

The Brazilian government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments ranged from a daily to a monthly basis), floating exchange rate systems, exchange controls and dual exchange rate markets. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* float freely or intervene in the exchange rate market by returning to a currency band system or otherwise. The *real* may depreciate or appreciate substantially against the U.S. dollar.

The following tables set forth the selling exchange rate, expressed in *reais* per U.S. dollar (R\$/US\$) for the periods indicated, as reported by the Central Bank.

	Exchange Rates of R\$ per US\$1.00			
	Period-End	Average(1)	High	Low
Year ended December 31,				
2015	3.9048	3.3876	4.1949	2.5754
2016	3.2591	3.4500	4.1558	3.1193
2017	3.3080	3.2031	3.3807	3.0510
2018	3.8748	3.6796	4.1879	3.1450
2019	4.0307	3.9443	4.2602	3.6519
Month				
August 2019	4.1385	4.0200	4.1680	3.8296
September 2019	4.1644	4.1215	4.1827	4.0494
October 2019	4.0041	4.0870	4.1740	3.9793
November 2019	4.2240	4.1553	4.2602	3.9786
December 2019	4.0307	4.1110	4.2261	4.0307
January 2020	4.2695	4.1495	4.2695	4.0213
February 2020 (through February 19, 2020)	4.3728	4.3083	4.3728	4.2381

Source: Brazilian Central Bank.

(1) Annually, represents the average of the exchange rates on the last day of each month during the periods presented; monthly, represents the average of the end-of-day exchange rates during the periods presented.

On February 19, 2020, the exchange rate was R\$4.3728 to US\$1.00. The *real*/dollar exchange rate fluctuates and, therefore, this exchange rate may not be indicative of future exchange rates.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

This section is intended to be a summary of more detailed discussions contained elsewhere in this annual report. The risks described below are not the only ones we face. Additional risks that we do not presently consider material, or of which we are not currently aware, may also affect us. Our business, results of operations or financial condition could be impacted if any of these risks materialize and, as a result, the market price of our preferred shares and our ADSs could be affected.

Risks Relating to Brazil

The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. This influence, as well as Brazilian political and economic conditions, could adversely affect us and the trading price of our preferred shares and ADSs.

The Brazilian federal government frequently exercises significant influence over the Brazilian economy and occasionally makes significant changes in policy and regulations. The Brazilian government's actions to control inflation and other policies and regulations have often involved, among other measures, changes in interest rates, changes in tax policies, wage and price controls, foreign exchange controls, currency devaluations, capital controls and limits on imports. The financial conditions, as well as our business and results of operations and the market price of our preferred shares and ADSs may be adversely affected by changes in government policies, especially those related to our sector, such as changes in telephone fees and competitive conditions, as well as general economic factors, including:

- exchange rates and currency fluctuations;
- exchange controls and restrictions on remittances abroad, (including with regards to the payment of dividends) such as those imposed in 1989 and early 1990;
- growth or downturn of the Brazilian economy;
- inflation;
- energy policy;
- interest rates and monetary policies;
- liquidity of domestic capital and lending markets;
- fiscal policies and changes in tax laws;
- economic, political or social instability;
- labor and social security policies, laws and regulations; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian federal government will implement changes to the policies, regulations or standards affecting these or other factors in the future may affect economic performance, which may have an adverse effect on us and the trading price of our preferred shares and ADSs. Past economic and political instability has led to a negative perception of the Brazilian economy and higher volatility in the Brazilian securities markets, which has adversely affected us and the trading price of our preferred shares and ADSs.

Political instability may materially adversely affect the Brazilian economy, our business, and the market price of our preferred shares and ADSs.

Brazil's political environment has historically influenced and continues to influence the performance of Brazil's economy, as well as investor and general public confidence, resulting in economic slowdowns and an increase in the volatility of securities issued by Brazilian companies.

In particular, the Brazilian markets have experienced increased volatility due to uncertainties arising from ongoing investigations conducted by the Brazilian federal police and the Brazilian federal prosecutor's office, including "Operation Car Wash" (Lava Jato), which have impacted Brazil's economy and political environment. Certain members of the Brazilian federal government and the legislative branch, as well as executives of major public and private companies, are facing charges of corruption for allegedly accepting bribes through kickbacks under contracts awarded by the government to companies in the infrastructure, oil and gas and construction industries, among others. These kickbacks allegedly funded the campaigns of political parties, were not recorded in accounting books and records or disclosed to the public and funded the personal enrichment of beneficiaries of the

corruption scheme. As a result, several politicians, including members of the Brazilian national congress and executives of major Brazilian public and private companies, have resigned from office and/or been arrested, while others are still under investigation for allegations of unethical and illegal conduct discovered during investigations.

While the potential outcome of these and other investigations is uncertain, they have already had a material adverse effect on the image and reputation of the companies involved, as well as the market's overall perception of the Brazilian economy. Developments in these cases of unethical conduct have materially adversely affected and may continue to materially adversely affect us. There can be no guarantee that any of the ongoing investigations will not lead to greater political and economic instability or whether new allegations against government employees and officials and/or private companies will arise in the future.

In addition, we cannot predict the result of these investigations or their impact on the Brazilian economy or the Brazilian stock market.

In addition, any difficulties the Brazilian government may face establishing a majority in Congress could result in a government impasse, political unrest and mass demonstrations and/or strikes that could materially adversely affect our operations. Uncertainties about the new administration's implementation of changes in monetary, tax and social security laws and policies, may contribute to economic instability. These uncertainties and any new measures may increase volatility in the Brazilian securities market.

The President of Brazil has the power to determine policies and issue government measures relating to the Brazilian economy and, as a result, affect the operations and financial performance of companies, including us. We cannot predict what policies the President of Brazil will establish or whether such policies or changes in existing policies will have an adverse effect on the Brazilian economy or our business, results of operations, financial condition and the market price of our preferred shares and ADSs.

Inflation and government efforts to curb inflation may contribute to economic uncertainty in Brazil, adversely affecting our business and results of operations.

In the past, Brazil has recorded high inflation rates, which, combined with other measures taken by the Brazilian government to fight inflation and speculation on what measures would be taken, has materially adversely affected the Brazilian economy. The measures taken by the Brazilian government to control inflation have included maintaining strict monetary policies and high interest rates, which restricted the availability of credit and reduced economic growth. The COPOM often adjusts interest rates in Brazil during periods of economic uncertainty in order to achieve the inflation targets established by the Brazilian government. Inflation, the Brazilian government's efforts to curb inflation and speculation regarding the future measures, has had material adverse effects on the Brazilian economy and contributed to economic uncertainty in Brazil, which increases volatility in the Brazilian capital markets and may materially adversely affect our business and results of operations.

According to the National Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*), or IPCA, Brazilian inflation rates were 3.7%, 2.9% and 6.3% in 2018, 2017 and 2016, respectively. In 2019, inflation as measured by the IPCA registered 4.3%. In the past, the Brazilian government's interventions in order to curb inflationary pressures included the maintenance of a restrictive monetary policy with high interest rates that restricted credit availability and reduced economic growth, causing volatility in interest rates. Over the recent years, the inflation scenario has evolved positively. This has allowed a reduction of the Selic rate (*Sistema Especial de Liquidação e de Custódia*), the Central Bank's policy rate. As established by the Monetary Policy Committee of the Central Bank (*Comitê de Política Monetária do Banco Central do Brasil-COPOM*), the SELIC decreased from a high point of 14.25% in mid-2016 to 6.50% in the end of 2018 and to 4.50% in the end of 2019, its historical minimum. Brazil may experience high levels of inflation in the future and inflationary pressures may lead to the Brazilian government's intervening in the economy and introducing policies that could harm our business and the price of our preferred shares and ADSs.

Currently, fixed broadband and mobile service providers use the internal general price index (*Índice Geral de Preços - Disponibilidade Interna*), or IGP-DI, to adjust their prices and television and cable service providers use the market general price index (*Índice Geral de Preços ao Mercado*), or IGP-M. The IGP-DI and IGP-M are inflation indexes developed by the Fundação Getúlio Vargas, a private organization. Since 2006, telephone fees for fixed line services have been indexed to the telecommunication services index (*Índice de Serviços de Telecomunicações*), or IST, adjusted by a productivity factor, which is defined by ANATEL Resolution 507/2008.

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The IST is an index composed of other domestic price indexes (including the IPCA, IGP-DI and IGP-M, among others) that is intended to reflect the telecommunications industry's operating costs. As a result, this index serves to reduce potential discrepancies between our industry's revenue and costs, and thus reduce the apparent adverse effects of inflation on our operations. The productivity factor, pursuant to which ANATEL is authorized to adjust fee rates, is calculated based on a compensation index established by ANATEL to incentivize operational efficiency and to share related gains in earnings from fixed line services with customers through fee rate adjustments. The IST is calculated based on a 12-month period average. This may cause increases in our revenues above or below our costs (including salaries), with potentially adverse impacts on our profitability.

Inflation and government measures to combat inflation, along with speculation about governmental measures, have had significant negative effects on the Brazilian economy in the recent past, including heightened volatility in the Brazilian securities market. These policies may be incapable of preventing increases in the inflation rate. In the event of an increase in inflation, we may not be able to adjust the prices we charge our customers to offset the effects of inflation on our cost structure, which may adversely affect us.

Fluctuations in exchange rates may adversely affect our ability to meet liabilities denominated or linked to foreign currencies or reduce our income in foreign currency, and may have a material adverse effect on the market value of our preferred shares and ADSs.

The Brazilian currency has been historically volatile and has been devalued frequently over the past three decades. Throughout this period, the Brazilian government has implemented various economic plans and used various exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. Although long-term depreciation of the real is generally linked to the rate of inflation in Brazil, depreciation of the real occurring over shorter periods of time has resulted in significant variations in the exchange rate between the real, the U.S. dollar and other currencies. The exchange rate between the U.S. dollar and the Brazilian real has experienced significant fluctuations in recent years. In 2014 and 2015, the real depreciated 13.4% and 47.0%, respectively, against the U.S. dollar. In 2016, the real appreciated 16.5% against the U.S. dollar. In 2017, the real depreciated 1.5% against the U.S. dollar, followed by another depreciation of 17.1% in 2018, and 4.0% in 2019, ending the year at an exchange rate of R\$4.0307 per US\$1.00. On February 19, 2020 the exchange rate was R\$4.3728 per U.S.\$1.00. There can be no assurance that the real will not again depreciate against the U.S. dollar or other currencies in the future.

As of December 31, 2019, none of our total indebtedness of R\$13.8 billion was denominated in foreign currency. Approximately 10.2% of our operating costs and expenses are payable or linked to payment by us in U.S. dollars or Euros. By contrast, 99.9% of our revenue is generated in reals, except income derived from hedging transactions, international long-distance interconnection fees and services to customers outside of Brazil.

To the extent that the value of the real decreases relative to the U.S. dollar or the Euro, our commitments payable or linked to payment by us in foreign currencies become more expensive. Although our accounts receivable denominated in foreign currencies would also appreciate, the net effect could adversely affect our revenue and expenses. In addition, the IST inflation index does not adequately reflect the true effect of exchange rate fluctuations. Thus, our revenue, when translated to U.S. dollars, does not adequately reflect the true effect of exchange rate fluctuations, which may affect our results of operations.

We use derivative instruments to limit our exposure to exchange rate risk. Since September 1999, we have hedged all of our foreign currency-denominated bank debt using swaps and other derivative instruments. Since May 2010, the company began using net balance coverage, which is the hedging of net positions in foreign exchange exposures, or assets (issued invoices) minus liabilities (received invoices) for foreign exchange exposures, substantially reducing our risk to fluctuations in exchange rates. We could still continue to face exchange rate exposure with respect to our planned capital expenditures however, as a small part of our planned capital expenditures are denominated or indexed in foreign currencies (mostly U.S. dollars). We systematically monitor the amounts and time of exposure to exchange rate fluctuations and may hedge positions when deemed appropriate.

Political, economic and social developments and the perception of risk in other developed and emerging countries may adversely affect the Brazilian economy, our business, and the market price of Brazilian securities, including our preferred shares and ADSs.

The market for securities issued by Brazilian companies may be influenced, to varying degrees, by economic conditions in both developing and developed economies. The reaction of investors to developments in other countries may have an adverse impact on the market value of securities of Brazilian companies. The prices of shares traded on the B3, for example, have historically been sensitive to fluctuations in interest rates in the United States, as well as variations of the main U.S. stock exchanges. Additionally, crises in other emerging countries or the economic policies of other countries may reduce investor demand for securities of Brazilian companies, including our preferred shares and ADSs. Any of the foregoing developments may adversely affect the market value of our preferred shares and ADSs and hinder our ability to access the capital markets and finance our operations in the future on acceptable terms and costs, or at all.

To the extent that economic problems in emerging market countries or elsewhere adversely affect Brazil, our business and the market value of our preferred shares and ADSs could be adversely affected. Furthermore, we cannot assure you that, in the event of adverse developments in emerging market economies, the international capital markets will remain open to Brazilian companies or that the resulting interest rates in such markets will be advantageous to us. Decreased foreign investment in Brazil may negatively affect growth and liquidity in the Brazilian economy, which in turn may have a negative impact on our business. Disruption or volatility in the global financial markets could further increase negative effects on the financial and economic environment in Brazil, which could have a material adverse effect on us.

Any further downgrading of Brazil's credit rating could reduce the trading price of our preferred shares and ADSs.

We may be harmed by investors' perceptions of risks related to Brazil's sovereign debt credit rating. Rating agencies regularly evaluate Brazil and its sovereign ratings, which are based on a number of factors including macroeconomic trends, fiscal and budgetary conditions, indebtedness metrics and the perspective of changes in any of these factors.

As a result of the allegations under the "Lava Jato" investigations and the economic downturn, Brazil was downgraded to non-investment grade status by S&P in September 2015, by Fitch Ratings in December 2015, by Moody's in February 2016 and downgraded again by Fitch in May 2016. In addition, Brazil was further downgraded by S&P to BB- with a stable outlook in January 2018 as a result of the failure of the current Brazilian government to approve certain pension reforms. Brazil's sovereign rating is currently rated by the three major risk rating agencies as follows: BB- by S&P and Fitch Ratings and Ba2 by Moody's.

Brazil's sovereign credit rating is currently rated below investment grade by the three main credit rating agencies. Consequently, the prices of securities issued by Brazilian companies have been negatively affected. A reversal of the current recovery of the Brazilian economic activity and instability in the political environment, among other factors, could lead to revision of the agencies' outlooks, which could be followed by further ratings downgrades. Any further downgrade of Brazil's sovereign credit ratings could heighten investors' perception of risk and, as a result, cause the market price of our preferred shares and ADSs to decline.

Risks Relating to the Brazilian Telecommunications Industry and Us

Extensive government regulation of the telecommunications industry and our concession agreements may limit, in some cases, our flexibility in responding to market conditions, competition and changes in our cost structure or impact our fees.

Our business is subject to extensive regulation, including any regulatory changes that may occur during the terms of our concession agreements and our authorizations to provide telecommunication services in Brazil. ANATEL, the main telecommunications industry regulator in the country, regulates, among other things:

- industry policies and regulations;
- licensing (including licensing of spectrum and bidding processes);

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- fees and tariffs;
- competition incentives and restrictions (including our ability to grow by acquiring other telecommunications businesses);
- service, technical and quality standards;
- consumer rights;
- penalties and other sanctions;
- interconnection and settlement arrangements; and
- universal service obligations.

The Brazilian telecommunications regulatory framework is continuously evolving. The interpretation and enforcement of regulations, the assessment of compliance with regulations and the flexibility of regulatory authorities are all marked by uncertainty. We operate under authorizations and a concession from the Brazilian government, and our ability to maintain these authorizations and concession is a precondition to our success. However, because of the changing nature of our regulatory framework, we cannot provide assurances that ANATEL will not adversely modify the terms of our authorizations and/or licenses. According to our operating authorizations and licenses, we must meet specific requirements and maintain minimum quality, coverage and service standards. Our failure to comply with such requirements may result in the imposition of fines, penalties and/or other regulatory responses, including the termination of our operating authorizations and concession. Any partial or total termination of any of our operating authorizations and licenses or our concession would have a material adverse effect on our business, financial condition, revenues, results of operations and prospects.

In recent years, ANATEL has been reviewing and introducing regulatory changes, especially regarding asymmetric competition measures and interconnection fees charged among local providers of telecommunications services. Asymmetric competition measures can include regulations intended to rebalance markets in which a market participant has distinct market power over other competitors. The adoption of disproportionately asymmetric measures could have a material adverse effect on our business, financial condition, revenues, results of operations and prospects.

With respect to interconnection fees, these are an important part of our revenue and cost bases. Such fees are charged by telecommunications service providers to each other in order to allow interconnected use of each other's networks. To the extent that changes to the rules governing interconnection fees reduce the amount of fees we can receive, or our ability to collect such fees, our businesses, financial conditions, revenues, results of operations and prospects could be materially adversely affected.

Therefore, our business, results of operations, revenues and financial conditions could be negatively affected by the actions of the Brazilian authorities, including, in particular, the following:

- the introduction of new or stricter operational and/or service requirements;
- the granting of operating licenses in our areas;
- limitations on interconnection fees we may charge to other telecommunications service providers;
- imposition of significant fines or penalties regarding failures to comply with regulatory obligations;
- delays in the granting of, or the failure to grant, approvals for rate increases; and
- antitrust limitations imposed by ANATEL and CADE.

Our concession may be terminated by the Brazilian government under certain circumstances.

We operate our fixed line business in the state of São Paulo under a concession granted by the Brazilian government. According to the terms of the concession, we are obligated to meet certain universal service

requirements and to maintain minimum quality and service standards. For example, ANATEL requires that we satisfy certain conditions with respect to, among other things, the expansion of our network to provide (i) public pay-phone services under specific conditions and (ii) private individual telephone service for all locations with a population over 300 inhabitants, as well as certain quality of service targets (reviewed by Resolution No. 717, issued on December 2019). Our ability to satisfy the terms and conditions may be affected by factors beyond our control, and our failure to comply with the requirements of our concession may result in the imposition of fines up to R\$50 million per incident and/or other government actions, including the imposition of a precautionary ban on marketing our services, or the termination of our concession. Any partial or total termination of our concession or authorizations would have a material adverse effect on our financial condition and results of operations.

Furthermore, the concession agreements establish that all assets owned by us, and which are indispensable to the provision of the services described in such agreements, are considered “reversible assets” (*bens reversíveis*) and are deemed to be part of the concession assets. According to ANATEL’s interpretations of current regulations, reversible assets will be automatically returned to ANATEL’s possession upon expiration of the concession agreements in accordance with regulations in force at the time of such expiration, and would not be available to creditors in the event of insolvency, bankruptcy or similar events, although there are differing interpretations, even among government agencies, and ongoing discussions regarding the treatment of reversible assets as a result of the passage of Law No. 13,879/2019, or the New General Telecommunications Law, on October 4, 2019. See “Review of our concession agreements and/or the implementation of a new regulatory framework in Brazil could have a materially adverse effect on our operations.”

As of December 31, 2019, the net book value of our reversible assets, calculated in accordance with ANATEL’s interpretation of current regulations, is estimated at R\$8.2 billion. These assets are comprised of switching and transmission equipment, public use terminals, external network equipment, energy equipment and systems and operations support equipment.

Review of our concession agreements and/or the implementation of a new regulatory framework in Brazil could have a materially adverse effect on our operations.

The expiration date of our fixed line concession agreements in São Paulo is December 31, 2025. These agreements contain a provision allowing ANATEL to review the concession agreements every five years and include revisions to terms and conditions that relate to network expansion, modernization and quality of service targets in response to changes in technology, competition in the marketplace and domestic and international economic conditions.

On June 24, 2014, ANATEL opened a public review and comment period for the revisions of the terms of fixed line concession agreements with respect to the 2016-2020 period. However, when the agency released the new version of the agreements in June 2017, operators disagreed with the inclusion by ANATEL of certain provisions and decided against executing new agreements with the agency. As a result, the agreements with respect to the 2011-2015 period remain in force. In December 2018, although the new concession contracts have not yet been signed, the Brazilian government published Decree No. 9,619/2018, called PGMU IV, which approves the revision of the PGMU targets. The new plan replaces some obligations, mainly related to public telephony, for obligations related to 4G mobile network. These targets have been criticized by several of the local operators.

On October 4, 2019, Law No. 13,879/2019 (resulting from PLC N° 79/2016), or the New General Telecommunications Law, was published. This law revises the telecommunications regulatory framework and is expected to have a significant impact on this industry. The law allows fixed-line concessions operators to migrate from a concession regime (in which the underlying assets must be reverted to the government at the end of the concession) to an authorization regime, although further rulemaking remains under way to fully implement the law and permit operators to migrate to the new regime. For more information about the New General Telecommunications Law, see “Item 4. Information on the Company–B. Business Overview–Regulation of the Brazilian Telecommunications Industry–Other regulatory matters–Updated Regulatory Framework.”

Any changes on laws, rules or regulations could have a material adverse effect on our operations and financial condition. Changes to our concession agreements or to the current regulatory framework may entail the imposition of new requirements, including obligations to make specific investments and/or capital expenditures. ANATEL may also impose new service targets on us with values that we are not able to predict.

Our current radiofrequency licenses may not be renewed for additional periods.

Generally, current spectrum authorizations are valid for 15 years and can be renewed only once. Although the newly-approved New General Telecommunications Law admits successive spectrum renewals, we cannot guarantee that the new conditions will apply to existing licenses.

ANATEL may interpret that the new renewal conditions are valid only for authorizations issued after the approval of the New General Telecommunications Law, which took place in October 2019. ANATEL may also determine mandatory “refarming” processes in certain spectrum bands and refuse renewal requests. A refarming process can reduce the amount of spectrum available for each operator, depending on the configuration of the new blocks.

Our current 850 MHz authorizations will expire between 2020 and 2028. If a renewal is not allowed, it would be necessary to compete for new licenses in a spectrum auction. In addition, the coverage of our mobile services would be significantly affected by a loss of or failure to renew spectrum licenses. Further, in certain regions, our services may be unavailable, particular in the event of a failure to renew or obtain all licenses for such region. In the event of any of the foregoing circumstances, our business, financial condition, revenues, results of operations and prospects could be materially adversely affected.

Telefônica Brasil is exposed to risks in relation to compliance with anti-corruption laws and regulations and economic sanctions programs.

The Company is required to comply with Brazilian anti-corruption laws and regulations on the same subject in jurisdictions where it has its securities traded. In particular, the Company is subject, in Brazil, to the Law no. 12,846/2013 and, in the United States, to the U.S. Foreign Corrupt Practices Act of 1977. Additionally, the Company’s operations may be subject to, or otherwise affected by, economic sanctions programs and other forms of trade restrictions (hereinafter, referred to as “sanctions”) including those administered by the United States, including the US Treasury Department’s Office of Foreign Assets Control.

Although the Company has internal policies and procedures designed to ensure compliance with the abovementioned anti-corruption laws and sanctions regulations (to the extent applicable), there can be no assurance that such policies and procedures will be sufficient or that the Company’s employees, directors, officers, partners, agents and service providers will not take actions in violation of the Company’s policies and procedures (or, otherwise in violation of the relevant anti-corruption and sanctions laws and regulations) for which the Company, its subsidiaries or they may be ultimately held responsible. Violations of such laws and regulations could lead to financial penalties, damage to the Company’s reputation or other legal consequences that could have a material adverse effect on the Company’s business, results of operations and financial condition.

In connection with the above-mentioned policies, the Company has completed conducting its previously reported internal investigation - which was part of a broader investigation being conducted by the controlling shareholder of the Company (Telefônica, S.A.) - regarding possible violations of the abovementioned laws and regulations. The Company has been in contact with governmental authorities about this matter and, as a result of its discussions with the U.S. Securities and Exchange Commission (SEC), the Company entered into a settlement with the SEC on May 9, 2019 (the “Settlement”) to resolve the matter in connection with its purchase and use of tickets and associated hospitality related to the 2013 Confederations Cup and 2014 World Cup held in Brazil. Pursuant to the Settlement, which resolved these matters, and without admitting or denying any of the SEC’s findings (except for the SEC’s jurisdiction over the Company and the subject matter of the proceedings), the Company consented to the entry of an order in which the SEC made findings and ordered, pursuant to Section 21C of the Securities Exchange Act of 1934 (the Exchange Act), that the Company cease and desist from committing or causing any violations and any future violations of the accounting provisions of the U.S. Foreign Corrupt Practices Act, Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act. As part of these findings, the Company paid a civil penalty in the amount of US\$4,125,000 to the SEC for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21(F)(g)(3). See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings—Regulatory and Antitrust Litigation—SEC Administrative Proceeding—FCPA.”

We are dependent on key personnel and the ability to hire and retain additional personnel.

We believe that our success will depend on the continued services of our senior management team and other key personnel. Our management team is comprised of highly qualified professionals, with extensive experience in the telecommunications industry. The loss of the services of any of our senior management team or other key employees could adversely affect our business, financial condition and results of operations. We also depend on the ability of our senior management and key personnel to work effectively as a team.

Our future success also depends on our ability to identify, attract, hire, train, retain and motivate highly skilled technical, managerial, sales and marketing personnel. Competition for such personnel is intense, and we cannot guarantee that we will successfully attract, assimilate or retain a sufficient number of qualified personnel. Failure to retain and attract the necessary technical, managerial, sales and marketing and administrative personnel could adversely affect our business, financial condition and results of operations.

We depend on key suppliers to obtain necessary equipment and services for our business.

We depend on certain key suppliers of equipment and services, especially telecommunications network equipment and handsets, for the execution and development of our business. These suppliers may delay delivery, alter prices and limit supply as a result of problems related to their own businesses, over which we have no control. If these suppliers are not able to deliver equipment and services regularly, we may face problems with the continuity of our business activities, which may have an adverse effect on our business and results of operations.

We are subject to liabilities relating to third party contractors, which may have a material adverse effect on our business and results of operations.

We are exposed to contingent liabilities resulting from our contracting structure, which includes third party service providers. Such potential liabilities may involve labor claims by third party providers that are treated as direct employees as well as joint liability claims relating to wage or overtime pay complaints and workplace injury claims. If a significant portion of these contingent liabilities is decided against us and for which we have not made adequate provisions, our financial condition and results of operation may be adversely affected.

Furthermore, if the contracting of third party service are considered to involve the main activities of the company, it may be characterized as direct employment, which would significantly increase our costs and as a result we may be subject to administrative proceedings by the relevant labor regulators and may be required to pay fines to the third party service providers.

Certain key inputs are subject to risks related to importation, and we acquire other key inputs from a limited number of domestic suppliers, which may further limit our ability to acquire such inputs in a timely and cost-effective manner.

The high growth in data markets in general and broadband in particular may result in a limited supply of equipment essential for the provision of such services, such as data transmission equipment and modems. The restrictions on the number of manufacturers imposed by the Brazilian government for certain inputs, mainly data transmission equipment and modems, and the geographical locations of non-Brazilian manufacturers of these inputs, pose certain risks, including:

- vulnerability to currency fluctuations in cases where inputs are imported and paid for with U.S. dollars, Euros or other non-Brazilian currency;
- difficulties in managing inventory due to an inability to accurately forecast the domestic availability of certain inputs; and
- the imposition of customs or other duties on key inputs that are imported.

If any of these risks materialize, they may result in our inability to provide services to our customers in a timely manner or may affect the prices of our services, which may have an adverse effect on our business, financial condition and results of operations.

We make investments based on demand forecasts that may become inaccurate due to economic volatility and may result in revenues that are lower than expected.

We make certain investments, such as the procurement of materials and the development of physical sites, based on our forecasts of the amount of demand that customers will have for our services at a later date (generally several months later). However, any major changes in the Brazilian economic scenario may affect this demand and therefore our forecasts may turn out to be inaccurate. For example, economic crises may restrict credit to the population, and uncertainties relating to employment may result in a delay in the decision to acquire new products or services (such as broadband or Pay TV). As a result, it is possible that we may make larger investments based on demand forecasts that were necessary given actual demand at the relevant time, which may directly affect our cash flow.

Furthermore, improvements in economic conditions may have the opposite effect. For example, an increase in demand not accompanied by our investment in improved infrastructure may result in a possible loss of opportunity to increase our revenue or result in the degradation of the quality of our services.

Consolidation in the telecommunications market may increase competition in the near future and may change Brazilian market dynamics.

Mergers and acquisitions may change market dynamics, create competitive pressures, force small competitors to find partners and impact our financial condition; and may require us to adjust our operations, marketing strategies (including promotions), and product portfolio.

The entry of a new market participant with significant financial resources or potential changes in strategy by existing telecommunications service providers can change the competitive environment in the Brazilian market. We may be unable to keep pace with these changes, which could affect our ability to compete effectively and have a material adverse effect on our business, financial condition and results of operations.

Additional joint ventures, mergers and acquisitions among telecommunications service providers are possible in the future. If such consolidation occurs, it may result in increased competition within our market. We may be unable to adequately respond to pricing pressures resulting from consolidation in our market, adversely affecting our business, financial condition and results of operations. We may also consider engaging in merger or acquisition activity in response to changes in the competitive environment, which could divert resources away from other aspects of our business.

We face significant competition in the Brazilian market.

In 2019, competition in the Brazilian telecommunications sector continued to be meaningful, with telecommunications operators focusing on improving their base of accesses by attracting customers to higher-value products. In the mobile side of the business, we believe the main strategy pursued during the year by such market participants, including us, was to upsell prepaid customers to hybrid plans (“*planos controle*”) and pure postpaid plans, in order to increase overall ARPUs and profitability. Accordingly, this increase in competition in the postpaid plan segment led to changes in the customer mix of telecommunications operators and associated market shares in the year. In the fixed side of the business, we have seen competition both from large and small players in order to capture customers’ demand for high-speed connectivity, especially through the increased rollout of fiber optic networks.

In addition, customers are demanding higher quality and more data availability, which require higher investments in development, modernization, expansion and continuous improvement in service quality and customers’ experience.

As a result, we have faced significant competition, mainly driven by the following factors: (1) commercial and pricing pressures from new portfolios launched by competitors; (2) competitors increasing 4G, 4.5G and fiber optic network coverage, improving the quality of service provided by them; and (3) low-cost alternative services, such as voice and text services provided over IP and Video on Demand, may affect our competitive position in the market.

We continuously monitor market progress in order to anticipate future challenges and opportunities and how to address them. Nevertheless, our operational results, market position, competitiveness in the market and margins may be negatively affected if we are unable to keep the same pace as our competitors.

Our results of operations may be negatively affected by the application of the Fixed Commuted Telephone Service (Serviço de Telefonia Fixa Comutada), or STFC, rules relating to fixed telephone service and the Personal Mobile Service (Serviço Móvel Pessoal), or SMP, rules relating to mobile services.

We receive payments for the termination of calls in our fixed network. On May 18, 2014, ANATEL established a gradual decrease in termination rates for the STFC concessionaries, including TU-RL (Urban Usage Rate), TU-RIU1 (Interurban Usage Rate Level 1) and TU-RU2 (Interurban Usage Rate Level 2). In the same year, ANATEL also established gradual decreases in mobile interconnection fees, also known as mobile termination rates, or MTR, based on a cost model. The related rates established by ANATEL are set forth in the following table:

	2017	2018	2019
Sector 31 (fixed)			
TU-RL	0.00574	0.00289	0.00146
TU-RIU1	0.02191	0.00899	0.00369
TU-RU2	0.02348	0.009	0.00345
Mobile			
Region I	0.04928	0.02606	0.01379
Region II	0.05387	0.02815	0.01471
Region III	0.06816	0.04141	0.02517

In December 2018, ANATEL established the reference values for MTR for the years from 2020 until 2023. The table below shows the reference values for each region (corresponding to different Brazilian states) in the General Authorization Plan (*Plano Geral de Autorizações*), or PGA:

Year	PGA Region I	PGA Region II	PGA Region III
2020	0.01863	0.02128	0.04342
2021	0.01937	0.02191	0.04595
2022	0.02014	0.02255	0.04864
2023	0.02096	0.02327	0.05140

We cannot assure you that new mobile service plans will not be suspended by ANATEL, that the mobile interconnection fees we negotiated will not be changed, nor that future negotiations regarding mobile termination rates will be as favorable as those that were previously set by the agency. If the readjustments to mobile interconnection fees that we negotiated are canceled or if negotiated mobile interconnection fees in the future are less favorable to us, our business, financial condition, revenues, results of operations and prospects may be adversely affected.

ANATEL has the authority to issue new regulations affecting many of our areas of operations.

ANATEL has the authority to issue new regulations affecting many of our areas of operations. Such new regulations could have an adverse effect on our operating results because: (1) ANATEL could significantly reduce the interconnection fees we are able to charge, thereby reducing our revenues (see “Our results of operations may be negatively affected by the application of the Fixed Commuted Telephone Service (*Serviço de Telefonia Fixa Comutada*), or STFC, rules relating to fixed telephone service and the Personal Mobile Service (*Serviço Móvel Pessoal*), or SMP, rules relating to mobile services”); (2) ANATEL may allow more favorable conditions for economic groups without significant market power; (3) the granting of new licenses may increase competition in our area from other operators, which could adversely affect our prices and/or market share, thereby reducing our revenues; (4) ANATEL may require that revenue received for the usage of the SMP network must be included in the calculation of renewing licenses costs; and (5) ANATEL’s general plan of updating the regulations targets several areas of vital importance for our business (including both our fixed telephony and mobile businesses), which may cause an increase in operating costs, cause an increase in competitive pressure, cause a decrease in our revenues, among other adverse effects.

For a detailed description of the regulations issued by ANATEL and their impact on our business, see “Item 4. Information on the Company—B. Business Overview—Regulation of the Brazilian Telecommunications Industry.”

The industry in which we conduct our business is continually changing and evolving technologically, which demands adequate changes in the regulatory environment.

The telecommunications industry is subject to rapid and significant technological changes. Our future success depends on our ability to anticipate and adapt in a timely manner to technological changes. We expect that new products and technologies will emerge and that existing products and technologies will be further developed.

The advent of new products and technologies could have a variety of consequences. These new products and technologies may reduce the price of our services by providing lower-cost alternatives and the creation of new digital services, such as the example of over-the-top (OTT) players that provide voice and messages over IP. Also, new product and technologies may become superior to, and render obsolete, the products and services we offer and the technologies we use, thus requiring our constant investment in new technology and innovation.

Such new technologies will demand changes in the regulatory environment, challenging both governmental agencies and telecommunication companies. Companies that provide OTT services, which have characteristics similar to telecommunications services, are currently not subject to the same rules as the telecommunications operators. This gap can bring additional challenges to the telecommunications industry, as current developments in the regulatory framework for OTTs are inconsistent and still unclear.

We are subject to certain risks related to conditions and obligations imposed by ANATEL for the use of the spectrum needed for the 4G services we offer.

In 2012, Telefonica acquired 40MHz on the 2.5GHz to 2.69GHz frequencies for the amount of R\$ 1.05 billion. In order to meet the coverage requirements, we had the obligation of implementing 4G coverage in 1,094 cities by December 31, 2017. The remaining coverage commitments in cities with less than 30,000 inhabitants could be fulfilled with other frequency bands until December 31, 2019. Verification of compliance with these targets is controlled by ANATEL and, in regard to the cities with less than 30,000 inhabitants, is in progress.

Regarding the 700MHz spectrum, ANATEL has allocated the band for the provision of fixed, mobile and broadband services. On September 30, 2014, we acquired 20 MHz (10+10 MHz) with nationwide coverage, for R\$1.92 billion, at the minimum price, plus R\$904 million for the band cleaning (migration of broadcasters that currently occupy the band) and interference management. According to the auction rules, the winning bidders were responsible for financing and managing the band cleaning process (Analog TV switch off) which was implemented through a legal entity specifically incorporated for this purpose, as set forth in the bidding process and applicable regulations (EAD).

Since June 2019, all Brazilian municipalities are ready to activate LTE coverage in the 700 MHz band. Notwithstanding, ANATEL still must certify the accomplishment of spectrum cleanup targets. ANATEL may impose additional coverage requirements with respect to future spectrum auctions relating to the implementation of 5G coverage.

The targets established by ANATEL for the fast-paced implementation of networks could be impacted by (1) our ability to obtain licenses for the construction of new sites at the speed necessary to achieve the coverage targets, (2) the capacity of our suppliers to deliver the equipment necessary for this expansion, which may increase the price of such equipment, and (3) lack of qualified resources to meet the expected implementation pace.

If we are not able to meet targets and obligations set forth in the bid documents, ANATEL may execute our bank guarantees, we may be subject to fines and/or have our licenses to operate these frequencies revoked, negatively affecting our business and results of operations. Additionally, the inefficient use of any frequency may lead to the loss of the usage license. Furthermore, ANATEL may also impose new targets, conditions and/or obligations on us that we are not able to predict (see “Review of our concession agreements and/or the implementation of a new regulatory framework in Brazil could have a materially adverse effect on our operations.”). Any of the above factors could have a material adverse effect on our operations and financial condition.

Our sales could be suspended as a result of issues with the quality of our services.

ANATEL and other judicial and administrative agencies have the authority to suspend our sales in an attempt to improve the overall quality of telecommunications services. Sales suspensions are generally applied to the services for which there have been complaints by consumers and the consumer protection agencies. When applied, the

suspension is temporary and usually lifted once the company presents an action plan for improvement. In July 2012, ANATEL suspended mobile service sales from three of our main competitors, Oi, Claro and Tim, as a result of a considerable increase in consumer complaints. The suspensions lasted about 20 days and ANATEL requested that all telecommunications companies, including us, present an action and investment plan to improve the mobile network. Although our action plan was approved by ANATEL in September 2012, if a similar increase in customer complaints occurs in the future we may face suspension of one or more of our services until a new plan can be presented to and approved by ANATEL, which may materially affect our business and results of operations.

The Law of Protection of Personal Data is recent and its implementation may require adaptations in our processes and services

In August 2018, the Brazilian government passed the Law of Personal Data Protection (Law No. 13,709/2018). This law increases citizens' control over their personal information, requiring explicit consent for the collection and use data. It also obligates the creation of options for viewing, correcting and deleting such data. The law will take effect in 2020 in order to allow public and private entities to adapt to the new rules. On December 27, 2018, the Brazilian government created the National Data Protection Authority by means of an executive order (*Medida Provisória* No. 869/2018), which will be responsible for supervising matters of private data usage and imposing eventual penalties foreseen in the Law of Personal Data Protection.

In July 2019, the Brazilian Government sanctioned Law No. 13,853/2019, which promotes changes in the Law of Personal Data Protection and defines the National Data Protection Authority (*Autoridade Nacional de Proteção de Dados* - ANPD) as a transitory entity, which may be transformed into an independent regulatory agency reporting to the Presidency of the Republic within two years.

In general, our services and processes depend on personal data. The way in which we collect, store and manage this data shall be in accordance with the provisions of the new law.

Due to its recent approval, different judges or courts may decide very similar claims in different ways and establish conflicting jurisprudence. This legal uncertainty allows for rulings against us and may establish adverse precedents, which individually or collectively may have a material adverse effect on our business, results of operations and financial condition. In addition, such legal uncertainty may adversely affect the perception and use of our services by our customers.

Internet regulation in Brazil is still limited and several legal issues related to the Internet are uncertain.

In 2014, Brazil enacted a law, which we refer to as the Civil Rights Framework for the Internet, setting forth principles, guarantees, rights and duties for the use of the internet in Brazil, including provisions about internet service provider liability, internet user privacy and network neutrality. In May 2016, further regulations were passed relating to the privacy and network provisions set forth in the Civil Rights Framework for the Internet. However, unlike in the United States, few legal precedents relating to the Internet Act exist and existing jurisprudence has not been consistent, especially with respect to the application of the network neutrality principle. Legal uncertainty arising from the limited guidance provided by current laws in force allows for different judges or courts to decide very similar claims in different ways and establish contradictory jurisprudence. This legal uncertainty allows for rulings against us and could set adverse precedents, which individually or in the aggregate could seriously harm our business, results of operations and financial condition. In addition, legal uncertainty may harm our customers' perception and use of our service.

Certain of our debt agreements contain financial covenants, and any default under such debt agreements may have a material adverse effect on our financial condition and cash flows.

Certain of our existing debt agreements contain restrictions and covenants and require the maintenance or satisfaction of specified financial ratios and tests. Failure to meet or satisfy any of these covenants, financial ratios or financial tests could result in an event of default under these agreements, which would have a material adverse effect on our financial condition.

We are subject to environmental laws and regulations. Failure to comply with governmental laws and regulations could subject us to penalties that could have an adverse effect on our business and reputation.

Our operations and properties are subject to a variety of environmental laws and regulations governing, among other things, environmental licensing and registries, protection of flora and fauna, air emissions, waste management and remediation of contaminated areas, among others. Our failure to comply with present and future requirements, or the management of existing and identification of new contamination, could cause us to incur substantial costs, including cleanup costs, indemnification, compensation, fines, suspension of activities and other penalties, investments to upgrade our facilities or change our processes, costs to redress any loss of reputation or the curtailment of our operations. The identification of presently unidentified environmental conditions, more vigorous enforcement by regulatory agencies, enactment of more stringent laws and regulations or other unanticipated events may arise in the future and give rise to material environmental liabilities and related costs. The occurrence of any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

Companies in the telecommunication industry, including us, may be harmed by restrictions regarding the installation of new antennas for mobile services.

Currently, there are hundreds municipal laws in Brazil that limit the installation of new antennas for mobile service. This scenario has been a barrier to the expansion of mobile networks. Those laws are meant to regulate issues related to zoning and the alleged effects of the radiation and radio frequencies of the antennas. Despite the existence of a federal law approved in 2015, that addresses this issue by establishing new guidelines to create a consolidated plan for the installation of antennas, as long as the municipal laws remain unchanged, the risk of noncompliance with regulations and of having services of limited quality in certain areas continues to exist.

Additional antenna installation is also limited as a result of concerns that radio frequency emissions from base stations may cause health problems and other environmental impacts. These concerns could have an adverse effect on the wireless communications industry and, possibly, expose wireless providers, including us, to litigation. Based on information from the World Health Organization (WHO) we are not aware of any evidence in the latest medical research that conclusively establishes any relationship between radio frequency emissions of base stations and health concerns. Perceived risks may, however, delay expansion of our network if we experience problems in finding new sites, which in turn may delay expansion and affect the quality of our services.

For instance, in May 2009, the Brazilian government published Law No. 11934/2009 that limits the exposure for fields with frequencies up to 300 GHz. The new law uses the exposure limits determined by the International Commission on Non-Ionizing Radiation Protection and recommended by the WHO and restricts the installation of new antennas.

New laws may create additional transmission regulations, which in turn, could have an adverse effect on our business. Health concerns regarding the effects of radio frequency emissions may also discourage the use of mobile telephones and may result in the adoption of new measures by governments or any other regulatory interventions, any of which could materially and adversely affect our business, results of operations and financial condition.

We face risks associated with litigation.

We are party to a number of lawsuits and other proceedings. An adverse outcome in, or any settlement of, these or other lawsuits could result in significant costs to us. In addition, our senior management may be required to devote substantial time to these lawsuits, which they could otherwise devote to our business. See “Item 8. Financial Information–A. Consolidated Statements and Other Financial Information–Legal Proceedings.”

Information technology is key to our business and it could be subject to cybersecurity risks.

The risks derived from cybersecurity are among our most relevant risks. Despite advances in the modernization of the network and the replacement of legacy systems, we operate in an environment increasingly prone to cyber-threats. Therefore, it is necessary to continue to identify and remedy any technical vulnerabilities and weaknesses in our operating processes, as well as to strengthen our capabilities to detect and react to incidents. This includes the need to strengthen security controls in the supply chain (for example, by focusing on the security measures adopted by our partners and other third parties), as well as to ensure the security of the services in the cloud.

Telecommunications companies worldwide face continuously increasing cybersecurity threats as businesses have become increasingly more digital and dependent on telecommunications and computer networks and cloud computing technologies. Cybersecurity threats may include gaining unauthorized access to our systems or propagating computer viruses or malicious software to misappropriate sensitive information like customer data, corrupt our data or disrupt our operations. Unauthorized access may also be gained through traditional means such as the theft of laptop computers, data devices and mobile phones. Further, our employees or other persons may have unauthorized or authorized access to our systems and leak data and/or take actions that affect our networks or otherwise adversely affect us or our ability to adequately process internal information.

We manage these risks through a number of technical and organizational measures, which are part of our digital security strategy, including, access control measures, backup systems, log review of critical systems, vulnerabilities checks, network segregation measures and protective systems such as firewalls, intrusion prevention systems, virus scanners and other physical and logical security measures. However, the application of these measures cannot guarantee the mitigation of all risks.

Risks Relating to the Preferred Shares and the ADSs

Holders of our ADSs may face difficulties in serving process on or enforcing judgments against us and other persons.

We are organized under the laws of Brazil, and all of our executive officers and our independent public accountants reside or are based in Brazil. Also, six of our twelve directors reside or are based in Brazil. Substantially all of our assets and those of these other persons are located in Brazil. As a result, it may not be possible for holders of the ADSs to effect service of process upon us or these other persons within the United States or other jurisdictions outside Brazil or to enforce any judgments obtained in the United States or other jurisdictions outside Brazil against us or such other persons. Because judgments of U.S. courts for civil liabilities based upon the U.S. federal securities laws may only be enforced in Brazil if certain conditions are met, holders may face greater difficulties in protecting their interests due to actions by us, our directors or executive officers than would shareholders of a U.S. corporation.

Holders of our preferred shares and ADSs generally do not have voting rights.

In accordance with Brazilian Corporate Law and our bylaws, holders of our preferred shares, and therefore of our ADSs, are not entitled to vote at meetings of our shareholders, except in limited circumstances set forth in “Item 10. Additional Information–B. Memorandum and Articles of Association.”

Holders of our preferred shares might be unable to exercise preemptive rights with respect to the preferred shares unless there is a current registration statement in effect which covers those rights or unless an exemption from registration applies.

Holders of our preferred shares will not be able to exercise the preemptive rights relating to the preferred shares underlying their ADSs unless a registration statement under the U.S. Securities Act of 1933, as amended, or the Securities Act, is effective with respect to the shares underlying those rights, or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement. Unless we file a registration statement or an exemption from registration applies, holders of our preferred shares may receive only the net proceeds from the sale of their preemptive rights by the depositary, or if the preemptive rights cannot be sold, they will lapse and they will not receive any value for them. For more information on the exercise of these rights, see “Item 10. Additional Information–B. Memorandum and Articles of Association–Description of our Bylaws–Preemptive Rights.”

An exchange of ADSs for preferred shares risks the loss of certain foreign currency remittance and Brazilian tax advantages.

Beginning on March 30, 2015, the different forms of foreign portfolio investments in Brazil, including investments via Depositary Receipts, have been regulated by CMN Resolution 4,373, of September 29, 2014 (or

“Resolution No. 4,373”), which revoked the former rule (CMN Resolution 2,689, of January 26, 2000) that had been in effect for the previous 15 years. Resolution No. 4,373 provides for the issuance of Depositary Receipts in foreign markets in respect of shares of Brazilian issuers, and, pursuant to this regulation, the ADSs benefit from the certificate of foreign capital registration, which permits Citibank N.A., as depositary, to convert dividends and other distributions with respect to preferred shares into foreign currency, and to remit the proceeds abroad. Holders of ADSs who exchange their ADSs for preferred shares will then be entitled to rely on the depositary’s certificate of foreign capital registration for five business days from the date of exchange. Thereafter, they will not be able to remit non-Brazilian currency abroad unless they obtain their own certificate of foreign capital registration, or unless they qualify under CMN Resolution No. 4,373, which entitles certain investors to buy and sell shares on Brazilian stock exchanges without obtaining separate certificates of registration. CMN Resolution No. 4,373 replaced both CMN Resolution No. 1,927 and CMN Resolution No. 2,689 as of March 30, 2015. Further rules will be issued by CVM and by the Central Bank to regulate foreign investments in ADSs, including with regard to the exchange of ADSs for preferred shares and the remittance of funds arising from the sale of these preferred shares.

If holders of ADSs do not qualify under Resolution No. 4,373, they will generally be subject to less favorable tax treatment with respect to our preferred shares. There can be no assurance that the depositary’s certificate of registration or any certificate of foreign capital registration obtained by holders of ADSs will not be affected by future legislative or regulatory changes, or that additional Brazilian law restrictions applicable to their investment in the ADSs may not be imposed in the future.

Holders of our preferred shares will be subject to, and holders of our ADSs could be subject to, Brazilian income tax on capital gains from sales of preferred shares or ADSs.

Brazilian Law No. 10,833 provides that gains on the disposition of assets located in Brazil by nonresidents of Brazil, whether to other nonresidents or to Brazilian residents, will be subject to Brazilian taxation. The preferred shares are expected to be treated as assets located in Brazil for purposes of the law, and gains on the disposition of preferred shares, even by nonresidents of Brazil, are expected to be subject to Brazilian taxation.

Based on the fact that the ADSs are issued and registered abroad, we believe that gains on the disposition of ADSs made outside of Brazil by nonresidents of Brazil to another non-Brazilian resident would not be subject to Brazilian taxation, since they would not fall within the definition of assets located in Brazil for purposes of Law 10,833. However, considering the general and unclear scope of Law No. 10,833 and the absence of judicial/administrative court rulings in respect thereto, we cannot be assured that such an interpretation of this law will prevail in the courts of Brazil.

In case of any assessment by the Brazilian tax authorities, the gains arising from the disposal of ADSs made are subject to capital gain tax in Brazil at (i) progressive rates ranging from 15% to 22.5%, or (ii) 25% if the non-Brazilian holder is located in a tax haven jurisdiction. See “Item 10. Additional Information–E. Taxation–Brazilian Tax Considerations.”

Certain Factors Relating to our Controlling Shareholder

Our controlling shareholder has power over the direction of our business.

Telefónica S.A., or Telefónica, our controlling shareholder, and its affiliates currently own directly and indirectly approximately 94.47% of our voting shares and 73.58% of our total capital stock. See “Item 7. Major Shareholders and Related Party Transactions–A. Major Shareholders” and “Item 7. Major Shareholders and Related Party Transactions–B. Related Party Transactions.” As a result of its share ownership, Telefónica has the power to control us and our subsidiaries, including the power to elect our directors and officers and to determine the outcome of any action requiring shareholder approval, including corporate reorganizations and the timing and payment of our dividends. Given this degree of control over our company, circumstances could arise under which the interests of Telefónica could be deemed to be in conflict with the interests of our other shareholders.