OI S.A.
Form 6-K
February 19, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer Pursuant to Rule 13a-16 or

15d-16 of the Securities Exchange Act of 1934

For the month of February 2014

Commission File Number: 1-15256

OI S.A.

(Exact Name as Specified in its Charter)

N/A

(Translation of registrant s name into English)

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

22280-001 Rio de Janeiro, RJ

Federative Republic of Brazil

(Address of principal executive offices)

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

Form 20-F: x Form 40-F: ¨

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

Yes**:** ¨ **No**: x

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

Yes**:** ¨ **No:** x

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

Yes**:** ¨ **No**: x

If Yes is marked, indicate below the file number assigned to the

registrant in connection with Rule 12g3-2(b):

The Company s commitment to quality of sales impacts positively profitability and churn

4Q13

Net revenue increased 1.5% sequentially, reaching R$7.2 billion, as a result of fixed broadband and pay TV growth in the Residential segment as well as the increase of Personal Mobility services revenue due to higher recharges and data usage. On the year-over-over, the growth on these segments was more than offset by the MTR cuts, reduction on handset sales and the Corporate/SMEs revenue decline.

EBITDA totaled R$3.5 billion in 4Q13 (+39% vs 4Q12), impacted by the gain from sale of GlobeNet. Excluding the one-off event, routine EBITDA improved on a quarter-over-quarter basis, underpinned by the Company s focus on sales quality, profitability, operational efficiency and financial discipline.

Operational cash flow (routine EBITDA minus Capex) amounted to R$484 million, presenting year-over-year and sequential improvements.

Net income reached R$1.2 billion, R$776 million increase over 4Q12 (+191%) and R$1.0 billion (+588%) sequentially.

Net debt stood at R$30.4 billion, a 3.8% sequential increase, impacted by the adherence to the tax refinancing program (Refis), which effectively improves Oi s balance sheet, and the dividend payout.

Revenue Generating Units (RGUs) grew 0.2% year-over-over and reduced by 0.5% in a quarterly basis, totaling 74.5 million at the end of 2013, reflecting Oi s commitment to customer quality and profitability.

Consolidated Results

	4Q13	4Q12	3Q13	YoY	QoQ	2013	2012	YoY
Oi S.A. Pro - Forma								
Revenue Generating Unit (000)	74,466	74,339	74,873	0.2%	-0.5%	74,466	74,339	0.2%
Residential	17,837	18,337	18,336	-2.7%	-2.7%	17,837	18,337	-2.7%
Personal Mobility	47,727	46,305	47,337	3.1%	0.8%	47,727	46,305	3.1%
Corporate / SMEs	8,246	8,971	8,542	-8.1%	-3.5%	8,246	8,971	-8.1%
Public Telephones	655	727	657	-9.9%	-0.3%	655	727	-9.9%
	7,209	7,390	7,099	-2.4%	1.5%	28,422	28,142	1.0%

Net Revenue (R$ million)								
Residential	2,606	2,589	2,564	0.7%	1.6%	10,303	9,974	3.3%
Personal Mobility	2,389	2,463	2,330	-3.0%	2.5%	9,290	9,102	2.1%
Corporate / SMEs	2,117	2,195	2,106	-3.6%	0.5%	8,456	8,510	-0.6%
VAS and Others	97	143	99	-32.2%	-2.0%	374	556	-32.7%
EBITDA (R$ million)	3,496	2,516	2,139	39.0%	63.4%	9,583	8,873	8.0%
EBITDA Margin (%)	48.5%	34.0%	30.1%	14.5 p.p.	18.4 p.p.	33.7%	31.5%	2.2p.p.
Routine EBITDA (R$ million)	1,999	2,196	1,966	-9.0%	1.7%	7,576	n.a.	
Routine EBITDA Margin (%)	27.7%	29.7%	27.7%	-2.0p.p.	0.0p.p.	26.7%	n.a.	
Net Earnings (R$ million)	1,183	407	172	190.7%	587.8%	1,493	1,785	-16.4%
Net Debt (R$ million)	30,416	25,068	29,295	21.3%	3.8%	30,416	25,068	21.3%
Available Cash (R$ million)	3,931	7,804	4,758	-49.6%	-17.4%	3,931	7,804	-49.6%
CAPEX (R$ million)	1,515	2,106	1,540	-28.1%	-1.6%	6,250	6,564	-4.8%

Note:
(1) 2012 Net income refers to two months of results from the former Brasil Telecom S.A. and ten months from Oi S.A.
(2) n.a.: In 2012, the Company did not use the routine EBITDA concept.
(3) SMEs: small and medium enterprises.

Net Revenue:

Table 1 Breakdown of Net Revenue

		Quarter				Full Year			%	
R$ million	**4Q13**	**4Q12**	**3Q13**	**YoY**	**QoQ**	**2013**	**2012**	**YoY**	**4Q13**	**4Q12**
Residential	**2,606**	**2,589**	**2,564**	**0.7%**	**1.6%**	**10,303**	**9,974**	**3.3%**	**36.1%**	**35.0%**
Personal Mobility	**2,389**	**2,463**	**2,330**	**-3. 0%**	**2. 5%**	**9, 290**	**9, 102**	**2. 1%**	**33.1%**	**33.3%**
Services / Clients (1)	1,737	1,680	1,679	3.4%	3.5%	6,609	6,276	5.3%	24.1%	22.7%
Network Usage	490	587	554	-16.5%	-11.6%	2,147	2,337	-8.1%	6.8%	7.9%
Sales of handsets, sim cards and others	161	195	97	-17.4%	66.0%	535	489	9.4%	2.2%	2.6%
Corporate / SMEs	**2,117**	**2,195**	**2,106**	**-3.6%**	**0.5%**	**8,455**	**8,510**	**-0.6%**	**29.4%**	**29.7%**
Other Services	**97**	**143**	**99**	**-32.2%**	**-2.0%**	**375**	**556**	**-32.6%**	**1.4%**	**1.9%**
Public Phone	13	27	10	-51.9%	30.0%	32	79	-59.5%	0.2%	0.4%
VAS and Others	84	116	90	-27.6%	-6.7%	342	476	-28.2%	1.2%	1.6%
Total Net Revenue	**7,209**	**7,390**	**7,099**	**-2.4%**	**1.5%**	**28,422**	**28,142**	**1.0%**	**100.0%**	**100.0%**

Note: (1) Includes subscriptions, outgoing calls, mobile long distance, roaming, data and value added.
(2) 2012 results are pro-forma.

Net revenue totaled R$7.2 billion in 4Q13, 2.4% down from the same period of the previous year, chiefly due to: (i) reduction in mobile termination rate and lower revenue from handset sales, both in the Personal Mobility segment and (ii) lower fixed and mobile voice revenue in the SMEs, as a result of the ongoing restructuring in this segment, in addition to the decrease in postpaid voice and mobile data services in the Corporate segment, and (iii) the focus on profitability and protection of the Company s cash flow. These effects were partially offset by the growth of pay TV and fixed broadband in the Residential segment, as well as the increase in revenue from Personal Mobility services on the back of higher recharge volume and greater data use.

The sequential performance of net revenue (+1.5%) is explained by the growth in fixed broadband, pay TV and mobile data, as well as the increase in handset sales during Christmas. Mobile data revenue, specifically, increased 17.5% compared to the previous quarter and 69% YoY, reaching R$463 million, as a result of the new plans that encourage data usage launched in the second half of the year.

Annual net revenue came to R$28.4 billion, R$280 million more than in 2012 (+1.0%), driven by increased revenue from the Residential segment, due to pay TV and fixed broadband growth, and from the Personal Mobility segment due to the increase prepaid recharges, data usage and VAS packages, which more than offset the impact of the decline in MTR and lower revenue from the Residential fixed line and from the Corporate / SMEs segment.

Residential

	4Q13	4Q12	3Q13	YoY	QoQ	2013	2012	YoY
Residential								
Net Revenue (R$ million)	2,606	2,589	2,564	0.7%	1.6%	10,303	9,974	3.3%
Revenue Generating Units (RGU) - (000)	17,837	18,337	18,336	-2.7%	-2.7%	17,837	18,337	-2.7%
Fixed Line in Service	11,750	12,478	12,091	-5.8%	-2.8%	11,750	12,478	-5.8%
Fixed Broadband	5,258	5,102	5,336	3.1%	-1.5%	5,258	5,102	3.1%
Pay TV	829	757	909	9.5%	-8.8%	829	757	9.5%
ARPU Residential (R$)	73.9	69.2	70.7	6.8%	4.5%			

Note: 2012 results are pro-forma.

Net revenue from Residential segment totaled R$2.6 billion in 4Q13, 0.7% up from the same period of the previous year. This performance reflected the continuing increase in sales of bundled offers, especially bundling fixed with broadband and pay TV, products that were mostly responsible for the upturn in this segment, which is presenting the fifth consecutive quarter with YoY growth, offsetting the natural fixed line declining trend.

In December 2013, 58% of households connected to the network had more than one Oi product, a YoY increase of 4.7 percentage points. Upselling also contributed to the increase in revenue, both in terms of broadband, underpinned by network improvements in order to offer higher speeds, and pay TV, with the offer of more complete packages and extra premier channels. The average broadband speed in 4Q13 reached 3.8 Mbps, 19% higher than the 4Q12 average. This performance, coupled with a significant reduction in wireline voluntary churn, is explained by the Company s successful strategy of offering services and initiatives to increase profitability and customer loyalty, leading to a Residential ARPU growth of 6.8% YoY, reaching R$73.9 in 4Q13.

In comparison to the previous quarter, Residential net revenue climbed by 1.6% as a result of the 4.2% sequential improvement in ARPU, also due to the increase in bundled offering sales and upselling both in broadband and pay TV.

In 2013, net revenue from Residential segment came to R$10.3 billion, up 3.3% compared to 2012, primarily due to increase in broadband and pay TV customers, whose growth more than offset the decline in wireline revenue. The decline in wireline revenue slowed in comparison to the decline in 2012 over 2011, as a result of the successful strategy of bundling broadband, pay TV and mobile, through *Oi Conta Total* and the launch of new prepaid offerings, such as *Oi Voz Total*, that promotes the fixed-to-mobile convergence, adding more value to the fixed line.

Oi closed 2013 with 17,837 thousand RGUs (Revenue Generating Units) in the Residential segment, down 2.7% from 2012, explained by the 5.8% annual reduction in the number of fixed lines in use, which offset the expansion of pay TV (+9.5%) and fixed broadband (+3.1%). Both the reduction in the number of fixed lines and the slowdown in pay TV and fixed broadband growth resulted from the focus on the quality of its customer base, which impacted gross additions in the fourth quarter. Additionally, in the 4Q13 the company did a clean-up in its base, in line with the strategy of improve quality and profitability.

All in all, the Company continued to focus on improving the quality of its customer base, through a more conservative commercial strategy, adapting its credit policies and sales processes accordingly, which naturally resulted in lower gross additions. On the other hand, the strategy based on bundles, initiatives to retain existing customers and upselling efforts resulted in declining voluntary churn, increasing ARPU and a more reasonable bad debt level, leading to a more quality and profitable profile of customer base.

Wireline

At the end of 4Q13, Oi had 11,750 wireline customers in the Residential segment, with net disconnections of 728 thousand fixed lines in 2013, versus 568 thousand in 2012. This increase resulted from the combination of lower volume of gross additions, due to a more conservative credit policy, and the maintenance of the strict involuntary churn policy during the second half of 2013, in line with the Company s objective of improving the quality of its customer base. However, the Company maintained low level of disconnections in historical terms.

Retention rates improved throughout 2013, thanks to initiatives focused on cross selling and other retention initiatives, which basically consisted of a more assertive application of strategies in the offering of products that are most suitable to the customer s current profile. With this in mind, the options offered by Oi s sales teams include redesigning customers wireline plans, selling new broadband subscriptions and pay TV through convergent packages, as well as offering plans in the Personal Mobility segment that promote fixed-to-mobile convergence. The bundled offers *Oi Conta Total* and *Oi Voz Total* are two such examples that focus on increasing ARPU and reducing churn. *Oi Conta Total* (OCT) is a *triple-play* postpaid offer that combines fixed line, broadband and postpaid mobile, and that can also be combined with pay TV (*quadruple-play*) and mobile data packages, while *Oi Voz Total* is a double-play prepaid offer combining fixed and prepaid mobile aiming to improve fixed-to-mobile convergence. All these bundled offers have significant lower churn rate when compared to the single products.

Under-contract plans, whereby customers accumulate discounts on their monthly bills if they remain in the base for the entire term of their 12-month contract, have been another important tool to control churn rates.

Broadband

Oi closed the fourth quarter with 5,258 thousand fixed broadband RGUs in the Residential segment, up 3.1% against 4Q12, recording 156 thousand net additions in 2013. The penetration of Oi s fixed broadband in residences with Oi products reached 44.2%, 3.8 percentage points up from the 40.4% recorded at the end of 2012. In addition to pay TV, broadband plays an important role in increasing the profitability of the Residential segment, either through cross selling or the upselling of convergent offerings which helps reduce churn and improve ARPU in this segment. In comparison with the previous quarter, there was a 1.5% decline in broadband RGUs, mainly due to a clean-up base and lower gross adds, in line with the Company s focus on sales quality.

In 4Q13, the average speed for Residential broadband customers moved up by 18.8% YoY, from 3.2 Mbps, in 4Q12, to 3.8 Mbps. There was also an increase in the share of RGUs with speeds equal to or greater than 5 Mbps, up 8 p.p. year-over-year, ending 2013 at 39%. Approximately 18% of broadband RGUs have speeds equal to or greater than 10 Mbps. These advances are the result of Oi s efforts to increase its ability to retain and profit from its customers, supported by investments to expand the capillarity and capacity of its broadband network and upgrade customer speeds. As a result, voluntary churn continued to decline, showing the results of the strategy focused on improving the customer base quality.

Pay TV

Oi ended 4Q13 with a pay TV base of 829 thousand RGUs, 9.5% more than in the same period last year, despite the initiatives focused on sales quality and the Company s decision to re-launch Oi TV in 2014 after

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the implementation of a new platform over the SES-6 satellite contracted in 2013, which impacted the acquisition of new clients in 4Q13. Compared to the previous quarter, the base fell by 8.8%, also explained by the initiatives focused on sales quality, lower commercial efforts due to the future launch of the new TV product as well as a base clean-up occurred in 4Q13.

SES-6 will increase the DTH capacity of Oi TV and will improve signal quality and coverage, allowing the Company to offer more HD and local channels in its programming schedule and include pay-per-view, video on demand and interactive services. The additional capacity provided by the SES-6 satellite is a competitive advantage that will support Oi s pay TV via DTH growth in the medium and long term.

In 4Q13, the penetration of Oi TV in homes with Oi products came to 7%, 1.0 p.p. up from the 6% recorded at the end of 2012. With the attraction of entry-level offerings with HD channels at competitive prices, the pay TV segment has great upselling potential in Oi s portfolio due to the offer of various packages and extra channels, which will have a positive impact on the sustainable growth of the residential ARPU, in addition to playing a strategic role in retaining and increasing the loyalty of residential customers.

Residential ARPU

The Company ended 2013 with 11,900 thousand homes connected to the network, 58% of which, or 6,911 thousand homes, had more than one Oi product, improving 4.7 p.p. YoY, with a more significant increase in the number of households with triple-play and quadruple-play offerings. Because of the greater exposure of Oi households to fixed broadband and pay TV products with higher upselling potential , residential ARPU continued to post positive results, closing 4Q13 at R$73.9, up 6.8% in the YoY comparison. This performance was fueled by fixed broadband and pay TV growth (both in terms of RGUs and ARPU) as well as the loyalty and retention initiatives.

In comparison to the previous quarter, residential ARPU grew by 4.5% despite 2.7% reduction in the number of RGUs. This performance reflected the Company s commitment to increasing profitability and improving the quality of its customer base, both through the strict disconnection policy, increasing retention efforts and by improving the quality of gross additions.

Personal Mobility

	4Q13	4Q12	3Q13	YoY	QoQ	2013	2012	YoY
Personal Mobility								
Net Revenue (R$ million)	2,389	2,463	2,330	-3.0%	2.5%	9,290	9,102	2.1%
Services / Clients (1)	1,737	1,680	1,679	3.4%	3.5%	6,609	6,276	5.3%
Network Usage	490	587	554	-16.5%	-11.6%	2,147	2,337	-8.1%
Sales of handsets, sim cards and others	161	195	97	-17.4%	66.0%	535	489	9.4%
Revenue Generating Units (RGU) - (000)	47,727	46,305	47,337	3.1%	0.8%	47,727	46,305	3.1%
Pre-Paid Plans	41,019	39,832	40,676	3.0%	0.8%	41,019	39,832	3.0%
Post-Paid Plans(2)	6,708	6,472	6,662	3.6%	0.7%	6,708	6,472	3.6%

Note: (1) Includes: subscriptions, outgoing calls, mobile long distance, roaming, data and value added.

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

(3) 2012 results are pro-forma.

Net revenue from Personal Mobility segment totalled R$2.4 billion in 4Q13, down 3.0% from 4Q12, impacted by the MTR cuts and lower revenue from handset sales. Service revenue reached R$1.7 billion this quarter, 3.4% up YoY, mainly explained by: (i) larger mobile customer base, (ii) data revenue performance (mobile internet, mobile broadband and value added services), which grew by 69.0% over 4Q12 to R$463 million and (iii) new prepaid offerings launched in the second half, which resulted in continued growth in average recharge volume. Net revenue from handset sales totaled R$161 million, R$34 million less than in 4Q12, reflecting a more rational subsidy policy, together with the focus on quality and cash flow protection, resulting in lower handset sales volume.

In comparison with the previous quarter, net revenue increased by 2.5% as a result of increasing prepaid recharges and handset sales due to Christmas season, partially offset by the decrease in network usage revenue mainly related to lower SMS traffic. Annual net revenue from Personal Mobility totaled R$9.3 billion, R$188 million more than in 2012, driven by the increase in the average prepaid recharge and higher consumption of data mainly from the prepaid segment, as well as the 9.4% increase in handset sales. This increase was partially offset by the impact from the MTR cuts, which resulted in an 8.1% decrease in network usage revenue.

Oi closed 2013 with 47,727 thousand RGUs in the Personal Mobility segment, 3.1% up on 2012, equivalent to 1,422 thousand net additions in the last 12 months, 1,186 thousand of which prepaid RGUs and 236 thousand postpaid.

In 4Q13 monthly churn stood at 3.8%, improved from 4.2% in 4Q12.

At the end of 2013, Oi s mobile customer base (Personal Mobility + Corporate / SMEs) totaled 50,238 thousand RGUs, 47,727 thousand of which in Personal Mobility and 2,511 thousand in Corporate / SMEs. Gross and net additions came to 5.9 million and 203 thousand, respectively, in 4Q13.

Prepaid

Prepaid base ended the fourth quarter of 2013 with 41,019 thousand RGUs, representing an increase of 3.0%, or 1,186 thousand RGUs, in relation to 4Q12, and a sequential increase of 0.8%.

Given the Company s focus on financial discipline and cash generation, the prepaid segment is strategically important due to its intrinsic characteristics, including: (i) scale, (ii) very low customer acquisition costs, (iii) neither invoice nor collection costs, (iv) no bad debt issues, and (v) favorable impact on working capital. For these reasons, Oi has been concentrating on this segment, seeking to increase the use of voice and data by these customers, especially those with an active consumption and recharge profile, underlining the Company s focus on profitable growth.

Similarly to 3Q13, the fourth quarter was marked by substantial gross recharge volume, which reached record levels in December, growing by 5.3% YoY, outpacing the 3% annual increase in the prepaid customer base. As a result, the average recharge in 4Q13 recorded its highest level since 2010, climbing by 5.6% over 4Q12. The Company will continue to encourage this segment, which is already equipped with recharge processing infrastructure capable of handling 7,000 transactions per minute.

Mobile data consumption on prepaid lines also continued to record consistent growth in terms of mobile internet, as a result of add-on packages that complement customer offerings and the use of active marketing tools. These initiatives are already producing results, confirmed by the 77% increase in prepaid data revenue and 32% in SVA revenue over 2013 and the bigger share of data usage in recharge consumption.

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The Company has successfully implemented a platform to manage recharge campaigns, which began as a pilot project in 2Q13. This tool creates, executes and manages customized campaigns for prepaid and *Oi Controle* customers (one-on-one marketing concept), enabling the sending of real time messages to encourage customers to recharge their accounts and purchase add-on packages based on their profile and context, making the offerings more relevant. The improving performance in volume of recharge that Oi have been presenting in the last quarters is a direct result of the use of the new platform.

Postpaid

Oi closed 2013 with 6,708 thousand postpaid RGUs in the Personal Mobility segment, 3.6% up from the end of 2012 and 0.7% up from the previous quarter, despite the more restrictive sales approach. The postpaid segment represented 14.1% of the Personal Mobility base at year-end, virtually flat over the 14.0% recorded in 4Q12.

In this context of the Company s focus on sales quality, it is worth noting that the current volume of gross subsidized additions in the postpaid segment is less than 1% of total sales. The goal is to add more quality to the customer base and protect cash flow with more targeted subsidies, monetizing the segment through sustainable growth of the postpaid base, in addition to improving churn levels. In fact, in recent quarters postpaid revenue has grown at a higher rate than its respective RGU growth. In addition, the early churn in postpaid decreased by around 20% YoY.

The offer of customer loyalty programs has also sustained the ongoing decline in voluntary churn, both in terms of postpaid customers and customers with mobile access through the *Oi Conta Total* offer. The new *Oi Conectado* offer, which combines voice, data package, unlimited SMS and unlimited on-net calls, already represents 10% of sales, proving the increasing attractiveness of data.

3G and 4G LTE coverage

Oi closed the quarter with 3G coverage in 891 municipalities (76% of the country s urban population), an increase of 29%, or 199 municipalities, over the end of 2012. This improvement is key to increasing data penetration in the customer base and sustaining consistent revenue growth in the mobile data segment.

Oi is already offering the 4G LTE data package in 24 municipalities, including the six cities that hosted FIFA s Confederations Cup (Rio de Janeiro, Belo Horizonte, Brasília, Salvador, Recife and Fortaleza).

Mobile ARPU

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

Mobile ARPU in 4Q13 was R$19.9, 7.4% less than in 4Q12, despite de 11.3% drop in mobile termination rate. The lower interconnection revenue was partially offset by growth in data revenue and increase in the recharge levels of the prepaid base. Excluding the interconnection revenue, the mobile ARPU in 4Q13 presented a 3.9% growth in comparison to 4Q12.

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Corporate / SMEs

	4Q13	4Q12	3Q13	YoY	QoQ	2013	2012	YoY
Corporate / SMEs								
Net Revenue (R$ million)	2,117	2,195	2,106	-3.6%	0.5%	8,455	8,510	-0.6%
Revenue Generating Units (RGU) - (000)	8,246	8,971	8,542	-8.1%	-3.5%	8,246	8,971	-8.1%
Fixed	5,105	5,422	5,222	-5.8%	-2.2%	5,105	5,422	-5.8%
Broadband	630	594	623	6.1%	1.1%	630	594	6.1%
Mobile	2,511	2,955	2,698	-15.0%	-6.9%	2,511	2,955	-15.0%

Note: 2012 results are pro-forma.

Net revenue totaled R$2.1 billion, 3.6% down from 4Q12, essentially due to the 8.5% decrease in revenue from the SME segment and the 3.1% reduction in Corporate revenue, partially offset by wholesale settlement agreements in 4Q13.

In 2013, net revenue came to R$8.5 billion, a slight reduction (-0.6%) over the previous year, as a result of the strong operating result in 2012 in terms of number of RGUs and the change in the strategy throughout 2013 with a focus on sales quality.

Oi closed 2013 with 8,246 thousand RGUs in the Corporate / SMEs segment, 8.1% down from the end of 2012, reflecting the focus on sales quality and the continuing base clean-up. The shrinkage of the customer base was mainly consequence of the Company s strategy to focus on profitability, including the more rational use of handset subsidies, as well as the reassessment of sales process in seeking a higher quality customer addition mix.

Oi maintained its technological partnership with Portugal Telecom, aiming to capture synergies and take advantage of its cloud computing expertise to provide more complete services, seeking solutions that are both scalable and available, as well as to reduce costs. In 3Q13, Oi launched the second phase of its cloud computing services targeted at the Corporate / SMEs segment, reinforcing its strategy of helping customers to increase revenue and reduce costs through the use of innovative technology. The new solutions will operate on Oi and Portugal Telecom s international data center network, including the recently inaugurated Covilhã facility, one of the biggest and most efficient in the world.

SMEs

The SMEs segment increased its focus on sales quality and, especially, on the ongoing restructuring of its franchise network and the adoption of own stores to sell its offerings. Since 3Q13, the Company has altered its franchise commissioning policy, conditioning the payment of commissions on timely payments by the customers added. This initiative improved the quality of the franchise base, which is now subject to stricter oversight. Additionally, it reduced the total number of franchises and, consequently, the segment s sales force, which had a direct impact on the decline in gross additions. However, the Company has already developed a new sales force (internal sales force, branded stores and service to sales) and higher partner support in order to increase gross additions in the future.

In addition, the segment was exceptionally restrictive in terms of subsidies, adopting a highly conservative approach with a focus on strengthening the loyalty of existing customers. The highlight was the continuing expansion of wireline voice (basic and advanced) and broadband services, underlining the assertiveness of the convergence strategy in this segment, and partially offsetting the reduction in the mobile base.

As a result, net revenue from SMEs fell by 8.5% YoY in 4Q13. On the other hand, operating costs improved due to stricter control over bad debt and early churn (from non-payment of the first and second monthly bills), avoiding unnecessary billing, collection and logistics costs. In fact, fixed and mobile churn in this segment dropped by around 30% sequentially, while ARPU increased during the same period.

The Company continues to focus on the profitability of the customer base through improving the quality of its sales with such initiatives as the Quality Call (a follow-up call to double-check the order with the customer), the commissioning model review and adjustments to current offers.

The number of RGUs in the wireline base (basic and advanced voice) increased by 9.1% over 4Q12, continuing to consolidate the reversal of the wireline base decline in this segment, despite the more restrictive customer addition policy. The broadband base grew by 9.8%, underlining the continuing expansion of fixed-line broadband in the SME segment. The mobile segment fell by 23.9% YoY, reflecting the reduced use of subsidies.

Corporate

The annual decline in Corporate RGUs was due to: (i) the insourcing of a supplier s workers in 3Q13, which reduced the number of RGUs in the segment, offset by an increase in the number of RGUs in the Personal Mobility segment, (ii) the focus on sales quality, (iii) the reduction in subsidies in the pursuit of profitability, especially in mobile offerings, and (iv) higher sales volume in 4Q12, in line with the Company s strategy at that time.

In terms of operating performance, VPN networking (+20.4%), internet access (+9.2%) and fixed digital trunking (+4.9%) continued to record substantial growth in 4Q13. However, the result was negatively impacted by the reduction in postpaid voice (-9.0%) and mobile data services (-7.8%), as a direct result of the cut in subsidies and the insourcing, in the 3Q13, of previously outsourced workers, who were reallocated from the corporate customer base to Oi s mobile base. As a result, Corporate net revenue fell by 3.1% over 4Q12, more than offsetting the 4.4% increase in data revenue during the same period.

Considering the annual performance, Corporate revenue outperformed the market in all products. Corporate data revenue grew 6.0% while the market improved 2.8%. Mobile revenue from this segment increased 9.3% against 6.3% of the market. And although Corporate s wireline revenue fell by 3.3%, the overall market decreased 8.5% on the full year comparison.

The Company maintained the new cloud service offering, in association with Portugal Telecom, adding additional services to the segment s cloud computing portfolio and providing more complete telecom and IT solutions. This has allowed Oi to (i) develop a virtual data center platform, allowing even greater flexibility and granularity in resource management and billing, (ii) strengthen the cloud offering portfolio, with the addition of innovative solutions in platform and Software as a Service models (SaaS), and (iii) expand Oi s data center ecosystem with the integration of Portugal Telecom s data centers, enabling sophisticated redundancy and disaster recovery solutions.

Oi s partnership with Portugal Telecom is also aimed at capturing operational synergies in the M2M (Machine-to-Machine) segment. A project is currently under way to use Portugal Telecom s platform and expertise to improve Oi s portfolio of solutions in this segment.

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Operating Costs and Expenses

Table 2 Breakdown of Operating Costs and Expenses

Item - R$ million	4Q13	4Q12	3Q13	YoY	QoQ	2013	2012	YoY
Operating Expenses								
Interconnection	905	1,125	907	-19.6%	-0.2%	3,966	4,414	-10.1%
Personnel	585	536	603	9.1%	-3.0%	2,453	2,016	21.7%
Materials	62	46	60	34.8%	3.3%	221	156	41.7%
Handset Costs/Other (COGS)	135	207	96	-34.8%	40.6%	515	542	-5.0%
Third-Party Services	2,040	2,202	2,102	-7.4%	-2.9%	8,394	8,236	1.9%
Marketing	148	108	116	37.0%	27.6%	539	475	13.5%
Rent and Insurance	533	437	566	22.0%	-5.8%	2,067	1,813	14.0%
Provision for Bad Debts	117	157	201	-25.5%	-41.8%	850	595	42.9%
Other Operating Expenses (Revenue), Net	-811	56	310	n.m.	n.m.	-165	1,021	n.m.
TOTAL	**3,713**	**4,874**	**4,960**	**-23.8%**	**-25.1%**	**18,839**	**19,269**	**-2 .2%**

Note: 2012 figures are pro-forma.

Fourth-quarter operating costs and expenses totaled R$3.7 billion, 23.8% down from 4Q12 and 25.1% less than in the previous quarter. Annual operating costs and expenses came to R$18.8 billion, a 2.2% reduction over 2012. It is worth highlighting that 4Q13 was impacted by the gain from the sale of GlobeNet in amount of R$1,497 million (transaction value deducted from related expenses). Disregarding this one-off gain, the opex in 4Q13 stood at R$ 5,210 million. It is also worth noting that despite the fact that approximately 70% of the opex is linked to inflation, which stood at 5.9% in 2013, routine opex in 4Q13 remained stable comparable to the 4Q12 routine opex, which amounted R$ 5,194 million (disregarding R$ 200 million from the sales of mobile towers and R$ 120 million related to reversal of labor contingencies).

Interconnection

Interconnection costs totaled R$905 million in 4Q13, 19.6% down YoY, primarily due to MTR reduction, as well as lower mobile voice and SMS off-net traffic due to the Company s incentives for on-net offers. In relation to the previous quarter, these costs remained flat. Annual interconnection costs reached R$4 billion, 10.1% less than in 2012, also explained by the reduction in the MTR tariff and lower off-net traffic.

Personnel

Personnel costs and expenses totaled R$585 million in 4Q13, 9.1% higher than in 4Q12, mainly due to the insourcing of part of Oi s internal network maintenance operations in 2013 and the annual collective bargaining agreement adjusted by inflation. Compared to the previous quarter, the 3.0% decrease in personnel costs was mostly due to reduction in employees overtime pay, underlining the Company s commitment to improving productivity and reducing costs.

Annual personnel expenses amounted to R$2.5 billion, a 21.7% increase over the year before, due to the expansion of the workforce related to the insourcing of part of Oi s internal network maintenance operations, the one-off payment of 2012 wage bonuses in 2Q13, and the annual collective bargaining agreement adjusted by inflation.

Third Party Services

Expenses with third-party services totaled R$2.0 billion in 4Q13, 7.4% and 2.9% down from 4Q12 and 3Q13, respectively, chiefly due to: (i) slowdown in sales and consequently commissions, as a result of the Company s focus on sales quality, especially in the YoY comparison, (ii) reduction in the contact rate, and (iii) lower plant maintenance costs. These effects were partially offset by increased data-processing expenses and higher expenses with legal consulting and advisory services. The annual comparison was also impacted by the higher cost of pay TV content acquisitions and the reduction in electricity tariffs.

Annual expenses from third-party services came to R$8.4 billion, an increase of 1.9% over 2012, reflecting the consulting expenses related to the implementation of the BPO project for the back-office operations at the end of 2Q12, contractual adjustments due to inflation, and greater pay TV content acquisitions in 2013, partially offset by reduced electricity tariffs and lower expenses with commissions and sales mostly in the second half of 2013.

Marketing

Advertising expenses closed 4Q13 at R$148 million, up 37.0% YoY, due to the launch of *Oi Galera* and the *Oi Sorte na Palma da Mão* campaign. The 27.6% increase over 3Q13 was the result of increased expenses with advertising campaigns for Christmas.

Annual advertising expenses amounted to R$539 million, 13.5% more than in 2012, reflecting higher expenses from the launch of *Oi Galera*, the *Oi Sorte na Palma da Mão* campaign, sponsorship of Rock in Rio, and FIFA s Confederations Cup media expenses where Oi was a sponsor and the official provider of IT and telecom services in June 2013.

Rent and Insurance

Rent and insurance expenses moved up by 22.0% over 4Q12 to R$533 million, chiefly due to (i) increased real estate rentals and higher operational leasing of network infrastructure, both related to assets sold during 2013, (ii) annual contractual adjustments, (iii) higher expenses with the insourcing of internal plant, including car rental and insurance, and (iv) the launch of the SES-6 satellite.

Annual rent and insurance expenses totaled R$2.1 billion, R$254 million higher than in 2012, primarily as a result of higher expenses with tower rentals related to the asset disposals in 2013, real estate and vehicle rentals related to the insourcing of internal plant, and annual contractual adjustments.

Provision for Bad Debt

The provision for bad debt came to R$117 million in 4Q13, a YoY decline of R$40 million and a sequential decrease of R$84 million, as a result of sales quality improvement initiatives, improved collection efficiency especially in the Residential and SMEs segments, and the more strict credit requirements for new customers. It is also worth noting that this provision represented 1.6% of net revenue, versus 2.8% in 3Q13 and 2.1% in 4Q12, demonstrating the Company s focus on financial discipline.

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Total expenses with the provision for bad debt in 2013 reached R$850 million, 42.9%, or R$255 million, higher than in 2012, reflecting the sales growth in 2012, combining with the deterioration of the macroeconomic scenario in 2013. The 2013 provision represented 3.0% of the annual net revenues while in 2012 it represented 2.1%. Worth noting that the initiatives adopted in the second half to improve sales quality and collection efficiency are already showing positive results with the bad debt decreasing to 1.6% of net revenues in 4Q13.

Other Operating Expenses (Revenue)

The Company recorded other net operating revenues of R$811 million in 4Q13, versus other net operating expenses of R$310 million in 3Q13 and R$56 million in 4Q12. This result was impacted by the sale of GlobeNet concluded in 4Q13 with net positive impact of R$1.497 million. Considering the routine expenses, the year-over-year increase was mainly explained by lower revenue from infrastructure rentals primarily due to asset sales, prescribed dividend in 4Q12, higher VAS content acquisition costs and lower revenue from late bill payment fees. In comparison to the previous quarter, the routine expenses increased chiefly due to the lower revenue from infrastructure rentals primarily related to asset sales, and the lower levels of recovered taxes.

In 2013, the Company recorded other operating revenues of R$165 million, a positive impact of R$1.2 billion compared to 2012, chiefly due to the sale of GlobeNet.

EBITDA

Table 3 EBITDA and EBITDA Margin

	4Q13	4Q12	3Q13	YoY	QoQ	2013	2012	YoY
Oi S. A. Pro-Forma								
EBITDA (R$ Mn)	3,496	2,516	2,139	39.0%	63.4%	9,583	8,873	8.0%
EBITDA Margin (%)	48.5%	34.0%	30.1%	14.5p.p.	18.4p.p.	33.7%	31.5%	2.2p.p.
Routine EBITDA (R$ Mn)	1,999	2,196	1,966	-9.0%	1.7%	7,576	n.a.	
Routine EBITDA Margin (%)	27.7%	29.7%	27.7%	-2.0 p.p.	0.0 p.p.	26.7%	n.a.	

Note: (1) 2012 figures are pro-forma.
(2) n.a.: In 2012, the Company did not use the routine EBITDA concept.

EBITDA totaled R$3.5 billion in 4Q13, 39.0% up against the same period of last year and 63.4% higher than the previous quarter, as a result of the gain from the sale of GlobeNet. The year-over-over comparison is also impacted by the YoY decline in net revenue. Annual EBITDA came to R$9.6 billion, an 8.0% growth compared to 2012.

Routine EBITDA stood at R$1,999 million in 4Q13. Disposal of GlobeNet resulted in gains of R$1,497 million. Additionally, in 4Q13 Oi booked a gain associated with the reversal of labor contingencies amounting to R$115 million, of which R$74 million were deemed to be related to prior years. This gain was offset by one-offs including provisions related to write-offs in connection with a project of fixed assets reconciliation. The objective of such project is to comply with obligations related to the identification of reversible assets.

Routine EBITDA presented a year-over-year decrease of 9.0%, explained by the net revenue reduction during the same period. Comparing to 3Q13, routine EBITDA showed a 1.7% growth, reflecting the continuing improvements on quality of sales, operational efficiency and financial discipline. Routine EBITDA margin reached 27.7% in 4Q13, flat from 3Q13.

Capex

Table 4 Capex

R $ million	**4Q13**	**4Q12**	**3Q13**	**YoY**	**QoQ**	**2013**	**2012**	**YoY**
Capex								
Network	1,095	1,577	1,119	-30.6%	-2.1%	4,678	4,772	-2.0%
IT Services	92	82	65	12.2%	41.5%	348	336	3.6%
Outros (1)	328	447	355	-26.6%	-7.6%	1,224	1,456	-15.9%
Total	**1,515**	**2,106**	**1,540**	**-28.1%**	**-1.6%**	**6,250**	**6,564**	**-4.8%**

Note: (1) Includes the 4G license in 2012.
(2) 2012 results are pro-forma.

Annual Capex totaled R$6.3 billion in 2013, 4.8% less than in 2012. These figures include the capitalization of financial expenses related to interest on construction in progress in the amount of R$250 million (2013) and R$324 million (2012). Excluding these financial expenses, the investments in Capex amounted to R$6.0 billion in 2013 and R$6.2 billion in 2012.

It is important to mention that R$4.7 billion (or 75% of total Capex) went to the network, mainly allocated to: (i) expanding and improving the quality of the 3G mobile network; (ii) improving the wireline network for the broadband service; (iii) optimizing the Oi TV platform; and (iv) implementing and expanding the 4G network, which began operations in 2013. The Others line amounted to R$1.2 billion in 2013, down by 15.9%, reflecting the 4G license acquired in 2012.

Operational Cash Flow (EBITDA Capex)

Table 5 Operational Cash Flow

	4Q13	**4Q12**	**3Q13**	**YoY**	**QoQ**	**2013**	**2012**	**YoY**
Oi S. A. Pro-Forma								
EBITDA (R$ Mn)	3,496	2,516	2,139	39.0%	63.4%	9,583	8,873	8.0%
Capex (R$ Mn)	1,515	2,106	1,540	-28.1%	-1.6%	6,250	6,564	-4.8%
Operational Cash Flow (EBITDA - Capex)	**1,981**	**410**	**599**	**383.2%**	**230.7%**	**3,333**	**2,309**	**44.3%**
Routine Operational Cash Flow	**484**	**90**	**426**	**437.8%**	**13.6%**	**1,326**	**n.a.**	

Note: (1) 2012 figures are pro-forma.
(2) n.a.: In 2012, the Company did not use the routine EBITDA concept.

Depreciation and Amortization

The Company reported depreciation and amortization expenses of R$1.1 billion in 4Q13, 7.7% greater than 4Q12 due to higher volume of investments, and 0.8% less than in the previous quarter as a result of reduced investments in the second half of the year.

Annual depreciation and amortization expenses totaled R$4.3 billion, 32.4% up against 2012, due to the increasing volume of investments occurred in the past years and, partly, to the fact that Oi S.A. was only operational for 10 months of 2012.

Table 6 Depreciation and Amortization (Oi S.A. Consolidated)

R$ million	**4Q13**	**4Q12**	**3Q13**	**YoY**	**QoQ**	**2013**	**2012**	**YoY**
Depreciation and Amortization								
Total	1,083	1,006	1,092	7.7%	-0.8%	4,278	3,231	32 .4%

Note: 2012 figures refer to two months of results from the former Brasil Telecom S.A. and ten months from Oi S.A.

Financial Results

Table 7 Financial Results (Oi S.A. Consolidated)

R$ Million	4Q13	4Q12	3Q13	2013	2012
Oi S. A. Consolidated					