On February 24, 2021, the exchange rate was R$5.4182 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. You should carefully read and consider the following risks, along with the other information included in this Annual Report on Form 20-F. 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 common shares and our ADSs could be affected. The risks described below are organized by risk category and these categories are not presented in order of importance. However, within each category, the risk factors are presented in descending order of importance, as determined by us as of the date of this annual report. We may change our vision about their relative importance at any time, especially if new internal or external events arise.

Summary of Risk Factors

Summary of 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 common 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.

- 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 common shares and ADSs.

- 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 common shares and ADSs.

- Any further downgrading of Brazil’s credit rating could reduce the trading price of our common shares and ADSs.

Summary of Risks Relating to the Brazilian Telecommunications Industry and Us

- Our business, operations and results have been, and may continue to be, adversely impacted by the effects of the COVID-19 pandemic.

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

- A 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.
- Our current radiofrequency licenses may not be renewed for additional periods.
- We are exposed to risks in relation to compliance with anti-corruption laws and regulations and economic sanctions programs.
- We are dependent on key personnel and the ability to hire and retain additional personnel.
- We depend on key suppliers to obtain the necessary equipment and services for our business.
- 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 make investments based on demand forecasts that may become inaccurate due to economic volatility and may result in revenues that are lower than expected.
- Consolidation in the telecommunications market may increase competition in the near future and may change Brazilian market dynamics.
- The transactions contemplated by the Oi Agreement may not be consummated, and if they are consummated, we may be unable to successfully integrate the assets and operations contemplated thereunder or to realize expected benefits.
- We face significant competition in the Brazilian market.
- Other risks such as changes to the fees, rates, rules and requirements established by ANATEL that apply to our mobile and other telecommunications services, the issuance of new regulations by ANATEL affecting many areas of our operations, continual changes and evolution in the telecommunications industry, our ability to comply with ANATEL's quality of service obligations, the new Brazilian General Data Protection Law and internet regulations in Brazil, our ability to comply with covenants under our debt agreements and environmental regulations, and effects of man-made and natural disasters and cybersecurity risks on our network and service continuity.

Summary of Risks Relating to the Common Shares and the ADSs

- Holders of our ADSs may face difficulties in serving process on or enforcing judgments against us and other persons.
- Holders of our ADSs are not entitled to attend shareholders' meetings and may only vote through the depositary.
- Holders of our ADSs or common shares might be unable to exercise preemptive rights with respect to the common shares unless there is a current registration statement in effect which covers those rights or unless an exemption from registration applies.
- An exchange of ADSs for common shares risks the loss of certain foreign currency remittance and Brazilian tax advantages.
- Holders of our common shares will be subject to, and holders of our ADSs could be subject to, Brazilian income tax on capital gains from sales of common shares or ADSs.

Certain Factors Relating to our Controlling Shareholder

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

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 common 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. Our financial condition, as well as our business and results of operations and the market price of our common 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 common 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 common shares and ADSs.

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

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 common shares and ADSs.

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 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.

In the past years, the Brazilian markets have experienced increased volatility due to uncertainties arising from 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.

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 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.

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 4.3%, 3.7%, 2.9% and 6.3% in 2019, 2018, 2017 and 2016, respectively. In 2020, inflation, as measured by the IPCA, registered 4.52%. In the past, the Brazilian government's interventions 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 4.50% at the end of 2019 and to 2.00% at the end of 2020, 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 common 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, or X Factor, which is defined by ANATEL Resolution 507/2008.

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 common 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 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. The *real/*U.S. dollar exchange rate reported by the Central Bank was R$5.196 per US$1.00 on December 31, 2020, which reflected a 22.4% depreciation in the *real* against the U.S. dollar during 2020 due primarily to the impact of the COVID-19 pandemic on the Brazilian economy. On February 24, 2021, the exchange rate was R$5.4182 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, 2020, none of our total indebtedness of R$13.0 billion was denominated in foreign currency. Approximately 10.7% of our operating costs and expenses are payable or linked to payment by us in U.S. dollars or Euros. By contrast, 99.8% of our revenue is generated in reais, 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 common 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 common shares and ADSs. Any of the foregoing developments may adversely affect the market value of our common 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 common 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 common 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.

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. 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, instability in the political environment, change in fiscal austerity guidelines, among other factors, could lead to a 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 common shares and ADSs to decline.

Risks Relating to the Brazilian Telecommunications Industry and Us

Our business, operations and results have been, and may continue to be, adversely impacted by the effects of the COVID-19 pandemic.

Since December 2019, SARS-CoV-2, a novel strain of coronavirus referred to as COVID-19, has spread throughout the world. On January 31, 2020, the World Health Organization announced that COVID-19 was a global health emergency and on March 3, 2020, the World Health Organization categorized COVID-19 as a pandemic. The COVID-19 pandemic has resulted in numerous deaths and the imposition of local, municipal and national governmental “shelter-in-place” and other public health measures, border closures and other travel restrictions, causing unprecedented economic disruption in much of the world, including in Brazil. The local, national and international response to the virus is quickly developing, fluid and uncertain. During March and April of 2020, state, local and municipal authorities within Brazil promoted and enforced public health measures, including social isolation and quarantine measures, and have enacted regulations limiting the operations of "non-essential" businesses. In mid-March 2020, São Paulo and other Brazilian states declared a state of emergency. Although the Brazilian government has determined that the telecom sector is an essential service, which allows us to continue our field maintenance activities without violating restrictions on movement that have generally been imposed to combat the pandemic, in accordance with the recommendations of the authorities, we transitioned a substantial majority of our employees to work from home.

In Brazil generally and in particular regions where we have a significant employee presence, facilities or critical operations, the outbreak of COVID-19 has impacted our ability to manage day-to-day operations and service our customers and has resulted in, among other things, loss of revenue, although we have also experienced a decrease in our costs of operations due to lower variable costs such as sales commissioning, call centers, billing and advertising. We have implemented corporate and personal travel restrictions for employees and vendors, cancelled events and enabled work-from-home for many employees by equipping them to safely support customers remotely. We have also implemented additional safety measures for our retail stores and field operations teams. Additionally, we have been required to temporarily close or reduce operations at some of our retail locations, facilities and customer call centers. Retail locations were closed temporarily, but started reopening in the second quarter of 2020, with reduced hours of operation and customer capacity limitations, as stay-at-home orders began to ease in São Paulo and other Brazilian cities. As a result of travel and other public health restrictions enacted by local government, our third-party call center was forced to reduce its hours of operation in March 2020 for several weeks, resulting in longer than normal hold times during that period, as well as lower upselling from prepaid to postpaid plans, which are typically made through this channel, resulting in decreased revenues. Due to stay-at-home orders easing in the primary markets in which the Company operates, operations are in the process of normalizing as of the date of this annual report, but we may be required to temporarily close or reduce operations at more of or all of our retail locations, facilities or call centers again if there is a resurgence of COVID-19 in the markets in which we operate. The foregoing effects, and other effects of COVID-19, may continue for an unknown period of time.

Our business has been, and may continue to be, negatively impacted by the effects of, or precautions taken to avoid exposure to, COVID-19, such as reduced travel or recommendations or mandates from governmental authorities to avoid large gatherings or to self-quarantine, and by the resulting disruptions to economic conditions and financial markets. Such impacts include, but are not limited to:

- Reduced sales of certain of our products and services, such as handset sales and upsells made through our retail stores and upsells through our call centers and other channels, as a result of public health measures;

- Disruptions to our third-party providers, including those who provide many of our information technology, call center functions, certain accounting functions and other critical vendor services;

- Reduced workforces caused by, among other things, the temporary inability of the workforce to work due to illness, quarantine, or government mandates, or temporary unwillingness to work due to health concerns;

- Reduced customer demand or customer payment of accounts receivables as a result of adverse economic conditions resulting from the COVID-19 pandemic;

- Reduced availability of certain equipment in the supply chain due to increased demand; and

- Increases in provisions for bad debt as a result of increased unemployment and the inability of certain customers to pay bills and late fees as a result of disruptions caused by the COVID-19 pandemic.

Potential future impacts include, but are not limited to:

- Service disruptions or reduced bandwidth for copper-based broadband customers due to significant short-term increases in bandwidth usage due to individuals working from home and/or significantly higher expenses attributable to infrastructure investments required to meet such higher network utilization trends;

- Imposition of governmental requirements preventing our termination services as a result of non-payment, thus encouraging customer defaults on invoices, resulting in a decline in our cash flows from operations and an increase in our expected losses on trade receivables;

- Increased supply chain risks such as increased scrutiny or embargoing of goods produced in infected areas;

- Increased health insurance and labor-related costs arising from illness, quarantine and the implementation of social distancing and work-from-home measures;

- Reduced employee productivity and a negative impact on the execution of our business plans and operations as employees must balance working remotely from home with personal responsibilities, such as child care and education;

- Increased risk of phishing and other cybersecurity attacks, and increased risk of unauthorized dissemination of sensitive personal information or proprietary or confidential information about us, our customers or other third parties as a result of employees or third-party vendors’ employees working remotely; and

- In the event of continued restrictions on certain activities, or a natural disaster, power outage, connectivity issue or other event that impacts our employees’ ability to work remotely, it may be difficult or, in certain cases, impossible, for us to continue to support our customers’ needs and respond to inquiries through call center operations or to perform necessary or routine repairs, maintenance and installation activities, which could adversely affect our operations and sales.

The foregoing impacts, and other impacts of COVID-19 discussed elsewhere in these risk factors, are broadly consistent with those generally affecting the economic, financial, regulatory and political conditions in Brazil and elsewhere in the world, and are generally applicable to the industries and markets in which the Company and its subsidiaries operate. These impacts could materially increase our costs, negatively impact our consumer and business sales and damage the Company’s financial condition, results of operations, cash flows and liquidity position, possibly to a significant degree.

We cannot predict the full effect of the pandemic on our business or on the Brazilian economy. Federal, state and municipal governments in Brazil may announce further restrictions on the general population and we cannot predict what effect this will have on our operations and sales in the long term. We cannot predict the duration of the pandemic, the effectiveness of governmental or other measures taken to attempt to curb the pandemic, or the duration of any such measures. In addition, following the pandemic and the termination of any such governmental restrictions, the needs and preferences of our customers may have been altered. The impact of the COVID-19 pandemic is rapidly evolving, and the continuation or a future resurgence of the pandemic could precipitate or aggravate the other risk factors that we face, which in turn could further materially and adversely affect our business, financial condition, liquidity, results of operations and profitability, including in ways that are not currently known to us or that we do not currently consider to present significant risks. The extent of the impact of the COVID-19 on our operational and financial performance in the longer term will depend on future developments, including the duration of the outbreak and related travel advisories and restrictions and the impact of the COVID-19 on overall demand for travel, all of which are highly uncertain and beyond our control. We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required by federal, state or local authorities, or that we determine are in the best interests of our employees, clients, suppliers and shareholders.

For more information about specific measures that we have adopted and potential impacts on our business operations, see “Item 4. Information on the Company—A. History and Development of the Company—Recent Developments—COVID-19 Pandemic” and “Item 5. Operating and Financial Review and Prospects— A. Operating Results—Overview—Effects of the COVID-19 Pandemic.”

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);
- 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 concessions 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) despite significant reductions in public pay-phone services requirements permitted under Decree No. 9,619 of December 2018, expansions may be necessary under specific conditions and (ii) the provision of private individual telephone service for locations reaching a population of more than 300 inhabitants may be required upon request by any consumer, as well as certain quality of service targets (reviewed by Resolution No. 717, issued on December 2019, which remains under implementation). 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, 2020, the net book value of our reversible assets, calculated in accordance with ANATEL’s interpretation of current regulations, is estimated at R$6.7 billion. These assets are comprised of switching and transmission equipment, public use terminals, external network equipment, energy equipment and systems and operations support equipment.

A 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 had 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. In November 2020, Anatel issued Resolution nº 737, which amended the Concession Contracts for the provision of Fixed Telephone Services (STFC), in Local, National Long Distance (LDN) and International Long Distance (LDI) modalities.

On October 4, 2019, Law No. 13,879/2019 (resulting from PLC Nº 79/2016), or the New General Telecommunications Law, was published. This law revises the telecommunications regulatory framework and represents 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 our existing licenses will be renewed.

According to the New General Telecommunications Law and the Decree nº 10.402 issued in June 2020, ANATEL may determine specific conditions for the renewal of our existing licenses, such as mandatory “refarming” processes in certain spectrum bands or refuse renewal requests altogether. 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. In September 2020, Anatel’s Board of Directors decided, during an extraordinary meeting, to approve the renewal of our 850 MHz authorizations for primary use until 2028. However, specific conditions for renewal are still under discussion between Anatel and service providers. If a renewal in 2028 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 regions. In the event of any of the foregoing circumstances, our business, financial condition, revenues, results of operations and prospects could be materially adversely affected.

We are 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 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.

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 the 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.

The transactions contemplated by the Oi Agreement may not be consummated, and if they are consummated, we may be unable to successfully integrate the assets and operations contemplated thereunder or to realize expected benefits.

Our ability to consummate the transactions contemplated by the Oi Agreement is subject to various closing conditions. These include customary closing conditions in addition to others that, despite being usually applicable to this type of transaction, are beyond our control, such as the requirement to obtain approvals from certain governmental regulatory authorities. We believe that the most significant risk posed by these closing conditions is related to the governmental regulatory approvals that are required to be granted by the Brazilian competition authority (CADE) and telecommunications regulator (ANATEL), which as of the date of this annual report, have not yet been granted. Moreover, as of the date hereof, it is possible that the approvals required for the consummation of the transactions contemplated by the Oi Agreement acquisition may not be obtained or, if they are obtained, could impose unanticipated or adverse conditions or otherwise modify the terms thereof, including the re-allocation of assets among us and the other two operators that were awarded the winning bid together with us, pursuant to our joint bid. Therefore, depending on these conditions, it may not be possible to consummate the Oi Agreement transaction according to the expected timeline or at all. See “Item 4. Information on the Company—A. History and Development of the Company—Recent Developments—Execution of Purchase Agreement for Acquisition of UPI Mobile Assets of the Oi Group.”

In addition, achieving the targeted synergies, such as operating and long-term strategic cost-savings, of the Oi Agreement will depend in part upon whether we can integrate the assets and operations contemplated thereunder in an efficient and effective manner. We may not be able to accomplish this integration process smoothly or successfully. We and Oi operate numerous systems, including those involving clients, spectrum, infrastructure, management information, accounting and finance, sales, billing, and regulatory compliance. Moreover, the integration of the assets and operations acquired will require the dedication of significant management resources, which may distract management’s attention from day-to-day operations. Potential employee uncertainty and lack of focus during the integration process may also disrupt our business and result in undesired employee attrition. An inability of management to successfully integrate the assets and operations contemplated by the Oi Agreement into our business could have a material adverse effect on our business, results of operations and financial condition. An inability to realize the full extent of, or any of, the anticipated benefits and synergies of the acquisition of assets and operations under the Oi Agreement, as well as any delays encountered in the integration process, could have an adverse effect on our business, results of operations and financial condition.

We face significant competition in the Brazilian market.

In 2020, competition in the Brazilian telecommunications sector was quite stable, with a more rational approach due to the COVID-19 pandemic. Telecommunications operators continued to focus 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. In the fixed side of the business, we have seen competition both from large and small players in order to capture customers’ demand for connectivity or upgrades for higher speeds driven by the pandemic effects, 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 Dec 17, 2018, ANATEL established the 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) for the years 2020 through 2023. The related rates established by ANATEL are set forth in the following table:

	2020	2021	2022	2023
Sector 31 (fixed)				
TU-RL	0.00134	0.00117	0.00104	0.00096
TU-RU1	0.00166	0.00176	0.00183	0.00188
TU-RU2	0.00118	0.00120	0.00122	0.00122

In February 2020, 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	0.01338	0.01503	0.02687
2021	0.01380	0.01527	0.02814
2022	0.01422	0.01550	0.02947
2023	0.01468	0.01578	0.03082

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 result in favorable terms and values. 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 either an increase in operating costs, an increase in competitive pressure, or 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 products 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, we 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, regarding 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 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.

We will be subject to risks related to noncompliance with data protection laws and the new Brazilian General Data Protection Law, which provides for application of sanctions, including financial penalties, in case of noncompliance.

In 2018, the President of Brazil approved Brazilian Law No. 13,709/2018, named the General Personal Data Protection Law (*Lei Geral de Proteção de Dados*), or the LGPD, which came into force on September 18, 2020, a comprehensive data protection law establishing the general principles and obligations that apply across multiple economic sectors and contractual relationships. Certain aspects of the LGPD will be subject to further regulation to be enacted by the National Data Protection Authority (*Autoridade Nacional de Proteção de Dados* – “ANPD”), which is not operational yet, and should result in changes to the LGPD’s approach that are not yet defined as of the date of this annual report. However, the administrative sanctions provisions of LGPD will only become enforceable as of August 1, 2021, pursuant to Law No. 14,010/2020. The LGPD establishes detailed rules for the collection, use, processing and storage of personal data in all economic sectors, regardless of whether data is collected in a digital or physical environment. In general, our services and processes depend on personal data. The way in which we collect, store and manage this data must comply with the provisions of the LGPD.

Once the administrative sanctions of the LGPD become enforceable, in the event of a violation of the LGPD, we may be subject to (1) legal notices and the required adoption of corrective measures, (2) fines of up to 2% of the our or our economic group’s revenues up to a limit of R$50.0 million per infraction, (3) publication of the infraction following confirmation of its occurrence, (4) the blocking and erasing of personal data involved in the infraction, (5) partial or complete suspension of the infringing processing activities for up to one year and (6) partial or complete prohibition to engage in processing activities. The effectiveness of such administrative sanctions, however, has been postponed to August 2021. Moreover, we may be liable for property, moral, individual or collective damages caused by us, including by third party providers that process personal data for us, and jointly liable for property, moral, individual or collective damages caused by our subsidiaries, due to non-compliance with the obligations established by the LGPD and certain other sector-specific laws and regulations on data protection still in force. If we are unable to use sufficient measures to protect the personal data we manage and store or to maintain compliance with the LGPD, we may incur material costs which could have an adverse effect in our reputation and results of operations.

We may be held liable for material, punitive, individual or collective damages to the data subjects due to its processing and treatment and could be held individually or severally responsible for material, punitive, individual or collective damages caused by us, our subsidiaries, service providers that process personal data on our behalf or our affiliates due to non-compliance with the obligations set forth by the LGPD, which may adversely affect our reputation and results and, consequently, the value of our ADSs and common shares.

In the event of failure or insufficiency in the adoption of measures to protect the personal data that is processed or to maintain compliance with the Brazilian General Data Protection Law, we may incur relevant costs, such as the payment of fines and indemnities, implementation of adjustment measures, and loss of business, as well as such failure or insufficiency having an adverse effect on our reputation and results of operations. As a result, we may be held liable even before the Brazilian General Data Protection Law sanctions come into force since consumer protection authorities and the Public Prosecutor’s Office have already been active in pursuing data privacy violations even before the LGPD became effective. Accordingly, failures in the protection of the personal data processed by us, or any failure to implement adequate data protection measures in response to applicable legislation, may subject us to high fines, the disclosure of the incident to the market, the payment of indemnities, the elimination of personal data from the database in question and the suspension of access to our databases, prohibition of our activities related to the processing of infringed data in addition to civil sanctions, which may adversely affect our reputation and results.

In addition, despite the fact that the administrative sanctions of the LGPD will not become applicable until August 2021, the application of administrative sanctions under other laws that deal with privacy and data protection issues may still apply, such as the Consumer Protection Code and the Brazilian Civil Rights Framework for the Internet. These administrative sanctions may be imposed by other public authorities, such as the Public Prosecutors’ Offices, the National Consumer Secretariat and consumer protection agencies. We may also be subject to liability in the civil sphere for violation of these laws. Sanctions imposed against us by these authorities may also adversely affect our reputation and results and, consequently, the value of our ADSs and common shares.

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 Brazilian Civil Rights Framework for the Internet (*Marco Civil da 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 internet neutrality. In May 2016, further regulations were passed in connection with the referred law. The administrative penalties imposed by the Brazilian Civil Rights Framework for the Internet include notification, fines (up to 10% of the revenues in Brazil of the relevant entity's economic group in the preceding fiscal year) and suspension or prohibition from engaging in data processing activities. The Brazilian Civil Rights Framework for the Internet also determines joint and several liability between foreign parent companies and local Brazilian subsidiaries for the payment of fines that may be imposed for breach of its provisions. Administrative penalties may be applied cumulatively. Daily fines may be imposed in judicial proceedings, as a way to compel compliance with a Brazilian court order. If for any reason a company fails to comply with the court order, the fine can reach significant amounts. We may be subject to liability under these laws and regulations should we fail to adequately comply with the Brazilian Civil Rights Framework.

However, unlike in the United States, little case law exists around the Brazilian Civil Rights Framework for the internet and existing jurisprudence has not been consistent. 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, remediation, conduct adjustments, 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 restrictive 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, assets and financial condition.

Man-made or natural disasters, including extreme weather conditions due to climate change (high temperatures, floods, thunderstorms) or other unexpected events could adversely affect networks, systems, infrastructure and service continuity.

Our operations may be suspended or interrupted for an indeterminate period in case of adverse events, such as a result of damages to our transmission bases, natural disasters, climate change or other environmental events or natural or man-made disasters, including fire, explosion, storms, geopolitical disruptions, civil unrest or health crises (such as the COVID-19 pandemic) or any other unexpected events.

Climate change poses a number of potential risks for telecommunications operators like us, from both a physical and regulatory perspective. Global climate change may exacerbate the severity and frequency of natural disasters. The rising intensity and frequency of occurrence of storms, heatwaves and earthquakes could increase the damage to our infrastructure and failures of our wireline and wireless networks caused by such natural disasters. Should severe natural disasters occur in quick succession, we may not have sufficient resources to repair and restore our infrastructure in a timely and cost-effective manner. The increase in likelihood of our infrastructure being damaged by natural disasters could have a material adverse impact on our operations.

Rising mean temperatures could increase our operating costs due mostly to the increase in refrigeration needs of network equipment. High temperatures also can affect the telecommunication equipment producing failures, write-offs and early retirement and therefore increase the risk of service disruption; therefore, cooling is essential.

An increase in severity and extreme weather events such as floods and landslides can damage our infrastructure, mainly our telecommunication network assets. They can cause physical damage to our infrastructures and therefore could produce service and operations disruptions. An increase in energy costs is one of our main climate-related risks. The Telecom sector is not especially dependent on fossil fuels but is very dependent on electricity consumption for its networks, so an increase in electricity prices due to a shortage of natural resources could have a significant impact on our energy-related operating expenses.

If we are unable to mitigate or prevent any such damage in the event of a natural or man-made disaster and any other unexpected events, the suspension or interruption of our operations could have a material adverse effect on the continuity of our operations, our financial results and compliance with applicable regulations.

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

Currently, hundreds of municipal laws in Brazil 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 non-compliance with regulations and of having services of limited quality in certain areas continues to exist.

Additional antenna installation is also limited because 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 the 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 we 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 Common 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 ADSs are not entitled to attend shareholders' meetings and may only vote through the depositary.

Under Brazilian law, only shareholders registered as such in our corporate books may attend shareholders' meetings. All common shares underlying our ADSs are registered in the name of the depositary.

A holder of ADSs, accordingly, is not entitled to attend shareholders’ meetings. Holders of our ADSs may exercise their limited voting rights with respect to our common shares represented by the ADSs only in accordance with the deposit agreement relating to the ADSs. There are practical limitations upon the ability of ADS holders to exercise their voting rights due to the additional steps involved in communicating with ADS holders. For example, we are required to publish a notice of our shareholders’ general meetings in certain newspapers in Brazil. Holders of our shares can exercise their right to vote at a shareholders’ general meeting by attending the meeting in person or voting by proxy. By contrast, holders of our ADSs will receive notice of a shareholders’ general meeting by mail from the ADR depositary following our notice to the ADR depositary requesting the ADR depositary to do so. To exercise their voting rights, ADS holders must instruct the ADR depositary on a timely basis. This voting process will take longer for ADS holders than for direct holders of our shares.

We cannot assure you that holders will receive the voting materials in time to ensure that such holders can instruct the depositary to vote the shares underlying their respective ADSs. In addition, the depositary and its agents are not responsible for failing to carry out holder’s voting instructions or for the manner of carrying out your voting instructions. This means that holders may not be able to exercise their right to vote and may have no recourse if our shares held by such holders are not voted as requested.

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

Under Brazilian law, if we issue new shares for cash as part of a capital increase, we generally must grant our shareholders the right to purchase a sufficient number of shares to maintain their existing ownership percentage. Rights to purchase shares in these circumstances are known as preemptive rights. Holders of our ADSs or common shares in the United States will not be able to exercise any preemptive rights unless a registration statement under the U.S. Securities Act of 1933, as amended, or the Securities Act, is effective with respect to that future issuance of shares, 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 ADSs 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 common 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 common shares into foreign currency, and to remit the proceeds abroad. Holders of ADSs who exchange their ADSs for common 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 common shares and the remittance of funds arising from the sale of these common 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 common shares. There can be no assurance that the depositary’s