

SHORT VERSION OF OI'S
ANNUAL SUSTAINABILITY
REPORT 2014





PROFILE AND STRATEGY

A pioneer in providing convergent services in Brazil, Oi offers landline and mobile telephony, broadband, pay TV, and a set of solutions in Information and Communication Technologies (ICT).

COMPANY HIGHLIGHTS



WITH THE LARGEST NETWORK COVERAGE IN THE COUNTRY, OI IS PRESENT THROUGHOUT THE ENTIRE COUNTRY

OI CLOSED 2014 WITH

74.5 MILLION

REGUS (REVENUE GENERATING UNITS)



Oi revised its strategy in 2014, strengthening four key pillars for its transformation, and it improved its Management Model in early 2015, strengthening its control over the indicators and projects and the alignment of targets.

OI WI-FI FON HAS MORE THAN

1 MILLION

HOTSPOTS AND IT HAS BECOME THE LARGEST WI-FI NETWORK OF THE AMERICAS



The Company has signed the Global Compact since 2009, has been a part of the Carbon Efficient Index (IC02) since 2010, and of the Dow Jones Sustainability Index (DJSI) since 2013.

It provides information to the Carbon Disclosure Project (CDP) and annually publishes its greenhouse gases (GHGs) inventory on the platform of the Brazil GHG Protocol Program, and it also participates as a member of the Companies for Climate (EPC) and Innovation and Sustainability in Value Chain (ISCV).

- **Pillar 1:** Continue the turnaround by improving the control of COPEX (OPEX+CAPEX) and commitment to reduce cash consumption
- **Pillar 2:** Improve the profile of its balance sheet
- **Pillar 3:** Increase corporate governance to the highest level of Brazil
- **Pillar 4:** Participate in the consolidation process in order to maximize 6th generation of shareholder value



WITH HEADQUARTERS IN RIO DE JANEIRO, THE COMPANY

HAS AROUND **18,300** EMPLOYEES



CORPORATE GOVERNANCE

Oi is listed on Level 1 of Corporate Governance of BM&FBOVESPA and the New York Stock Exchange [NYSE], and has been a part of the Carbon Efficient Index [IC02] since 2010 and of the Dow Jones Sustainability Index [DJSI] since 2013.

During 2014, the Company continued the process of setting up CorpCo for it to become a part of the Novo Mercado of BM&FBovespa, but this process did not move forward as expected due to regulatory disputes. In March 2015, the Board approved an alternative structure in order to anticipate the Novo Mercado objectives as much as possible, involving the voluntary conversion of preferred shares into common shares and the amendment in the by-laws to include the main requirements of the Novo Mercado.

The Code of Ethics has guided the conduct of Oi's executives and employees since 2007, and it includes recommendations about respect for diversity, proper use of assets and resources, treatment of confidential information, relationships with public agencies, media, investors, customers, and suppliers, assumptions for environmental responsibility, among other guides.

- **95%** of the employees have read and formally accepted the terms of the Code of Ethics.
- **11,856 hours** of training on this topic involved 43% of the staff the last year.
- **2 complaints** related to corruption, both involving private contracts, were received by the Channel for Complaints in 2014 and were treated by Oi's Ethics Committee as well founded. Appropriate measures were taken and all involved were penalized.

Sustainability management and its integration into the strategic direction of the business are coordinated by the Executive Group on Sustainability. In early 2015, its membership was expanded to include other of the Company's areas into this group, which has among its missions Oi's return to BM&FBOVESPA's Corporate Sustainability Index [ISE], evaluate the management of social and environmental risks, the permanence and adherence to public commitments, as well as the relationship strategy with stakeholders while also monitoring the actions in the context of sustainability through indicators and keeping Oi's Sustainability Policy up-to-date.

The Company's risk management system and internal control is based on an internationally recognized model. The mapping of risks follows the ISO 31000 methodology, and the actions to mitigate them are implemented through appropriate controls and constant monitoring of the internal environment.



OPERATING AND FINANCIAL PERFORMANCES



RESIDENTIAL

17,463,674

Revenue Generating Units (RGUs)

Almost **24%** of the customers in this segment have three or more services, reflecting the strategy of convergent offers, which also reduces the churn rates.



PERSONAL MOBILITY

48,462,041 RGUs

6.0% growth in the volume of prepaid recharges compared to the year before.

Improvement in the churn rate and growth of the postpaid base.

Oi Control: plan with Oi's strategic focus because it is a hybrid plan that has no default and consumption profile and with an ARPU profile closer to that of postpaid.



CORPORATE/SME

7,916,824 RGUs

Adjustment of B2B strategy: integration of the Corporate, Business, and Wholesale segments; working on simplifying the product portfolio; restructuring the sales channels; and focus on growth in IT and data services.

1st integrated showroom of ICT (Information & Communication Technology) solutions was launched in the third quarter 2014.



Economic and Financial Highlights (R\$ million)¹	2013	2014	Variation [%]
Net income	29,325	28,546	[2.7]
Ebitda	10,882	10,361	[4.8]
Consolidated net income (loss) ²	1,493	[4,406]	-
Net debt	31,331	30,563	[2.5]
Investments	6,250	5,074	[18.8]

1. Pro-forma data.

2. The consolidated net income includes the discontinuation of the operations of PT Portugal since the asset was put up for sale. Net income from discontinued operations includes the results of PT Portugal since May 5 and a loss of R\$ 4.164 million related to the recognition of these assets at their selling price.

Statement of Added Value (R\$ million)	2013	2014	Variation [%]
Personnel	2,222	2,540	14.3
Taxes and fees	10,277	9,914	[3.5]
Third-party capital remuneration	6,517	8,837	35.6
Own capital remuneration	1,493	[4,406]	[395.1]
Total amount distributed	20,509	16,885	[17.7]



SOCIAL PERFORMANCE

EMPLOYEES

About **18,000** employees make up Oi's workforce.

- Ages between 30 and 50 | **62.9%**
- Women in leadership: growth by 1.2 percentage points of their involvement at a level of supervision/coordination
- Senior Leadership: the proportion of directors and managers above 50 years old is increasing, contributing their experience during the decision-making process.



- **270,345 HOURS** of training were held in 2014, equivalent to an average of **15 HOURS** per employee.
- **2,821** employees were impacted by about 700 hours of work on initiatives in Change Management.



- **7** classes and **71** professionals have been trained by the *Oi Para Todos* program since its inception in 2012.
- **344** people with disabilities represented **1.9%** of its total employees at the end of 2014, an increase of **19%** compared to last year.

Oi launched in 2014 the National Accident Reduction and Safe Work Plan, whose main objective is to make employees and outsourced staff more aware of a safety culture. In this period the Work Accident Prevention Week (SIPAT) was held for the first time in an integrated way, meaning everyone at the same time in Brazil.



SUPPLIERS



The insourcing of Oi's internal plant was completed in 2013 with the need to hire local internal plant services. The development of local suppliers led to a lot of work being done to identify and qualify suppliers. In fact, in some regions it has been necessary to start a service provider company from scratch.

The Call Center companies and NSPs are considered critical for business continuity and therefore are followed by a specific committee. In 2014 the Company signed an agreement approved by the Board of Directors for it to monitor more closely the operational and financial indicators of the NSPs.

During the evaluation of potential suppliers, Oi includes requirements relating to governance, ethics, and sustainability such as commitment to respect human rights, labor rights, environmental protection, health, and safety. Among the mechanisms adopted is checking the National Register of Inapt and Suspended Companies (CEIS).

All contracts are closed using standard clauses on human rights and reinforcing its concern with preventing the exploitation of forced or compulsory labor and child labor, combating discrimination practices, valuing diversity, the prevention of bullying and sexual harassment, and related to freedom of association to unions. In 2015 the plan is to train third-party staff on these issues through the Professional Qualification Test Center [CEQUAL], which has assessed the knowledge and skills of Oi's outsourced labor force since 2000.



1,920 suppliers were hired in 2014, mostly in Brazil, with a payment volume of around **R\$ 12 BILLION**



40% of total payments were concentrated in Network Service Providers (NSPs) and to suppliers of technology and equipment.



CUSTOMERS

Extensive efforts have been made on the network to improve the separation of the 2G, 3G, and 4G mobile telephony bands, in particular the prepaid. This project should be completed in the first half of 2015. In fixed telephony and broadband the highlight was to allow scheduling the date of installation or technical visit, giving greater convenience to customers.



Oi has made efforts to facilitate the understanding of the dynamics of the plans and promotions. The option for a simple and direct language in advertising campaigns is added to the discourse of convergence to bring on board more results for the Company by impacting a greater number of people.

The convergent view of the services is being facilitated through integrated systems: beginning in December 2014, Oi's new customers are registered on a single platform, which streamlines the service and contributes to offering solutions for each customer profile. For 2015, we intend to revisit the database of the current customers in order to migrate them to the new system.



During the year 2014, the Company complied with the Code of Ethics of the Self-Regulation Advertising Council (Conar), as well as kept to the principles of honesty and transparency with consumers. As a result, only three complaints were filed against the Company and a drop was seen in the amount of fines related to problems with billing and incorrect collection, and violation of user rights, from

R\$ 133 MILLION
in 2013 to **R\$ 3 MILLION**
in the last year.



ENVIRONMENTAL ASPECTS

Oi's environmental management was consolidated in 2014 with the definition of the area of Health, Safety, and Environment (HSE) in order to centralize its initiatives in this context. The theme also became part of the Health, Safety, and Environment Policy revised in the last period.

The Company seeks to constantly rationalize its consumption of energy and studies alternatives to reduce its dependence on the Brazilian energy system. A special Oi work group has been specifically studying an alternative for the use of low voltage energy, which represents approximately **40%** of the Company's total energy use.



Among the main materials consumed by Oi are paper for packaging and administrative activities, and the cables, wires, and fiber optics for field operations. The Company adopts reusable envelopes allowing it to be used 12 times before disposal.

Throughout 2014, Oi structured its Solid Waste Management Program in accordance with the National Solid Waste Policy. For next year, the program should be deployed with managing administrative wastes. The program for collecting batteries and cell phones no longer used will continue in the stores and in the Company's buildings.

Oi has identified and recorded the direct and indirect emissions resulting from its activities every year since 2009. The inventory of GHG (greenhouse gas) emissions follows the standards of the Brazil GHG Protocol Program. The information is disclosed voluntarily on the public record of emissions with the Brazil GHG Protocol Program itself and the Carbon Disclosure Project (CDP), which is a global initiative for monitoring climate governance. In order to reduce the emissions of its fleet, Oi's Fleet Management program, launched in 2014, had its first module related to the control of fuel, and the result was a reduction of **27%** in fuel consumption in the pilot project.





PROMOTION OF DEVELOPMENT



FUTURO

Oi Futuro, which is Oi's corporate social responsibility institute, expanded its operations and projects in education, culture, sustainability, and sports in order to promote human development by means of information and communication technologies. The investment totaled R\$ 103.2 million in the last year, 24.5% more than in 2013.

The NAVE Schools, which offer vocational training integrated into the regular high school curricula, were present at the World Global Forum organized by Microsoft in Barcelona. NAVE Rio was the only school in Brazil invited by the Qatar Foundation to participate at the Wise Summit (World Innovation Summit for Education). As for the Oi Kabum! School of Arts and Technology, which offers training courses related to creative economy, more than 1,000 people had the opportunity to experience the content and the program's methodology through multiplying actions.

Since April 2014, the theaters of Rio de Janeiro and Belo Horizonte have had monthly sessions of the project Accessible Theater whose goal is to offer inclusive shows for people with disabilities. The Telecommunications Museum received the national prize of the national prize of the 40th edition of the Brazilian Association of Corporate Communication (ABERJE) in the category Historical and Corporate Memory Responsibility.



The Oi Novos Brasis was recognized by the Millennium Development Goals Award with the project Sustainability along the Pathway: Sun, Technology, and Biodiversity and with the Von Martius Sustainability Award with the project Living with the Semiarid Reality [2nd place in the category Humanity]. For the fifth year running, Oi was granted the seal of "Business Friend of Sports" from the Ministry of Sports as an important sponsor of Brazilian sports.



4,668 municipalities are reached by Oi under the coverage of the PNBL (National Broadband Plan): the Company's target in the program has contributed to expand access to broadband, promote digital inclusion, and reduce social and regional inequalities in Brazil.

Among other projects in progress throughout the year there are Broadband in Schools Program (PBLE), Border Project, Broadband Project in Amapá, General Plan on Universal Services (PGMU), public consultation regarding the topic of accessibility, and new technology for public telephones (TUPs).



**THE MOST
CONNECTED
WORLD CUP
IN HISTORY**

Oi was the supplier and sponsor of the FIFA World Cup 2014™, which surpassed in just 10 days the data traffic of the last event. In all, 74 terabytes passed through Oi's network, which is equivalent to **80 MILLION** photos. The Company's planning to ensure this achievement involved 4,000 employees in more than 23 departments in the last four years. The work areas included the contract with FIFA (Fédération Internationale de Football Association, in French), the customization of services for companies, and the robustness of the network to meet the needs of customers and tourists.



GET TO KNOW OI'S COMPLETE REPORT

Available at Oi's IR website (www.oi.com.br/ri) is Oi's Annual Sustainability Report 2014 that brings the Company's initiatives and results throughout the year. The document was written with a focus on the Company's material issues defined after

a process of analysis and consultation carried out in the second half of 2014. In the sphere of sustainability management, Oi kept monitoring the GRI aspects and indicators related to its business, regardless of its priority to accountability.

MATERIAL ISSUES DETAILED IN OI'S ANNUAL SUSTAINABILITY REPORT 2014

- Company's Strategy
- Market prospects, investments, modernization, and new business
- Corporate Governance - advances, transparency & accountability, and minority rights
- Quality of customer service and clear business communication on the contractual aspects of products and services
- Investments in local and regional infrastructure, which are essential for the development of the country and communities far from urban centers
- Health and safety of the workforce, including field activities
- Technological Innovation - benefits for society and for the environment
- Dialog and communication between teams and representatives of the value chain
- Social-digital inclusion provided by the services sold and its impacts on society

TO LEARN MORE ABOUT OI'S ANNUAL SUSTAINABILITY REPORT 2014, CONTACT:

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www.oi.com.br/ri