

OI S.A.
Form 20-F
May 20, 2016
Table of Contents

As filed with the Securities and Exchange Commission on May 20, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

.. REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-15256

OI S.A.

(Exact Name of Registrant as Specified in Its Charter)

N/A **The Federative Republic of Brazil**
(Translation of Registrant's Name into English) **(Jurisdiction of Incorporation or Organization)**
Rua Humberto de Campos, 425

Leblon, Rio de Janeiro, RJ, Brazil 22430-190

(Address of Principal Executive Offices)

Flavio Nicolay Guimarães

Investor Relations Officer

Rua Humberto de Campos, 425

8º andar

Leblon, Rio de Janeiro, RJ, Brazil 22430-190

Tel: +55 21 3131-2918

invest@oi.net.br

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on which Registered |
|--|--|
| Common Shares, without par value, each represented by American Depositary Shares | New York Stock Exchange |
| Preferred Shares, without par value, each represented by American Depositary Shares | New York Stock Exchange |

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The total number of issued and outstanding shares of each class of stock of Oi S.A. as of December 31, 2015 was:

519,751,658 common shares, without par value

155,915,486 preferred shares, without par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued Other

by the International Accounting Standards Board

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Table of Contents

TABLE OF CONTENTS

| | Page |
|--|-------------|
| <u>PRESENTATION OF FINANCIAL AND OTHER INFORMATION</u> | ii |
| <u>CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS</u> | v |
| <u>PART I</u> | 1 |
| Item 1. <u>Identity of Directors, Senior Management and Advisers</u> | 1 |
| Item 2. <u>Offer Statistics and Expected Timetable</u> | 1 |
| Item 3. <u>Key Information</u> | 1 |
| Item 4. <u>Information on the Company</u> | 32 |
| Item 4A. <u>Unresolved Staff Comments</u> | 92 |
| Item 5. <u>Operating and Financial Review and Prospects</u> | 93 |
| Item 6. <u>Directors, Senior Management and Employees</u> | 140 |
| Item 7. <u>Major Shareholders and Related Party Transactions</u> | 157 |
| Item 8. <u>Financial Information</u> | 164 |
| Item 9. <u>The Offer and Listing</u> | 174 |
| Item 10. <u>Additional Information</u> | 182 |
| Item 11. <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 205 |
| Item 12. <u>Description of Securities Other Than Equity Securities</u> | 206 |
| <u>PART II</u> | 208 |
| Item 13. <u>Defaults, Dividend Arrearages and Delinquencies</u> | 208 |
| Item 14. <u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u> | 208 |
| Item 15. <u>Controls and Procedures</u> | 208 |
| Item 16A. <u>Audit Committee Financial Expert</u> | 209 |
| Item 16B. <u>Code of Ethics</u> | 209 |
| Item 16C. <u>Principal Accountant Fees and Services</u> | 209 |
| Item 16D. <u>Exemptions from the Listing Standards for Audit Committees</u> | 210 |
| Item 16E. <u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u> | 211 |
| Item 16F. <u>Change in Registrant's Certifying Accountant</u> | 211 |
| Item 16G. <u>Corporate Governance</u> | 211 |
| Item 16H. <u>Mine Safety Disclosure</u> | 213 |
| <u>PART III</u> | 214 |
| Item 17. <u>Financial Statements</u> | 214 |
| Item 18. <u>Financial Statements</u> | 214 |
| Item 19. <u>Exhibits</u> | 214 |
| <u>SIGNATURES</u> | |

Table of Contents

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references herein to *real*, *reais* or R\$ are to the Brazilian *real*, the official currency of Brazil. All references to U.S. dollars, dollars or US\$ are to U.S. dollars.

On May 13, 2016, the exchange rate for *reais* into U.S. dollars was R\$3.504 to US\$1.00, based on the selling rate as reported by the Central Bank of Brazil (*Banco Central do Brasil*), or the Brazilian Central Bank. The selling rate was R\$3.905 to US\$1.00 on December 31, 2015, R\$2.656 to US\$1.00 on December 31, 2014 and R\$2.343 to US\$1.00 on December 31, 2013, in each case, as reported by the Brazilian Central Bank. The *real*/U.S. dollar exchange rate fluctuates widely, and the selling rate on May 13, 2016 may not be indicative of future exchange rates. See Item 3. Key Information Exchange Rates for information regarding exchange rates for the *real* since January 1, 2010.

Solely for the convenience of the reader, we have translated some amounts included in Item 3. Key Information Selected Financial Information and in this annual report from *reais* into U.S. dollars using the selling rate as reported by the Brazilian Central Bank on December 31, 2015 of R\$3.905 to US\$1.00. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate.

Financial Statements

We maintain our books and records in *reais*. Our consolidated financial statements as of December 31, 2015 and 2014 and for the three years ended December 31, 2015 are included in this annual report.

We prepare our consolidated financial statements in accordance with United States generally accepted accounting principles, or U.S. GAAP. Based on our operating cash flows and the impact such operating cash flows have had on our liquidity, in combination with the level of our indebtedness and the potential impact if we cannot satisfy certain financial covenants under our current debt instruments in 2016, our independent registered public accounting firm has included an emphasis paragraph related to the substantial doubt with respect to our ability to continue as a going concern in their report on our consolidated financial statements for the year ended December 31, 2015. However, our financial statements have been prepared assuming we will continue to operate as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

We are also required to prepare financial statements in accordance with accounting practices adopted in Brazil, or Brazilian GAAP, which are based on:

Brazilian Law No. 6,404/76, as amended by Brazilian Law No. 9,457/97, Brazilian Law No. 10,303/01, and Brazilian Law No. 11,638/07, which we refer to collectively as the Brazilian Corporation Law;

the rules and regulations of the Brazilian Securities Commission (*Comissão de Valores Mobiliários*), or the CVM, and the Brazilian Federal Accounting Council (*Conselho Federal de Contabilidade*); and

the accounting standards issued by the Brazilian Accounting Pronouncements Committee (*Comitê de Pronunciamentos Contábeis*), or the CPC.

Certain Defined Terms

Unless otherwise indicated or the context otherwise requires:

all references to our company, we, our, ours, us or similar terms are to Oi S.A. and its consolidated subsidiaries;

all references to Oi are to Oi S.A.;

Table of Contents

all references to TmarPart are to Telemar Participações S.A., which, prior to the capital increase of Oi on May 5, 2014, was the direct controlling shareholder of Oi and which merged with and into Oi on September 1, 2015;

all references to Telemar are to Telemar Norte Leste S.A., a wholly-owned subsidiary of Oi;

all references to Pharol are to Pharol, SGPS, S.A. (formerly known as Portugal Telecom, SGPS, S.A.);

all references to PT Portugal are to PT Portugal, SGPS, S.A., which we acquired on May 5, 2014 and sold on June 2, 2015;

all references to our Common ADSs are to American Depositary Shares, or ADSs, each representing five common shares of our company, all references to our Preferred ADSs are to ADSs, each representing one preferred share of our company, and all references to our ADSs are to our Common ADSs and Preferred ADSs;

all references to Brazil are to the Federative Republic of Brazil; and

all references to the Brazilian government are to the federal government of the Federative Republic of Brazil.

Acquisition and Disposition of PT Portugal

On May 5, 2014, we concluded a capital increase, which we refer to as the Oi capital increase, in which we issued (1) 121,674,063 of our common shares and 280,483,641 of our preferred shares for an aggregate amount of R\$8,250 million in cash, and (2) 104,580,393 of our common shares and 172,025,273 of our preferred shares to Pharol in exchange for the contribution by Pharol to our company of all of the shares of its subsidiary PT Portugal. PT Portugal provides a broad range of telecommunications services in Portugal and owned significant interests in telecommunications companies in Angola, Cape Verde, Namibia, and São Tomé and Príncipe in Africa and Timor-Leste in Asia.

On June 2, 2015, we sold all of the share capital of PT Portugal to Altice Portugal for a purchase price equal to the enterprise value of PT Portugal of 6,900 million, subject to adjustments based on the financial debt, cash and working capital of PT Portugal on the closing date, plus an additional earn-out amount of 500 million in the event that the consolidated revenues of PT Portugal and its subsidiaries (as of the closing date) for any single year between the year ending December 31, 2015 and the year ending December 31, 2019 is equal to or exceeds 2,750 million.

In connection with the closing, Altice Portugal disbursed 5,789 million, of which 869 million was utilized by PT Portugal to prepay outstanding indebtedness in that amount, and 4,920 million were paid to our company in cash. As of December 31, 2015, we had used R\$8,682 million of the net cash proceeds of the PT Portugal Disposition for the prepayment of indebtedness of our company, and as of the date of this annual report have used an additional R\$5,350 million of these net cash proceeds for the prepayment and repayment of indebtedness of our company. We expect to use the remainder of these net cash proceeds for the repayment of indebtedness of our company.

In anticipation of the PT Portugal Disposition, PT Portugal transferred Portugal Telecom International Finance B.V., or PTIF, its wholly-owned finance subsidiary, to Oi. As a result of the completion of the PT Portugal Disposition, the indebtedness of PTIF, which had previously been classified as liabilities associated with assets held for sale in our consolidated financial statements, was reclassified as indebtedness of our company. In addition, in connection with the PT Portugal Disposition, PTIF assumed all obligations under PT Portugal's outstanding 6.25% Notes due 2016.

In addition, PT Portugal transferred to Oi all of the outstanding share capital of PT Participações, SGPS, S.A., or PT Participações, which holds:

Table of Contents

our 75% interest in Africatel Holding B.V., or Africatel, which holds our interests in telecommunications companies in Africa, including telecommunications companies in Angola, Cape Verde, Namibia, and São Tomé and Príncipe; and

our interests in TPT Telecomunicações Públicas de Timor, S.A., or TPT, which provides telecommunications, multimedia and IT services in Timor Leste.

Share Splits

On August 15, 2012, we changed the ratio applicable to our Preferred ADS from three preferred shares per Preferred ADS to one preferred share per Preferred ADS. All references to numbers of Preferred ADSs in this annual report have been adjusted to give effect to this change in ratio.

On November 18, 2014, our shareholders acting in an extraordinary general shareholders meeting authorized (1) the reverse split of all of our issued common shares into one common share for each 10 issued common shares, and (2) the reverse split of all of our issued preferred shares into one preferred share for each 10 issued preferred shares. This reverse share split became effective on December 22, 2014. There was no change in the ratio of our Common ADSs or Preferred ADSs in connection with this reverse share split; each Common ADS continues to represent one of our common shares and each Preferred ADS continues to represent one of our preferred shares. All references to numbers of shares of our company, dividend amounts of our company and earnings per share of our company in this annual report have been adjusted to give effect to the 10-for-one reverse share split.

On February 1, 2016, we changed the ratio applicable to our Common ADSs from one common share per Common ADS to five common shares per Common ADS. All references to numbers of Common ADSs in this annual report have been adjusted to give effect to this change in ratio.

Market Share and Other Information

We make statements in this annual report about our market share and other information relating to the telecommunications industry in Brazil. We have made these statements on the basis of information obtained from third-party sources and publicly available information that we believe are reliable, such as information and reports from ANATEL, among others. Notwithstanding any investigation that we may have conducted with respect to the market share, market size or similar data provided by third parties or derived from industry or general publications, we assume no responsibility for the accuracy or completeness of any such information.

Rounding

We have made rounding adjustments to reach some of the figures included in this annual report. As a result, numerical figures shown as totals in some tables may not be arithmetic aggregations of the figures that precede them.

Table of Contents

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements. Some of the matters discussed concerning our business operations and financial performance include forward-looking statements within the meaning of the U.S. Securities Act of 1933, as amended, or the Securities Act, or the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act.

Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as expects, anticipates, intends, plans, believes, estimates and similar expressions are forward-looking statements. Although we believe that these forward-looking statements are based upon reasonable assumptions, these statements are subject to several risks and uncertainties and are made in light of information currently available to us.

Many important factors could cause our actual results to differ substantially from those anticipated in our forward-looking statements, including, among other things:

our ability to continue as a going concern and the success of our efforts to optimize our liquidity and debt profile;

the effects of intense competition in Brazil and the other countries in which we have operations and investments;

material adverse changes in economic conditions in Brazil or the other countries in which we have operations and investments;

the Brazilian government's telecommunications policies that affect the telecommunications industry and our business in Brazil in general, including issues relating to the remuneration for the use of our network in Brazil, and changes in or developments of ANATEL regulations applicable to us;

the cost and availability of financing;

the general level of demand for, and changes in the market prices of, our services;

our ability to implement our corporate strategies in order to expand our customer base and increase our average revenue per user;

political, regulatory and economic conditions in Brazil;

inflation in Brazil and fluctuations in exchange rates;

the outcomes of legal and administrative proceedings to which we are or become a party;

changes in telecommunications technology that could require substantial or unexpected investments in infrastructure or that could lead to changes in our customers' behavior; and

other factors identified or discussed under Item 3. Key Information - Risk Factors.

Our forward-looking statements are not guarantees of future performance, and our actual results or other developments may differ materially from the expectations expressed in the forward-looking statements. As for forward-looking statements that relate to future financial results and other projections, actual results will be different due to the inherent uncertainty of estimates, forecasts and projections. Because of these uncertainties, potential investors should not rely on these forward-looking statements.

Table of Contents

We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

Table of Contents**PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION**Selected Financial Information**

The following selected financial data should be read in conjunction with our consolidated financial statements (including the notes thereto), Item 5. Operating and Financial Review and Prospects and Presentation of Financial and Other Information.

The following selected financial data have been derived from our consolidated financial statements. The selected financial data as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014 and 2013 have been derived from our audited consolidated financial statements included in this annual report. The selected financial data as of December 31, 2013, 2012 and 2011 and for the years ended December 31, 2012 and 2011 have been derived from our consolidated financial statements that are not included in this annual report.

We have included information with respect to the dividends and/or interest attributable to shareholders' equity paid to holders of our common shares and preferred shares since January 1, 2011 in *reais* and in U.S. dollars translated from *reais* at the commercial market selling rate in effect as of the payment date under the caption Item 8. Financial Information Dividends and Dividend Policy Payment of Dividends.

| | 2015(1) (in millions of US\$, except per share amounts) | As of and For the Year Ended December 31, | | | | |
|-------------------------------|--|---|------------|------------|------------|------------|
| | | 2015 | 2014 | 2013 | 2012 | 2011 |
| | | (in millions of <i>reais</i> , except per share amounts and as otherwise indicated) | | | | |
| Income Statement Data: | | | | | | |
| Net operating revenue | US\$ 7,005 | R\$ 27,354 | R\$ 28,247 | R\$ 28,422 | R\$ 28,141 | R\$ 27,907 |
| Cost of sales and services | (4,161) | (16,250) | (16,257) | (16,467) | (15,825) | (16,180) |
| Gross profit | 2,844 | 11,104 | 11,990 | 11,955 | 12,316 | 11,727 |
| Operating expenses | (2,533) | (9,891) | (7,377) | (7,972) | 8,579 | 9,016 |

| | | | | | | |
|--|--------------|--------------|-------------|---------|---------|-----------|
| Operating income (loss) before financial income (expenses) and taxes | 311 | 1,213 | 4,613 | 3,983 | 3,737 | 2,712 |
| Financial income | 1,374 | 5,365 | 1,345 | 1,375 | 2,332 | 2,227 |
| Financial expenses | (3,048) | (11,903) | (5,894) | (4,677) | (4,950) | (5,697) |
| Financial income (expenses), net | (1,674) | (6,538) | (4,549) | (3,302) | (2,617) | (3,471) |
| Income (loss) of continuing operations before taxes | (1,364) | (5,325) | 64 | 681 | 1,120 | (759) |
| Income tax and social contribution | (866) | (3,380) | (758) | (77) | (254) | 202 |
| Net income (loss) of continuing operations | (2,229) | (8,705) | (694) | 604 | 866 | (557) |
| Net income (loss) of discontinued operations, net of taxes | (222) | (867) | (4,086) | | | |
| Net income (loss) | (2,451) | (9,572) | (4,780) | 604 | 866 | (557) |
| Other comprehensive income (loss) | (166) | (647) | (14) | 34 | (319) | (133) |
| Comprehensive income (loss) | US\$ (2,617) | R\$ (10,219) | R\$ (4,794) | R\$ 638 | R\$ 547 | R\$ (690) |
| Net income (loss) attributable to controlling shareholders | (2,346) | (9,159) | (4,782) | 604 | 859 | (296) |

Table of Contents

| | As of and For the Year Ended December 31, | | | | | | |
|--|---|---|---------|---------|--------|--------|-------|
| | 2015(1) | 2015 | 2014 | 2013 | 2012 | 2011 | |
| | (in millions of US\$, except per share amounts) | (in millions of <i>reais</i> , except per share amounts and as otherwise indicated) | | | | | |
| Income Statement Data: | | | | | | | |
| Net income (loss) attributable to non-controlling shareholders | (106) | (413) | 1 | | 7 | (261) | |
| Net income (loss) applicable to each class of shares (2): | | | R\$ | (1,569) | 190 | 289 | (296) |
| Common shares basic and diluted | US\$ (1,011) | R\$ (3,947) | (3,213) | 414 | 570 | | |
| Preferred shares and ADSs basic and diluted | (1,335) | (5,212) | | | | | |
| Net income (loss) per share: | | | (7.76) | 3.69 | 5.73 | (6.49) | |
| Common shares basic and diluted | (3.21) | (12.55) | (7.76) | 3.69 | 5.73 | | |
| Preferred shares and ADSs basic and diluted | (3.21) | (12.55) | | | | | |
| Net income (loss) per share from continuing operations: | | | (1.13) | 3.69 | 5.73 | (6.49) | |
| Common shares basic and diluted | (2.91) | (11.36) | (1.13) | 3.69 | 5.73 | | |
| Preferred shares and ADSs basic and diluted | (2.91) | (11.36) | | | | | |
| Net income (loss) per share from discontinued operations: | | | (6.63) | | | | |
| Common shares basic and diluted | 0.30 | (1.19) | (6.63) | | | | |
| Preferred shares and ADSs basic and diluted | 0.30 | (1.19) | | | | | |
| Weighted average shares outstanding (in thousands): | | | | | | | |
| Common shares basic | | 314,518 | 202,312 | 51,476 | 50,499 | 45,615 | |
| Common shares diluted | | 314,518 | 202,312 | 51,476 | 50,499 | | |