,986	111,530
Telemar Internet	2,073	1,687
PT Portugal	9,820	
TNL PCS	3,855	40,750
Other operating income	**48,532**	**48,198**
BrT Call Center	9,179	8,637
Oi Internet	1	1
BrT Multimídia	1,829	2,310
Oi Móvel	37,367	37,250
TMAR	156	
Financial income	**154,920**	**83,559**
BrT Call Center	1,060	739
Oi Móvel	40,559	9,729
BrTI	91	138
BrT Multimídia	4	4
PTIF	23,804	
TNL PCS	3,738	22,052
TMAR	85,664	50,897

	COMPANY	
	2014	**2013**
Operating costs and expenses	**(1,309,220)**	**(1,528,527)**
BrT CS		(81,098)
BrT Multimídia	(40,086)	(38,673)
Oi Móvel	(603,951)	(715,768)
TMAR	(74,871)	(78,677)
TNL PCS	(8,323)	(110,816)
Pointer Networks		(2,905)
Paggo Administradora	(12,102)	(1,662)
Telemar Internet	(67)	(8,618)
BrT Call Center	(565,735)	(488,993)
Oi Internet	(1,319)	(1,317)
PT Portugal	(2,588)	
PT Inovação e Sistemas	(178)	
Financial expenses	**(261,837)**	**(271,264)**
Oi Móvel	(36,398)	(29,713)
TMAR	(98,112)	(89,400)
Oi Holanda	(124,635)	(118,349)
TNL PCS		(33,802)
Telemar Internet	(2,692)	

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

Credit facilities

The purpose of the credit facilities extended by the Company to its subsidiaries is to provide them with working capital for their operating activities and the maturities of these loans can be rescheduled according to these companies' projected cash flows. The disbursed amounts bear interest equivalent to 115% of CDI (115% of CDI in 2013).

Lease of transmission infrastructure

The transactions conducted with TMAR and Oi Móvel refer to the provision of services and the assignment of means involving mainly interconnection and Industrial Exploitation of Dedicated Line (EILD).

The transactions conducted with Telemar Internet, a TMAR subsidiary, refer to the provision of dial port rental services.

Guarantees

The Company is the guarantor of subsidiaries TMAR and Oi Móvel in financing obtained from the BNDES, public debentures, and other loans. The Company recorded for the year ended December 31, 2014, as commission on the guarantee, income amounting to R$71,918 (R$74,079 in 2013). Additionally, TMAR provided guarantees to the Company on the CRI transaction at the cost of 0.5% of the outstanding balance per year. Expenses related to these guarantees for the year ended December 31, 2014 totaled R$367 (R$425 for the year ended December 31, 2013).

Transactions with unconsolidated related parties

	COMPANY		CONSOLIDATED	
	2014	2013	2014	2013
Accounts receivable and other assets		**1,179**	**1,586,372**	**19,237**
PT Portugal		917		10,272
Unitel (i)			1,375,162	1,855
Multitel (ii)			24,282	
PT-ACS			15,114	
Fundação PT			7,387	
Sportinvest Multimédia (iii)			105,492	
Siresp			40	
Fibroglobal (iv)			48,134	
Yunit (v)			7,454	
Contax		262	3,307	6,540
TODO				570

(i) This line item includes dividends receivable by PT Ventures from said subsidiary, amounting to R$1,260 million and accounts receivable related to services rendered amounting to R$52.5 million.

(ii) This line item includes financing granted to this subsidiary amounting approximately to R$3.0 million.

(iii) This line item includes financing granted to this subsidiary amounting approximately to R$105.3 million.

(iv) This line item includes financing granted to this subsidiary amounting approximately to R$44.4 million.

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

(v) This line item includes financing granted to this subsidiary amounting approximately to R$7.2 million.

	COMPANY		CONSOLIDATED	
	2014	**2013**	**2014**	**2013**
Trade and other payables	**1,807**	**7,195**	**61,603**	**57,626**
PT Portugal		130		2,006
Unitel			1,484	
Multitel			1,217	
PT-ACS			599	
Fundação PT			2	
Sportinvest Multimédia			291	
Siresp			6	
Fibroglobal			9,564	
Yunit			669	
Contax	9	2	41,832	27,625
TODO	1,578	5,053	5,587	19,692
Ability			7	
PT Inovação e Sistemas		1,697		7,384
Veotex	220	313	345	919

	COMPANY		CONSOLIDATED	
	2014	**2013**	**2014**	**2013**
Revenue				
Revenue from services rendered	**738**	**2,419**	**34,596**	**42,727**
PT Portugal		1,615		11,348
Unitel			2,816	1,116
Contax	738	789	30,754	27,383
TODO		15	1,026	2,169
Ability				711

	COMPANY		CONSOLIDATED	
	2014	**2013**	**2014**	**2013**
Costs/expenses				
Operating costs and expenses	**(18,436)**	**(18,493)**	**(57,278)**	**(77,652)**
PT Portugal		(223)		(2,268)
PT Inovação e Sistemas				(8,559)
PT Cloud e Data				(375)
PT Comunicações				(892)
Unitel			(8.204)	
Multitel			(339)	
PT-ACS			(3.887)	
Sportinvest Multimédia			(669)	
Fibroglobal			(10.974)	
Veotex	(1,914)	(1,933)	(10,221)	(9,642)
TODO	(16,522)	(16,337)	(22,984)	(31,742)
Ability				(24,174)

Services provided by Contax

The Company and subsidiaries TMAR and Oi Móvel engage call center and collection services from Contax, which is controlled by shareholders that are part of the Company’s control block. Contax provides customer services to fixed-line telephony customers, outbound telemarketing services to capture new mobile telephony customers, support to prepaid and subscription mobile telephony customers, technical support to Velox subscribers (ADSL), and collection services. Total costs of services provided by Contax for the year ended December 31, 2014 were R$66,249 (R$70,086 in 2013), Company, and R$1,610,923 (R$1,602,170 in 2013) on a consolidated basis.

Financing agreements with the BNDES

The Company entered into financing agreements with BNDES, controlling shareholder of BNDESPAR, which holds 5.099% (13.05% in 2013) of the voting capital of TmarPart, holding company of the Group and, therefore, a Company related party.

The balance due related to BNDES financing, as at December 31, 2014, was R$1,007 million (R$860 million in 2013), Company, and R$5,872 million (R$5,916 million in 2013), on a consolidated basis, and related financial expenses totaling R$71 million (R$125 million in 2013), Company, and R$476 million (R$464 million in 2013), on a consolidated basis, were recognized.

Amounts receivable from and payable to the owners of the Company

As at December 31, 2014 the Company recognizes receivables from and payables to the Andrade Gutierrez group amounting to R$1,523 and R$238, respectively, receivables from the La Fonte group amounting to R$301, and receivables from Fundação Petros amounting to R$313.

Compensation of key management personnel

The compensation of the officers responsible for planning, managing and controlling the Company's activities, including the compensation of the directors and executive officers, totaled R$25,409 (R$14,991 in 2013) in the Company and R$25,565 (R$15,147 in 2013) on a consolidated basis.

27. INSURANCE

During the concession period, the concessionary has the obligation of maintaining the following insurance coverage, over the prescribed terms: “all risks” policy that covers property damages to all insurable assets belonging to the concession, insurance against economic losses to insure the continuity of services, and insurance guaranteeing payment of obligations related to the quality and universal services, as provided for by the Concession Agreements. All material and/or high-risk assets and liabilities in are insured. The Company and its subsidiaries maintain insurance coverage against property damages, loss of revenue arising from such damages (loss of profits), etc. Management understands that the amount insured is sufficient to assure the integrity of assets and the continuity of operations, and the compliance with the rules set out in the Concession Agreements.

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

The insurance policies provide the following coverage, per risk and type of asset:

	CONSOLIDATED	
	2014	**2013**
Insurance line		
Operational risks and loss of profits	600,000	600,000
Civil liability - third parties (i)	212,496	187,408
Fire - inventories	150,000	100,000
Concession warranty - TMAR	27,816	49,551
Concession warranty - Oi	11,170	16,694
Theft - inventories	20,000	20,000
Civil liability - general	20,000	20,000
Civil liability - vehicles	3,000	3,000

(i) Based on the foreign exchange rate prevailing at December 31, 2014 (ptax): US$1=R$2.6562

28. OTHER INFORMATION

(a) Held-for-sale assets and discontinued operations

<u>Sale of PT Portugal shares to Altice</u>

On December 9, 2014, the Company and Altice Portugal S.A. (“Altice PT”), wholly-owned subsidiary of Altice S.A., (“Altice”), entered into a purchase and sale agreement of all of the shares PT Portugal to Altice PT, basically involving the operations conducted by PT Portugal in Portugal and in Hungary.

On January 22, 2015, PT SGPS shareholders approved the sale by Oi of all the PT Portugal shares to Altice PT, under the terms and conditions of the Share Purchase and Sale Agreement. Accordingly, the suspensive condition provided for in said agreement to its effectiveness was implemented.

Based on the approved transaction, Oi shall sell to Altice all the PT Portugal shares, for an enterprise value of €7.4 billion, with adjustments to cash and debt, including an earn-out amounting to €500 million related to PT Portugal’s generation of future revenue. The price payable by Altice shall be subject to the adjustments usually adopted in similar transactions, based on PT Portugal’s cash position at the closing of the transaction.

The effective sale of the PT Portugal shares is also subject to the completion of the corporate reorganization actions in order to mark out the businesses that will be sold and separate PT Portugal’s investments that will not be sold, including the investments in Africatel GmbH & Co. KG, Timor Telecom S.A., and the investments held by PT Portugal in Rio Forte Investments S.A. (which could be exchanged by PT for Oi shares, still subject to approval by the Securities Exchange Commission), as well as the whole or part of PT Portugal’s debt, and also obtaining the required competitive authorizations, pursuant to the applicable law.

<u>Approval of preparatory actions for the sale of Africatel</u>

At the Board of Directors' meeting held on September 16, 2014, Oi's management was authorized to take all the necessary actions to divest the Company's stakes in Africatel Holdings B.V. ("Africatel"), representing 75% Africatel's share capital, and/or dispose of its assets. Oi will lead the sale process, even though we believe that it would be in the best interests of both Africatel shareholders to maximize the value of their investments, that this sale be coordinated with Samba Luxco S.à.r.l ("Samba Luxco"), a Helios Investors L.P. affiliate that holds the remaining 25% of Africatel's share capital. Oi is committed to work with its local partners and each one of the operating companies where Africatel holds investments to ensure a coordinated transition of its interests in these companies.

Notwithstanding the above, our indirect subsidiary Africatel GmbH & Co. KG ("Africatel GmbH"), direct holder of the Oi's investment in Africatel, received on September 16, 2014 a letter from Samba Luxco, where Samba Luxco exercises an alleged right to sell the shares it holds in Africatel (put option), pursuant to Africatel's shareholders' agreement. According to this letter, this put option results from the indirect transfer of Africatel shares, previously held by PT, to the Company as the payment for the capital increase made in May last year (Note 1).

As disclosed in Note 1 "Risks related to the stake held in Unitel", the Company believes that there was not any action or event that, under Africatel's shareholders' agreement terms, would trigger the right to exercise the put option. Accordingly, without prejudice to the value the Company attributes to maintaining a relationship of mutual respect with Samba Luxco, Africatel GmbH intends to challenge the exercise of this put option by Samba Luxco in the current circumstances, which, pursuant to Africatel's shareholders' agreement. In November 2014, Samba Luxco initiated the arbitration proceeding against Africatel GmbH and PT to resolve this issue.

Oi intends to focus its efforts on the sale of Africatel and/or its assets and believes that if this goal is successfully met through the arbitration proceeding already initiated.

Classification of the assets and liabilities held for sale and discontinued operations

On May 5, 2014, the Company acquired PT Portugal and since then it also fully consolidated its profits or losses, assets and liabilities. With the sale of PT Portugal to Altice and the approval of the preparatory for the sale of Africatel, the Company classified PT Portugal's operations and the operations in Africa as assets held for sale and the liabilities associated to assets held for sale, in accordance with CPC 31/IFRS 5.

Additionally, because it represents an important separated business lines, the results of PT Portugal's operations, for the period May 5 to December 31, 2014, are presented as discontinued operations in a single line of the income statement. The line item "Discontinued operations" in the income statement includes loss of R$4,164,478 related to the adjustment of PT Portugal's carrying amount to its sale price less related expenses.

The operations in Africa are consolidated in the statement in the income statement since May 5, 2014.

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

The group of assets and of PT Portugal's operations and the operations in Africa are stated at the lower of their carrying amounts and their fair values less costs to sell.

The main components of the assets for held sale and associated to assets held for sale are as follows:

	PT Portugal operations	Operations in Africa	Total
	2014		
Held-for-sale assets	**26,283,854**	**7,642,738**	**33,926,592**
Cash, cash equivalents and cash investments	590,111	170,056	760,167
Accounts receivable	2,270,140	195,690	2,465,830
Dividends receivable (i)	1,948	1,261,826	1,263,774
Available-for-sale financial asset (ii)		4,284,416	4,284,416
Other assets	1,085,751	164,121	1,249,872
Investments	134,272	63,267	197,539
Property, plant and equipment	10,560,140	506,347	11,066,487
Intangible assets	5,271,808	376,441	5,648,249
Goodwill	6,369,684	620,574	6,990,258
Liabilities directly associated to assets held for sale	**26,326,948**	**851,273**	**27,178,221**
Borrowings and financing (iii)	18,892,793	83,843	18,976,636
Trade payables	2,260,503	97,600	2,358,103
Provisions for pension plans	3,347,667	997	3,348,664
Other liabilities	1,825,985	668,833	2,494,818
Non-controlling interests		**1,509,197**	**1,509,197**
Total assets held for sale and liabilities associated to assets held for sale - consolidated	**(43,049)**	**5,282,268**	**5,239,174**
Intragroup eliminations			26,202
Total assets held for sale – Parent company			**5,265,376**
Investment in PT Portugal			2.821.322
Due from related parties (iv)			2.444.054

(i) Refers basically to dividends receivable from Unitel;

(ii) Refers to the fair value of the investment determined based on PT Portugal's asset valuation reports, as part of the capital increase transaction (Note 1).

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

(iii) The borrowings and financing related to PT Portugal's operations are as follows:

	2014
Non-convertible bonds	15,776,993
European Investment Bank	1,754,070
Commercial paper	1,281,153
Other	127,768
Debt issuance costs	(47,191)
Total	**18,892,793**
Current	1,934,473
Non-current	16,958,320

Guarantees of PT Portugal debt

On May 5, 2014 the outstanding EMTN Notes, Exchangeable Bonds and financing agreements of PT Portugal and Portugal Telecom International Finance B.V. started to be guaranteed by Oi, except for the commercial papers issued by PT Portugal.

(iv) Due from related parties consist of consists of Notes issued by PTIF totaling €750,000 and fully acquired by the Company, maturing in 2015, which bear 6M Euribor + 2.5% p.a.

Discontinued operations

The loss for the year of discontinued operations for the period May 5-December 31, 2014 is broken down as follows:

	2014
Allowance for impairment loss at fair value of the PT Portugal investment and divesture-related expenses	(4,164,478)
Loss for the year of discontinued operations	(250,061)
Loss for the year of discontinued operations	**(4,414,539)**

The allowance for impairment losses on the investment in PT Portugal, amounting to R$4,164,478, results from the recognition of this asset at its fair value less expenses to sell. The sale price used to determine the allowance corresponds to Altice's offer of R$23,880 million (€7,400 million) less the R$1,613 million earn-out (€500 million) and liabilities on retirement and other benefits assumed by PT Portugal, amounting to R$3,872 million (€1,200 million).

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

The main revenue and expense components related to the loss for the year of discontinued operations are as follows:

	Operations in Portugal
	2014
Net operating revenue	**5,081,579**
Depreciation and amortization	(1,507,294)
Third-party services	(1,308,211)
Personnel	(719,613)
Interconnection	(468,842)
Grid maintenance service	(126,392)
Other costs and expenses	(560,976)
Profit before financial income (expenses) and taxes	**390,251**
Financial income (expenses)	(694,052)
Pre-tax profit (loss)	**(303,801)**
Income tax and social contribution	53,740
Loss for the year of discontinued operations	**(250,061)**

The cash flow components related to the discontinued operations are as follows:

	Operations in Portugal
	2014
Cash flows from operating activities of discontinued operations	1,877,781
Cash flows from investing activities of discontinued operations	(2,813,437)
Cash flows from financing activities of discontinued operations	(5,532,725)
Total cash flows of discontinued operations	**(6,468,381)**

(b) Rio Forte Securities

On June 30, 2014, Portugal Telecom, the Company was informed, through a notice disclosed by Portugal Telecom, SGPS S.A. (“PT”) related to the investment made by PT International Finance BV (“PTIF”) and PT Portugal SGPS S.A. (“PT Portugal”), companies contributed by PT to Oi in the capital increase, in a commercial paper of Rio Forte Investments S.A., a company part of the Portuguese group Espírito Santo (“GES”), (respectively, “Securities” and “Rio Forte”), when both PTIF and PT Portugal were PT subsidiaries.

According to said notice, the Securities had been issued in the total amount of €897 million, and bore average annual interest of 3.6% and matured on July 15 and July 17, 2014 (€847 and €50 million, respectively), stressing since April 28, 2014 no other investment and/or renewal of this type of investments had been made.
Both PT Portugal and PTIF (collectively “Oi Subsidiaries”) became Company subsidiaries due to the assignment of all PT Portugal shares to the Company by PT, on May 5, 2014, to pay in the Company’s capital increase approved on April 28 and 30, 2014.

The Securities, amounting to €847 million, matured on July 15, 2014. The remaining Securities, amounting to €50 million, matured on July 17, 2014. Rio Forte did not settle its liabilities on the due dates and the cure period for payment of the securities that matured on July 15 and 17, 2014 ended on July 22 and 24, 2014, respectively, without the repayment of the securities.

The Luxembourg Commercial Court denied Rio Forte's request for controlled management on October 17, 2014 and Rio Forte's bankruptcy was declared on December 8, 2014. As at December 31, 2014, the bankruptcy proceeding was in the proof of claim submission stage, which will end only on March 31, 2015.

Terms of the agreement entered into by the Company, Telemar Participações S.A. ("TmarPart" or "CorpCo") and PT related to the cash investments made in Rio Forte securities

On July 15, 2014, the Company entered into a Memorandum of Understanding with PT aimed at laying down the bases for an agreement with regard to the cash investments made in the Securities. On July 28, 2014, Oi and PT established the terms that will be included in the definitive agreements and which would be submitted to the approval of Oi's Board of Directors and PT's shareholders' meeting.

On September 8, 2014, PT's shareholders' meeting and the Boards of Directors of the Company and TmarPart approved the terms and conditions of the definitive agreements related to the investments made in the Securities. These agreements were executed on the same date by the Company, Oi Subsidiaries, TmarPart, and PT. The agreements provide for (i) an exchange (the "Exchange") through which Oi Subsidiaries transfer the Securities to PT in exchange for preferred shares and common shares of the Company and held by PT, as well as (ii) the assignment by Oi Subsidiaries of a call option on the Company shares to the benefit of PT ("Call Option").

In view of legal and regulatory restrictions to the Exchange and the Call Option, the Company filed an authorization request with the CVM with regard to the Exchange and the Call Option. The Company was informed of the decision issued by the CVM's Board on March 4, 2015 that this Commission granted the necessary waivers for the implementation of the Exchange and the Call Option transactions, contingent to (i) the approval of the transactions' terms and conditions by the Company's Shareholders' Meeting and (ii) the grant of voting rights to the preferred shareholders in said Shareholders' Meeting. The minutes' extract of the CVM Board Meeting that decided on this matter emphasizes the need to comply with Article 115, Par. 1, of Law 6404/1976, especially because it refers to a transaction with a related party.

Accordingly, on March 10, 2015, in order to comply with the CVM decision, the Company convened a Shareholders' Meeting for March 26, 2015, the agenda of which is the approval of the Exchange and the Call Option agreements' terms and conditions.

Main terms of the Exchange Agreement and Other Covenants ("Exchange Agreement")

The Oi Subsidiaries and PT SGPS will conduct an exchange whereby PT SGPS will transfer to the Oi Subsidiaries unencumbered Oi shares corresponding to 474,348,720 OIBR3 and 948,697,440 OIBR4 shares (the "Exchanged Shares"); and Oi, as compensation, will transfer the Commercial Paper to PT SGPS, in the total principal amount of €897 million, with no additional consideration (the "Exchange").

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

With implementation of the Exchange, PT will become the holder of the Securities and the sole responsible for negotiating with Rio Forte and the decisions related to the Securities, and the Company is responsible for the supporting documentation to PT to take the necessary actions to collect the receivables represented by the Securities.

The Exchange, which includes the transfer of the Exchanged Shares to the Oi Subsidiaries and the transfer of the Securities to PT, shall be concluded within three business days after the date of CVM’s approval. Since the decision issued by the CV Board on March 4, 2015 contains some conditions for granting the waivers necessary to complete the Exchange and the Call Option transactions, the Exchange must be completed within three business days from the implementation of such conditions. In the event that the Exchange is not approved by March 31, 2015, none of the parties will be obligated to consummate the Exchange

On December 31, 2014 the market value of all the shares to be received under the share exchange transaction, estimated based on the shares’ stock market quotation on the same date, is R$1,251 million.

Main terms of the Call Option for the Purchase of Shares (“Option Contract”)

The terms of the Call Option Agreement, the Call Option will involve 474,348,720 Oi common shares and 948,697,440 Oi preferred shares (“Shares Subject to the Option”) and can be exercised, in whole or in part, at any time, pursuant to the following terms and conditions:

(i) Term: six (6) years, noting that PT SGPS’s right to exercise the Option on the Shares Subject to the Option will be reduced by the percentages below:

Date of Reduction	% of Shares Subject to the Option that cease to the subject to the Option each year
From the 1st anniversary of the Closing Date	10%
From the 2nd anniversary of the Closing Date	18%
From the 3rd anniversary of the Closing Date	18%
From the 4th anniversary of the Closing Date	18%
From the 5th anniversary of the Closing Date	18%
From the 6th anniversary of the Closing Date	18%

(ii) Exercise Price: R$1.8529 per preferred share and R$2.0104 per common share of Oi (and, as the case may be, R$2.0104 per common share of TmarPart), as adjusted by the interbank deposit rate (CDI), plus 1.5% per annum, calculated pro rata temporis, from the date of the Exchange to the date of the effective payment of each exercise price, in whole or in part, of the Option.

Neither Oi nor CorpCo are required to maintain the Exchanged Shares in treasury. In the event that PT Portugal, PT Finance and/or any of Oi’s subsidiaries do not hold, in treasury, a sufficient number of Shares Subject to the Option to transfer to PT, the Option may be financially settled through payment by the Oi Subsidiaries of the amount corresponding to the difference between the market price of the Shares Subject to the Option and the respective exercise price corresponding to these shares.

Whenever the Option is exercised, PT will undertake its best efforts to integrate the shareholder bases of PT and CorpCo in the shortest time possible.

While the Option is effective, PT may not purchase shares of Oi or TmarPart, directly or indirectly, in any manner other than by exercising the Option. PT may not transfer or assign the Option, nor grant any rights under the Option, including security, without the consent of Oi. If PT issues, directly or indirectly, derivatives that are backed by or referenced to Oi or TmarPart shares, it shall immediately use the proceeds derived from such a derivative transaction, directly or indirectly, to acquire the Shares Subject to the Option.

Oi may terminate the Option if (i) the Bylaws of PT SGPS are amended voluntarily to remove or amend the provision that limits the voting right to 10% of all votes corresponding to the capital stock of PT; (ii) PT directly or indirectly engages in activities that compete with the activities of Oi or its subsidiaries in the countries in which they operate; (iii) PT SGPS violates certain obligations under the Option Contract.

The Option shall only become effective and in full effect after the consummation of the Exchange and will terminate automatically if the Exchange is not consummated by March 31, 2015.

As at December 31, 2014 the fair value of the call option referred to above, the exercise of which is subject to the implementation of the CVM Board's decision made on March 4, 2015 and issued on March 6, 2015, is estimated at R$112 million calculated by the Company using the Black-Scholes model and theoretical share volatility assumptions, using the Revenue Approach valuation technique provided for by paragraphs B10 and B11 of CPC 46/IFRS 13 *Fair Value Measurement.*

As a result of the sale of PT Portugal to Altice, the call option is assured exclusively by the Company and PTIF.

Other information regarding the Transaction, corporate approval and business combination of Oi and PT

In addition to the definitive agreements related to the cash investments in the Securities, on September 8, 2014 the parties also signed amendments to the agreements executed on February 19, 2014 and which regulate the Transaction, to provided for, without limitation: (i) the extension of the deadlines to complete the Transaction; (ii) the merger of PT with and into CorpCo will no longer occur as part of the Transaction, without preventing PT from potentially adopting an alternative structure to attain the same goal of combining the share bases of Oi and PT; and (iii) the amendment of the bylaws of CorpCo to limit to 7.5% of the voting rights (I) of PT SGPS, and (II) of any shareholder that, as a result of the distribution of CorpCo shares by PT to its shareholders, results in a shareholding greater than 15% of the shares representing the total capital stock of CorpCo, excluding the CorpCo shares previously held or that will be acquired by other means. Under the agreements of September 8, 2014, the implementation of the Transaction had forecast on March 31, 2015.

Other information

The Company reiterates that the definitive agreements agreed on September 8, 2014 will enable the continued implementation of the Transaction in order to migrate CorpCo to the Novo Mercado segment of the BM&FBovespa, with the highest standards of corporate governance, increase in liquidity, and dispersed ownership in the market. The completion of the Exchange and the Call Option was approved in March 4, 2015 by the CVM and is subject to the approval of the Extraordinary Shareholders' Meeting of March 26, 2015.

(c) Transfer of mobile towers

On December 3, 2013 the Company entered into an agreement with SBA Torres Brasil for the transfer of the shares representing 100% of the capital of one of the latter's subsidiaries that held 2,007 mobile telecommunications towers. This transaction was completed on March 31, 2014 and the gain recognized in other operating income, less transaction cost, was R$1.3 billion.

On June 24, 2014 the Company entered into a new agreement with SBA Torres Brasil for the transfer of the shares representing 100% of the capital of one of the latter's subsidiaries that held 1,641 mobile telecommunications towers. This transaction was completed on December 1, 2014 and the gain recognized in other operating income, less transaction cost, was R$1.1 billion.

(d) GlobeNet

In December 2013 the Company announced that it had completed the transfer of all its equity interest in GlobeNet to BTG Pactual YS Empreendimentos e Participações S.A. The financial settlement of the transaction, amounting to R$1,779 million, was made in January 2014.

The gain on the sale of GlobeNet, amounting to R$ 1,497 million was recognized in December 2013, in other operating income, less related transaction costs.

(e) Increase of Switched Fixed-line Telephone Services Tariff

The STFC tariff adjustment authorized by the ANATEL for Company and its subsidiary TMAR is effective beginning April 18, 2014. The increases of the following tariffs were approved: local services and national long-distance services by 0.65%, local interconnection fees (TU-RL) by 10.69%, beginning April 17, 2014, and the credit amount to be used in Payphones by 0.40%.

(f) Execution of an agreement with Banco BTG Pactual S.A. regarding a proposal for the acquisition of a stake in TIM

On August 26, 2014, Oi entered into an agreement with Banco BTG Pactual S.A. under which the latter will act as commissioner to develop alternatives aimed at render viable a proposal for the acquisition of the stake indirectly held by Telecom Italia SpA in TIM Participações S.A.

As already reported to the market, BTG Pactual held discussions with third parties regarding a possible transaction and the role of BTG Pactual includes contracting other market players that could be interested in the transaction, as Company agent for the transaction.

No definite decision or agreement as yet been reached with regard to the transaction's structure and no instruments or proposals aimed at conducting a transaction.

29. SUBSEQUENT EVENTS

CVM's authorization of the Exchange and the Call Option transactions

On March 6, 2015 the Company was informed of the unanimous decision made by the Board of the Brazilian Securities and Exchange Commission ("CVM"), of March 4, 2015, about the request filed by the company to conduct the exchange and call option transactions with PT SGPS (respectively, "Exchange" and "Call Option") related to PT SGPS's investments in Rio Forte Investments, S.A. securities.

We reproduce below said CVM decision.

"Finally, the Reporting Member emphasizes the need to comply with Article 115, Par. 1, of Law 6404/1976, in particular since this being a related-party transaction.

The Board has unanimously, agreeing with the Reporting Member's vote, decided to grant the waiver requested by the Company, contingent to (i) the approval of the Agreement in the shareholders' meeting; and (ii) the granting of voting rights to the preferred shareholders in said shareholders' meeting."

At the request of the CVM, Oi's Board of Directors convened the extraordinary shareholders' meeting, held on March, 2015, to make a decision on the Exchange and the Call Option transactions. According to Oi's management's decision, PT SGPS and its subsidiary did not vote in the shareholders' meeting, in line with the stance adopted by their representatives on Oi's Board of Directors. The shareholders approved the transaction in said shareholders' meeting and the Company will make the appropriate registrations within the deadline set by the executed agreement, which is three business days.

Corporate reorganization of the Oi Internet Group

On February 2, 2015, as part of the corporate and asset reorganization process of the Oi's direct or indirect subsidiaries, Extraordinary Shareholders' Meetings were held to decide on the mergers of the following companies with and into Oi Internet:

(i) Merger of BrTI and its liquidation; and
(ii) Merger of Telemar Internet and its liquidation.

The combination of BrTI and Telemar Internet operations with Oi Internet, through the consolidation of the activities carried out by these companies will generate considerable administrative and economic benefits, through cost cuts and the generation of synergy gains.

CEO

On January 21, 2015 the Company's Board of elected Mr. Bayard De Paoli Gontijo as the Company's Chief Executive Officer, combined with his current position as Chief Finance and Investor Relations Officer.

Oi S.A. and Subsidiaries

Appendix – Statement of Value Added
For the Years Ended December 31, 2014 and 2013
(In thousands of Brazilian reais - R$, unless otherwise stated)

	Company		Consolidated	
	2014	**2013**	**2014**	**2013**
Revenue				
Sales of goods and services	13,748,891	13,810,668	45,357,481	45,252,584
Voluntary discounts and returns	(5,087,999)	(4,534,717)	(8,203,473)	(7,291,814)
Allowance for doubtful accounts	(94,170)	(179,295)	(649,463)	(922,779)
Other income	1,166,862	2,343,154	4,349,667	3,565,329
	9,733,584	11,439,810	40,854,212	40,603,320
Inputs purchased from third parties				
Interconnection costs	(1,151,464)	(1,555,349)	(2,689,815)	(3,965,623)
Supplies and power	(204,080)	(207,282)	(1,032,922)	(892,830)
Cost of sales			(834,606)	(585,656)
Third-party services	(2,236,160)	(2,256,427)	(9,368,482)	(9,540,361)
Other	(74,468)	(64,930)	(933,314)	(906,911)
	(3,666,172)	(4,083,988)	(14,859,139)	(15,891,381)
Gross value added	6,067,412	7,355,822	25,995,073	24,711,939
Retentions				
Depreciation and amortization	(862,796)	(821,613)	(4,535,418)	(4,278,477)
Provisions (includes inflation adjustment)	(515,802)	(357,320)	(1,012,590)	(903,054)
Loss for the year of discontinued operations	(4,414,539)		(4,414,539)	
Other expenses	(204,688)	(160,073)	(486,772)	(378,737)
	(5,997,825)	(1,339,006)	(10,449,319)	(5,560,268)
Wealth created by the Company	69,587	6,016,816	15,545,754	19,151,671
Value added received as transfer				
Share of profits of subsidiaries	1,359,550	1,063,185	(5,881)	(17,750)
Financial income	840,628	543,404	1,344,767	1,375,217
	2,200,178	1,606,589	1,338,886	1,357,467
Wealth for distribution	2,269,765	7,623,405	16,884,640	20,509,138
Wealth distributed				
Personnel				
Salaries and wages	(462,635)	(411,533)	(1,890,798)	(1,606,504)
Benefits	(82,996)	(86,798)	(435,655)	(404,991)
Severance Pay Fund (FGTS)	(26,683)	(39,667)	(135,915)	(142,216)
Other	(12,841)	(11,277)	(77,467)	(68,661)
	(585,155)	(549,275)	(2,539,835)	(2,222,372)
Taxes and fees				
Federal	(251,149)	(373,430)	(2,677,587)	(2,235,938)
State	(1,701,716)	(1,963,448)	(7,083,455)	(7,951,660)
Municipal	(20,822)	(11,093)	(153,296)	(89,368)
	(1,973,687)	(2,347,971)	(9,914,338)	(10,276,966)

Oi S.A. and Subsidiaries

Appendix – Statement of Value Added
For the Years Ended December 31, 2014 and 2013
(In thousands of Brazilian reais - R$, unless otherwise stated)

(continued)

	Company		Consolidated	
	2014	**2013**	**2014**	**2013**
Lenders and lessors				
Interest and other financial charges	(3,626,993)	(2,808,004)	(5,717,367)	(4,397,101)
Rents, leases and insurance	(491,641)	(425,140)	(3,119,521)	(2,119,684)
	(4,118,634)	(3,233,144)	(8,836,888)	(6,516,785)
Shareholders				
Non-controlling interests			(1,290)	
Retained earnings (accumulated losses)	4,407,711	(1,493,015)	4,407,711	(1,493,015)
	4,407,711	(1,493,015)	4,406,421	(1,493,015)
Wealth distributed	(2,269,765)	(7,623,405)	(16,884,640)	(20,509,138)