June 14, 2018

027/2018-PRE

C I R C U L A R   L E T T E R

To: B3's Market Participants – BM&FBOVESPA Segment

Re: **Treatment of Securities Lending Positions Relating to Subscription for New Shares in Oi S.A. with Allocation of Subscription Bonuses**.

On June 11, 2018, Oi S.A. (Company) published a Notice to Shareholders about subscription for new shares with allocation of subscription bonuses.

The treatment of subscription for the Company's new shares to be applied to securities lending positions will comply with subitem 4 of item 6.8.3 of BM&FBOVESPA Clearinghouse's Operating Procedures Manual.

Securities lending positions involving the Company's shares for which the lender opts for the creation of a subscription receipt lending agreement will also be submitted to subscription bonus cash settlement after the capital increase is confirmed.

Cash settlement of subscription bonuses will take place at expiration of the sub-agreements deriving from the subscription process, by crediting the lender and debiting the borrower in the amount resulting from multiplication of the number of subscribed shares by the subscription bonus proportion factor stipulated by the Company (0.07692307666) and finally by the closing price of the subscription bonus for the day before cash settlement. If there is no closing price, the price of the subscription bonus will be set as established in Annex I to this Circular Letter.

Further information can be obtained from Post-Trade Support by telephone on +55 11 2656-5000, option 3, or by email at ssp@b3.com.br.

Gilson Finkelsztain   Cícero Augusto Vieira Neto

Chief Executive Officer   Chief Operating Officer

Annex I to Circular Letter 027/2018-PRE

The price W' of the subscription bonus issued by Oi S.A. (Company) is given by the following formula:

$$W' = \frac{N+M}{N+M+M'}\, CALL\left(P + \frac{M'}{N+M}W'; K'\right)$$

where

M' is the number of bonuses issued

M is the number of new shares issued

K' is the exercise price of the bonus, which is USD0.01

$CALL(\cdot)$ is the Black & Scholes call option pricing formula (see below).

The number of new shares to be issued M is 1,756,054,163 and the number of subscription bonuses to be issued M' is 135,081,089.

The exercise price in USD is calculated using the USD futures price on the exercise date of the subscription bonus.

Black & Scholes Formula

The price of a call option is calculated using the following Black & Scholes formula:

$$CALL(S, X) = SN(d_1) - X\exp(-rT)\,N(d_2)$$

where

S is the share price (underlying)

X is the exercise price

$r = \log(1 + PRE)$ and PRE is the interest rate obtained from the DI1 futures yield curve

T is the time left until expiration of the contract in years

This free translation is not legally binding. Any questions arising from the text should be clarified by consulting the original in Portuguese. In the event of any discrepancy, the original in Portuguese shall prevail.

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$$d_1 = \frac{\log\left(\frac{S}{X}\right) + \left(r + \frac{\sigma^2}{2}\right)T}{\sigma\sqrt{T}} \text{ e } d_2 = d_1 - \sigma\sqrt{T}$$

σ is the volatility of the underlying (see below).

Calculating volatility

To price the subscription bonus, it is necessary to use the Black & Scholes formula for the European call option premium. All parameters are obtained from the market except for the parameter σ (volatility). The volatility used to price preemptive rights is the estimated long-term volatility in a GARCH (1,1) model with normal residuals.

The following expression is assumed for returns:

$$r(t) = \sqrt{\hat{\sigma}^2(t)}z_t$$

Where variance $\hat{\sigma}^2(t)$ is defined as:

$$\hat{\sigma}^2(t) = \omega + \alpha r^2(t-1) + \beta\hat{\sigma}^2(t-1)$$

Coefficients ω, α and β are estimated on the series of returns to the share using the maximum likelihood technique. Thus long-term variance of the returns V_L based on the estimated parameters of the model is given by:

$$V_L = \frac{\omega}{1 - \alpha - \beta}$$

This long-term variance is used to calculate the price of preemptive rights. The square root of this variance is long-term volatility. However, this is a daily measure and must be converted to an annual measure. Thus the final expression for long-term volatility is:

$$\sigma = \sqrt{252\,V_L}$$

The variable σ is the volatility used to price preemptive rights.

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