

OI S.A.  
Form 20-F  
April 30, 2013  
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As filed with the Securities and Exchange Commission on April 30, 2013

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 20-F**

- .. **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**OR**
- x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012**  
**OR**
- .. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**OR**
- .. **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OI S.A.**

**(Exact Name of Registrant as Specified in Its Charter)**

|  |  |
|--|--|
| <b>N/A</b><br><b>(Translation of Registrant's Name into English)</b> | <b>The Federative Republic of Brazil</b><br><b>(Jurisdiction of Incorporation or Organization)</b> |
|--|--|

**Rua do Lavradio, No. 71, 2<sup>nd</sup> floor - Centro**

**20230-070 Rio de Janeiro, RJ, Brazil**

**(Address of Principal Executive Offices)**

**Alex Waldemar Zornig**

**Investor Relations Officer**

**Rua Humberto de Campos, 425**

**8<sup>o</sup> andar**

**Leblon, Rio de Janeiro, RJ, Brazil 22430-190**

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**invest@oi.net.br**

**(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)**

**Securities registered or to be registered pursuant to section 12(b) of the Act:**

| <b>Title of Each Class</b>  | <b>Name of Each Exchange on which Registered</b> |
|---|--|
| Common Shares, without par value, each represented by American Depositary Shares    | New York Stock Exchange                          |
| Preferred Shares, without par value, each represented by American Depositary Shares | New York Stock Exchange                          |

**Securities registered or to be registered pursuant to Section 12(g) of the Act: None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None**

**The total number of issued shares of each class of stock of OI S.A. as of December 31, 2012 was:**

599,008,629 common shares, without par value

1,198,077,775 preferred shares, without par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.  Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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**PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

All references herein to *real*, *reais* or R\$ are to the Brazilian *real*, the official currency of Brazil. All references to U.S. dollars, dollars or US\$ are to U.S. dollars.

On April 25, 2013, the exchange rate for *reais* into U.S. dollars was R\$2.0119 to US\$1.00, based on the selling rate as reported by the Central Bank of Brazil (*Banco Central do Brasil*), or the Central Bank. The selling rate was R\$2.0435 to US\$1.00 on December 31, 2012, R\$1.876 to US\$1.00 on December 31, 2011 and R\$1.666 to US\$1.00 on December 31, 2010, in each case, as reported by the Central Bank. The *real*/U.S. dollar exchange rate fluctuates widely, and the selling rate on April 25, 2013 may not be indicative of future exchange rates. See Item 3. Key Information Exchange Rates for information regarding exchange rates for the *real* since January 1, 2008.

Solely for the convenience of the reader, we have translated some amounts included in Item 3. Key Information Selected Financial Information and in this annual report from *reais* into U.S. dollars using the selling rate as reported by the Central Bank on December 31, 2012 of R\$2.0435 to US\$1.00. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate.

**Financial Statements**

We maintain our books and records in *reais*. We prepare our consolidated financial statements in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or the IASB. Our consolidated financial statements as of December 31, 2012 and 2011 and for the three years ended December 31, 2012 have been audited, as stated in the report appearing herein, and are included in this annual report.

Until December 31, 2009, we prepared our consolidated financial statements in accordance with accounting practices adopted in Brazil in effect on and prior to December 31, 2009, or Prior Brazilian GAAP, which were based on:

Brazilian Law No. 6,404/76, as amended by Brazilian Law No. 9,457/97, Brazilian Law No. 10,303/01, and Brazilian Law No. 11,638/07, which we refer to collectively as the Brazilian Corporation Law;

the rules and regulations of the Brazilian Securities Commission (*Comissão de Valores Mobiliários*), or the CVM, the accounting standards issued by the Brazilian Institute of Independent Accountants (*Instituto dos Auditores Independentes do Brasil*), or Ibracon, and the Brazilian Federal Accounting Council (*Conselho Federal de Contabilidade*), or CFC; and

the accounting standards issued by the Brazilian Accounting Standards Committee (*Comitê de Pronunciamentos Contábeis*), or the CPC, and applicable on and prior to December 31, 2009.

In preparing our consolidated financial statements as of and for the two years ended December 31, 2010, the comparative figures in respect of 2009 have been restated to reflect the effects of the transition from Prior Brazilian GAAP to IFRS.

We also prepare individual financial statements in accordance with accounting practices adopted in Brazil, or Brazilian GAAP, which include the pronouncements issued by the CPC applicable to dates and periods ended after

December 31, 2009, for certain purposes, including for the calculation of dividends.

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**Corporate Reorganization**

On February 27, 2012, Tele Norte Leste Participações S.A., or TNL, Telemar Norte Leste S.A., a subsidiary of TNL, or Telemar, Coari Participações S.A., a wholly owned subsidiary of Telemar, or Coari, and Brasil Telecom S.A., a subsidiary of Coari, undertook a corporate reorganization in which:

Telemar and Coari engaged in a split-off (*cisão*) and merger of shares (*incorporação de ações*) under Brazilian law in which (1) Telemar transferred the shares of Coari that it owned to Coari, (2) Coari assumed a portion of the liabilities of Telemar, (3) the common and preferred shares of Telemar were exchanged for newly issued common and preferred shares of Coari, and (4) Telemar became a wholly-owned subsidiary of Coari;

Coari and Brasil Telecom engaged in a merger (*incorporação*) under Brazilian law in which Coari merged with and into Brasil Telecom, which we refer to as the Coari merger;

TNL and Brasil Telecom engaged in a merger (*incorporação*) under Brazilian law in which TNL merged with and into Brasil Telecom, which we refer to as the TNL merger; and

the corporate name of Brasil Telecom was changed to Oi S.A., or Oi.

We refer to these transactions collectively as the corporate reorganization.

The following chart sets forth the ownership structure of TNL, Telemar and Coari in Brasil Telecom immediately prior to the corporate reorganization. The percentages in bold italics represent the percentage of the voting capital owned by the parent company of each entity, and the percentages not in bold italics represent the percentage of the total share capital owned by the parent company of each entity.

The following chart sets forth the structure of Brasil Telecom and Telemar immediately following the corporate reorganization.

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As a result of the corporate reorganization, we have consolidated the results of TNL into results as from February 28, 2012. We have accounted for the Coari merger and the TNL merger using the carry-over basis of our own assets and liabilities and of the assets and liabilities assumed of TNL, Telemar, and Coari as from the date of the reorganization. The carry-over basis of the assets and liabilities were determined at the lowest level entity in the group (i.e., the effects of the purchase accounting relating to Coari's acquisition of Brasil Telecom (now Oi S.A.) will not be reflected in the assets and liabilities of Oi S.A. in its consolidated financial statements as a result of the TNL merger). Additionally, our historical financial statements have not been restated to reflect the impacts of the corporate reorganization on a retrospective basis. Due to the limited guidance in IFRS as issued by the IASB and Brazilian GAAP regarding restructurings of entities under common control, we made a formal request for consultation with the CVM regarding the accounting policy to be applied to these common-control mergers. On April 24, 2013, the Board of Directors of the CVM unanimously decided that the accounting policy to use our carry-over basis of our own assets and liabilities is the most adequate policy given the fact pattern, and would provide more relevant and reliable information for the investor. As part of their decision, the CVM also required that our parent company, Telemar Participações S.A., file their quarterly and annual financial statements with the CVM on the same date that we file our financial statements. Our non-current intangible assets and property, plant and equipment are recorded on a different basis in our parent company's consolidated financial statements, reflecting the amortized purchase price allocated to these assets resulting from Coari's acquisition of our company on January 8, 2009. For more details regarding the corporate reorganization, see Item 4. Information on the Company Our History and Development Corporate Reorganization of TNL, Telemar and Our Company.

Information regarding Oi in this annual report is presented giving effect to the corporate reorganization on February 27, 2012. However, financial and other data included in this annual report regarding Oi and its consolidated subsidiaries as of December 31, 2011 and earlier dates and for periods ended on December 31, 2011 and earlier dates is historical in nature and does not give pro forma effect to the corporate reorganization, except as otherwise noted.

In addition, financial and other data included in this annual report regarding TNL and its consolidated subsidiaries as of December 31, 2011 and earlier dates and for periods ended on December 31, 2011 and earlier dates is historical in nature and includes financial and other data regarding Brasil Telecom, a subsidiary of TNL prior to February 27, 2012. The financial statements of TNL as of and for the year ended December 31, 2011 have not been presented elsewhere in this annual report and have not been filed with the SEC.

Unless otherwise indicated or the context otherwise requires:

all references to our company, we, our, ours, us or similar terms are to Oi S.A. and its consolidated subsidiaries with respect to current information and information as of and for periods ended after February 27, 2012 and to Brasil Telecom S.A. and its consolidated subsidiaries with respect to information as of and for periods ended on or prior to February 27, 2012;

all references to Oi or Brasil Telecom are to Oi S.A. (formerly known as Brasil Telecom S.A.);

all references to TmarPart are to Telemar Participações S.A., the direct controlling shareholder of Oi;



all references to TNL are to Tele Norte Leste Participações S.A., a company that was directly controlled by TmarPart prior to its merger with and into Oi on February 27, 2012 as part of the corporate reorganization;

all references to Telemar are to Telemar Norte Leste S.A., a company that was directly controlled by TNL prior to the corporate reorganization and which became a wholly-owned subsidiary of Oi on February 27, 2012 as part of the corporate reorganization;

all references to Coari are to Coari Participações S.A., a company that was wholly-owned by Telemar prior to its merger with and into Oi on February 27, 2012 as part of the corporate reorganization;

all references to our Common ADSs are to American Depositary Shares, or ADSs, each representing one common share of our company, all references to our Preferred ADSs are to ADSs, each representing one preferred share of our company, and all references to our ADSs are to our Common ADSs and Preferred ADSs;

all references to Brazil are to the Federative Republic of Brazil; and

all references to the Brazilian government are to the federal government of the Federative Republic of Brazil.

### **Share Split**

On April 10, 2007, we authorized the reverse split of all of our issued common shares and preferred shares into one share for each 1,000 issued shares. This reverse share split became effective on May 14, 2007. In connection with this reverse share split, we authorized a change in the ratio of our Preferred ADS. Upon the effectiveness of our

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reverse share split and the ratio change, the ratio of our preferred shares to our Preferred ADSs, changed from 3,000 preferred shares per Preferred ADS to three preferred shares per Preferred ADS. All references to numbers of shares and dividend amounts in this annual report have been adjusted to give effect to the 1,000-for-one reverse share split.

On August 15, 2012, we changed the ratio applicable to our Preferred ADS from three preferred shares per Preferred ADS to one preferred shares per Preferred ADS. All references to numbers of Preferred ADSs in this annual report have been adjusted to give effect to this change in ratio.

## **Market Share and Other Information**

We make statements in this annual report about our market share and other information relating to the telecommunications industry in Brazil. We have made these statements on the basis of information obtained from third-party sources and publicly available information that we believe are reliable, such as information and reports from the Brazilian federal telecommunications regulator (*Agência Nacional de Telecomunicações*), or ANATEL, among others. Notwithstanding any investigation that we may have conducted with respect to the market share, market size or similar data provided by third parties or derived from industry or general publications, we assume no responsibility for the accuracy or completeness of any such information.

## **Rounding**

We have made rounding adjustments to reach some of the figures included in this annual report. As a result, numerical figures shown as totals in some tables may not be arithmetic aggregations of the figures that precede them.

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**CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS**

This annual report contains forward-looking statements. Some of the matters discussed concerning our business operations and financial performance include forward-looking statements within the meaning of the U.S. Securities Act of 1933, as amended, or the Securities Act, or the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act.

Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as expects, anticipates, intends, plans, believes, estimates and similar expressions are forward-looking statements. Although we believe that these forward-looking statements are based upon reasonable assumptions, these statements are subject to several risks and uncertainties and are made in light of information currently available to us.

Our forward-looking statements may be influenced by factors, including the following:

competition in the Brazilian telecommunications sector;

our management's current expectations and estimates concerning our future financial performance, financing plans and programs;

the Brazilian government's telecommunications policies that affect the telecommunications industry and our business in general, including issues relating to the remuneration for the use of our network, and changes in or developments of ANATEL regulations applicable to us;

the cost and availability of financing;

the general level of demand for, and changes in the market prices of, our services;

our ability to implement our corporate strategies in order to increase our average revenue per user;

political, regulatory and economic conditions in Brazil and the specific Brazilian states in which we operate;

inflation and fluctuations in exchange rates;

legal and administrative proceedings to which we are or become a party; and

other factors identified or discussed under Item 3. Key Information Risk Factors.

Our forward-looking statements are not guarantees of future performance, and our actual results or other developments may differ materially from the expectations expressed in the forward-looking statements. As for forward-looking statements that relate to future financial results and other projections, actual results will be different due to the inherent uncertainty of estimates, forecasts and projections. Because of these uncertainties, potential investors should not rely on these forward-looking statements.

We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

**Table of Contents****PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION****Selected Financial Information**

The following selected financial data should be read in conjunction with the consolidated financial statements of Oi (including the notes thereto), Item 5. Operating and Financial Review and Prospects and Presentation of Financial and Other Information.

The selected financial data as of December 31, 2012 and 2011 and for the three years ended December 31, 2012 have been derived from the consolidated financial statements of Oi, prepared in accordance with IFRS, and included in this annual report. The selected financial data as of December 31, 2010 and 2009 and for the year ended December 31, 2009 have been derived from the consolidated financial statements of Oi, prepared in accordance with IFRS, which is not included in this annual report.

The consolidated financial statements as of and for the years ended December 31, 2010 and 2009 were our first annual consolidated financial statements to be prepared in accordance with IFRS. Therefore, we are only presenting information related to the years ended December 31, 2012, 2011, 2010 and 2009.

We have included information with respect to the dividends and/or interest attributable to shareholders' equity paid to holders of our common shares and preferred shares since January 1, 2008 in *reais* and in U.S. dollars translated from *reais* at the commercial market selling rate in effect as of the payment date under the caption Item 8. Financial Information Dividends and Dividend Policy Payment of Dividends. We prepare individual financial statements in accordance with Brazilian GAAP for certain purposes, including for the calculation of dividends.

|                               | <b>At and For the Year Ended December 31,</b>                      |   |             |             |             |
|-------------------------------|--|---|-------------|-------------|-------------|
|                               | <b>2012(1)</b>   | <b>2012</b>   | <b>2011</b> | <b>2010</b> | <b>2009</b> |
|                               | <b>(in millions of<br/>US\$, except per<br/>share<br/>amounts)</b> | <b>(in millions of <i>reais</i>, except per share amounts and as<br/>otherwise indicated)</b> |             |             |             |
| <b>Income Statement Data:</b> |  |   |             |             |             |
| Net operating revenue         | US\$ 12,317  | R\$ 25,169  | R\$ 9,245   | R\$ 10,263  | R\$ 10,919  |
| Cost of sales and services    | (6,202)  | (12,673)  | (4,587)     | (4,732)     | (5,764)     |

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|  |          |           |           |           |             |
|--|----------|-----------|-----------|-----------|-------------|
| Gross profit   | 6,115    | 12,496    | 4,659     | 5,531     | 5,155       |
| Operating expenses   | (3,786)  | (7,736)   | (3,091)   | (3,072)   | (6,232)     |
| Operating income (loss) before financial income (expenses) and taxes | 2,329    | 4,760     | 1,567     | 2,459     | (1,077)     |
| Financial income   | 1,113    | 2,275     | 1,406     | 979       | 630         |
| Financial expenses   | (2,198)  | (4,491)   | (1,478)   | (1,060)   | (912)       |
| Financial expenses, net  | (1,085)  | (2,216)   | (72)      | (80)      | (281)       |
| Income (loss) before taxes   | 1,245    | 2,544     | 1,495     | 2,379     | (1,358)     |
| Income tax and social contribution                                   | (372)    | (760)     | (490)     | (408)     | 339         |
| Net income (loss)  | US\$ 873 | R\$ 1,785 | R\$ 1,006 | R\$ 1,971 | R\$ (1,019) |
| Net income (loss) attributable to controlling shareholders           | US\$ 873 | R\$ 1,785 | R\$ 1,006 | R\$ 1,971 | R\$ (1,021) |

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|   | At and For the Year Ended December 31,                   |  |           |           |           |
|---|--|--|-----------|-----------|-----------|
|   | 2012(1)  | 2012   | 2011      | 2010      | 2009      |
|   | (in millions of<br>US\$, except per<br>share<br>amounts) | (in millions of <i>reais</i> , except per share amounts and as<br>otherwise indicated) |           |           |           |
| Net income (loss)<br>attributable to<br>non-controlling<br>shareholders               |  |  |           |           | 2         |
| Net income (loss)<br>applicable to each class of<br>shares:                           |  |  |           |           |           |
| Common shares   | 274  | 560  | 316       | 619       | (1,021)   |
| Preferred shares  | 599  | 1,225  | 690       | 1,352     |           |
| Net income (loss) per<br>share(2):  |  |  |           |           |           |
| Common shares basic   | 0.53   | 1.09   | 0.61      | 1.20      | (0.62)    |
| Common shares diluted   | 0.53   | 1.09   | 0.61      | 1.20      | (0.62)    |
| Preferred shares and ADSs<br>basic  | 0.53   | 1.09   | 0.61      | 1.20      |           |
| Preferred shares and ADSs<br>diluted  | 0.53   | 1.09   | 0.61      | 1.20      |           |
| Weighted average shares<br>outstanding (in thousands):                                |  |  |           |           |           |
| Common shares basic   |  | 514,758  | 514,758   | 514,758   | 514,758   |
| Common shares diluted   |  | 514,758  | 514,758   | 514,758   | 514,758   |
| Preferred shares basic  |  | 1,125,273  | 1,125,273 | 1,125,273 | 1,125,273 |
| Preferred shares diluted  |  | 1,125,273  | 1,125,273 | 1,125,273 | 1,125,273 |
| <b>Balance Sheet Data:</b>  |  |  |           |           |           |
| Cash and cash equivalents   | US\$ 2,160   | R\$ 4,413  | R\$ 6,005 | R\$ 3,217 | R\$ 1,717 |
| Cash investments  | 1,187  | 2,426  | 1,084     | 832       | 382       |
| Trade accounts receivable,<br>net   | 3,436  | 7,019  | 2,010     | 2,070     | 1,992     |
| Total current assets  | 10,347   | 21,145   | 12,246    | 8,487     | 6,127     |
| Property, plant and<br>equipment, net   | 11,309   | 23,110   | 5,794     | 5,317     | 5,267     |
| Intangible assets, net  | 2,073  | 4,237  | 1,086     | 1,318     | 1,572     |
| Total assets  | 33,803   | 69,077   | 31,664    | 26,886    | 24,564    |
| Short-term loans and<br>financing (including<br>current portion of<br>long-term debt) | 1,524  | 3,114  | 1,144     | 1,044     | 870       |
| Total current liabilities   | 8,366  | 17,096   | 8,619     | 6,691     | 5,424     |
| Long-term loans and<br>financing  | 14,794   | 30,232   | 6,962     | 3,321     | 3,573     |
| Share capital   | 3,577  | 7,309  | 3,731     | 3,731     | 3,731     |
| Total equity  | 5,538  | 11,317   | 10,589    | 11,337    | 9,906     |

|   |       |        |        |        |       |
|---|-------|--------|--------|--------|-------|
| Shareholders' equity attributable to controlling shareholders     | 5,538 | 11,317 | 10,589 | 11,337 | 9,905 |
| Shareholders' equity attributable to non-controlling shareholders |       |        |        |        | 1     |

- (1) Translated for convenience only using the selling rate as reported by the Central Bank on December 31, 2012 for *reais* into U.S. dollars of R\$2.0435=US\$1.00.
- (2) As required by IAS 33, we have adjusted retrospectively the calculation of basic and diluted earnings per share taking into consideration the shareholding structure resulting from the corporate reorganization. In addition, under the Brazilian Corporation Law, preferred shareholders are not obligated to absorb losses, and such losses are exclusively attributed to common shareholders.

**Exchange Rates**

The Brazilian foreign exchange system allows the purchase and sale of foreign currency and the international transfer of *reais* by any person or legal entity, regardless of the amount, subject to certain regulatory procedures.

Since 1999, the Central Bank has allowed the U.S. dollar-*real* exchange rate to float freely, and, since then, the U.S. dollar-*real* exchange rate has fluctuated considerably.



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In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to permit the *real* to float freely or will intervene in the exchange rate market through the return of a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar and/or the euro substantially. Furthermore, Brazilian law provides that, whenever there is a significant imbalance in Brazil's balance of payments or there are serious reasons to foresee a significant imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. We cannot assure you that such measures will not be taken by the Brazilian government in the future. See Risk Factors Risks Relating to Brazil Restrictions on the movement of capital out of Brazil may impair our ability to service certain debt obligations.

The following table shows the commercial selling rate or selling rate, as applicable, for U.S. dollars for the periods and dates indicated. The information in the Average column represents the average of the exchange rates on the last day of each month during the periods presented.

| Year | Reais per U.S. Dollar |       |         | Period |
|------|-----------------------|-------|---------|--------|
|      | High                  | Low   | Average | End    |
| 2008 | 2.500                 | 1.559 | 1.834   | 2.337  |
| 2009 | 2.422                 | 1.702 | 1.994   | 1.741  |
| 2010 | 1.881                 | 1.655 | 1.759   | 1.666  |
| 2011 | 1.902                 | 1.535 | 1.671   | 1.876  |
| 2012 | 2.112                 | 1.702 | 1.959   | 2.044  |

| Month         | Reais per U.S. Dollar |           |
|---------------|-----------------------|-----------|
|               | High                  | Low       |
| October 2012  | R\$ 2.038             | R\$ 2.022 |
| November 2012 | 2.107                 | 2.031     |
| December 2012 | 2.112                 | 2.044     |
| January 2013  | 2.047                 | 1.988     |
| February 2013 | 1.989                 | 1.957     |
| March 2013    | 2.019                 | 1.953     |
| April 2013(1) | 2.024                 | 1.974     |

(1) Through April 25, 2013.

Source: Central Bank

**Risk Factors**

*You should consider the following risks as well as the other information set forth in this annual report when evaluating an investment in our company. In general, investing in the securities of issuers in emerging market countries, such as Brazil, involves a higher degree of risk than investing in the securities of issuers in the United States. Additional risks and uncertainties not currently known to us, or those that we currently deem to be immaterial, may also materially and adversely affect our business, results of operations, financial condition and prospects. Any of the following risks could materially affect us. In such case, you may lose all or part of your original investment.*

***Risks Relating to the Brazilian Telecommunications Industry and Our Company***

*Our fixed-line telecommunication services face increased competition from mobile services providers, other fixed-line service providers and cable television service providers, which may adversely affect our revenues and margins.*

Our fixed-line telecommunication services in Region I (which consists of 16 Brazil states located in the northeastern and part of the northern and southeastern regions) and Region II (which consists of the Federal District and nine Brazilian states located in the western, central and southern regions) face increasing competition from mobile services as the prices for mobile services decline and approach those of fixed-line services. Based on information available from ANATEL, from December 31, 2009 to May 31, 2012 (the latest date for which such information is available from ANATEL), the number of fixed lines in service in Brazil increased from

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41.5 million to 43.7 million. We expect (1) the number of fixed lines in service in Regions I and II to experience slow growth, as certain customers eliminate their fixed-line services in favor of mobile services, and (2) the use of existing fixed lines for making voice calls to decline as customers substitute calls on mobile phones in place of fixed-line calls as a result of promotional mobile rates (such as free calls within a mobile provider's network). The rate at which the number of fixed lines in service in Brazil may decline depends on many factors beyond our control, such as economic, social, technological and other developments in Brazil. In addition, new fixed lines that we install are expected to be less profitable than existing ones because new fixed-line customers generally have lower average incomes than our existing customers, subscribe to our lower cost service plans and generate fewer chargeable minutes of usage. For the year ended December 31, 2012, our traditional local fixed-line telecommunication services represented 31.4% of our gross operating revenue. Because we derive a significant portion of our net operating revenue from our traditional local fixed-line telecommunication services, the reduction in the number of our fixed-lines in service has negatively affected and is likely to continue to negatively affect our net operating revenue and margins.

We also compete in the market for local fixed-line services with other fixed-line service providers, primarily with Empresa Brasileira de Telecomunicações – Embratel, or Embratel, and GVT S.A., or GVT. In addition to direct competition for corporate customers in Region I, Embratel competes with us for residential customers in Regions I and II with services that it provides using the cable infrastructure of its subsidiary, Net Serviços de Comunicação S.A., or Net. Net is a cable television company that is our main competitor in the broadband services market. Embratel is a subsidiary of América Móvil S.A.B. de C.V., or América Móvil, one of the leading telecommunication service providers in Latin America. Under an agreement entered into between Embratel and Net in November 2005, Net offers integrated voice, broadband and pay television services to the Brazilian residential market through a single network infrastructure. In addition, we compete in each of these service regions with smaller companies that have been authorized by ANATEL to provide local fixed-line services. Embratel, GVT and Net are each controlled by multinational companies that may have more significant financial and marketing resources, and greater abilities to access capital on a timely basis and on more favorable terms, than our company.

Our loss of a significant number of fixed-line customers would adversely affect our net operating revenue and may adversely affect our results of operations. In addition, because callers in Brazil placing long-distance calls from their fixed-line telephones generally tend to select the long-distance carrier affiliated with the provider of their fixed-line service, our loss of a significant number of fixed-line customers may adversely affect our revenues from long-distance services and our results of operations. For a detailed description of our competition in the local fixed-line services market, see Item 4. Information on the Company Competition Local Fixed-Line Services.

*Our mobile services face strong competition from other mobile services providers, which may adversely affect our revenues.*

The mobile services market in Brazil is extremely competitive. We face competition from large competitors such as TIM Participações S.A., or TIM, Telefônica Brasil S.A., or Telefônica, which markets its mobile services under the brand name Vivo, and Claro S.A., or Claro. As of December 31, 2012, based on information regarding the total number of subscribers as of that date available from ANATEL we had a market share of 18.8% of the total number of subscribers in Brazil, ranking behind Telefônica with 29.1%, TIM with 26.9% and Claro with 24.9%, and we captured 19.0% of all net additions of mobile subscribers in Brazil (calculated based on the number of mobile subscribers at the end of a period less the number of mobile subscribers at the beginning of that period) during 2012. Telefônica, TIM and Claro are each controlled by multinational companies that may have more significant financial and marketing resources, and greater abilities to access capital on a timely basis and on more favorable terms, than our company.

Our ability to generate revenues from our mobile services business depends on our ability to increase and retain our customer base. Each additional customer subscribing to our service entails costs, including sales commissions and

marketing costs. Recovering these costs depends on our ability to retain such customers. Therefore, high rates of customer churn could have a material adverse effect on the profitability of our mobile services business. During 2012, our average customer churn rate in the mobile services segment, representing the number of subscribers whose service was disconnected during each month, whether voluntarily or involuntarily, divided by the number of subscribers at the beginning of such month, was 3.8% per month.

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We have experienced increased pressure to reduce our rates in response to pricing competition. This pricing competition often takes the form of special promotional packages, which may include, among other things, mobile handset subsidies, traffic usage promotions and incentives for calls made within a mobile services provider's own network. Competing with the service plans and promotions offered by our competitors may cause an increase in our marketing expenses and customer-acquisition costs, which has adversely affected and could continue to adversely affect our results of operations. Our inability to compete effectively with these packages could result in our loss of market share and adversely affect our net operating revenue and profitability. For a detailed description of our competition in the mobile services market, see Item 4. Information on the Company Competition Mobile Services.

*Our long-distance services face significant competition, which may adversely affect our revenues.*

In Brazil, unlike in the United States and elsewhere, a caller chooses its preferred long-distance carrier for each long-distance call, whether originated from a fixed-line telephone or a mobile handset, by dialing such carrier's long-distance carrier selection code (*Código de Seleção de Prestadora*). The long-distance services market in Brazil is highly competitive. Our principal competitors for long-distance services are TIM and Embratel, which are currently offering long-distance services throughout Brazil at rates that are charged on a per call, rather than per minute, basis. As a result of our commencement of mobile services in Region III, we have also begun to compete with Telefônica, which is the incumbent fixed-line service provider in Region III. Generally, we believe that callers placing long-distance calls in Brazil from their fixed-line telephones tend to select the long-distance carrier affiliated with the provider of their fixed-line service. Similarly, we believe that callers placing long-distance calls in Brazil from their mobile handsets tend to select the long-distance carrier affiliated with the provider of their mobile or fixed-line service. However, increased competition from long-distance service providers has resulted in pressure on our long-distance rates and adversely affected our revenue from these services. Competition in the long-distance market may require us to increase our marketing expenses and/or provide services at lower rates than those we currently expect to charge for such services. Competition in the domestic long-distance market has had and could continue to have a material adverse effect on our revenues and margins. See Item 4. Information on the Company Competition Long-Distance Services.

*Data transmission services are not subject to significant regulatory restrictions and, as a result, we face an increasing amount of competition in this business.*

Competition in data transmission services is not subject to significant regulatory restrictions and, therefore, the market is open to a large number of competitors. Some competitors, such as cable operators, offer telephone and broadband services, which do not require them to use our fixed-line network, thereby allowing them to reach our customers without paying interconnection fees to our company. Increasing competition in data transmission services may lead to rate reductions in this segment, adversely affecting the net operating revenue that we generate from this business. Additionally, increased competition for data transmission customers may require us to increase our marketing expenses and our capital expenditures and may lead to the loss of broadband customers, in each case leading to a decrease in our profitability. For a detailed description of our competition in the data transmission services market, see Item 4. Information on the Company Competition Data Transmission Services.

*The telecommunications industry is subject to frequent changes in technology. Our ability to remain competitive depends on our ability to implement new technology, and it is difficult to predict how new technology will affect our business.*

Companies in the telecommunications industry must adapt to rapid and significant technological changes that are usually difficult to anticipate. The mobile telecommunications industry in particular has experienced rapid and significant technological development and frequent improvements in capacity, quality and data-transmission speed.

Technological changes may render our equipment, services and technology obsolete or inefficient, which may adversely affect our competitiveness or require us to increase our capital expenditures in order to maintain our competitive position. For example, we have made significant investments in the last three years in connection with the implementation of our Universal Mobile Telecommunications System services, which we refer to as 3G services. While we have been upgrading our fixed-line networks with technologically advanced fiber optic cable with a microwave overlay for use in our long-distance services, it is possible that alternative technologies may be developed that are more advanced than those we currently provide. Even if we adopt new technologies in a timely manner as they are developed, the cost of such technology may exceed the benefit to us, and we cannot assure you that we will be able to maintain our level of competitiveness.

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*Our industry is highly regulated. Changes in laws and regulations may adversely impact our business.*

Our industry is highly regulated by ANATEL. ANATEL regulates, among other things, rates, quality of service and universal service goals, as well as competition among telecommunication service providers. Changes in laws and regulations, grants of new concessions, authorizations or licenses or the imposition of additional universal service obligations, among other factors, may adversely affect our business, financial condition and results of operations.

For example, ANATEL has proposed new regulations under which it would modify the Factor X applicable to the determination of rate increases available to public concessionaires providing fixed-line services. These regulations were submitted for public consultation in July 2011 and the public consultation period ended on September 1, 2011. We expect these new regulations, as they may be modified as a result of ANATEL's further analysis, to be adopted in 2013. We cannot predict when these regulations will be adopted or whether they will be adopted as proposed. Some of these regulations, if adopted, may have adverse effects on our revenues, costs and expenses, results of operations or financial position.

We cannot predict whether ANATEL, the Brazilian Ministry of Communications (*Ministério das Comunicações*) or the Brazilian government will adopt other telecommunications sector policies in the future or the consequences of such policies on our business and the business of our competitors.

*Our local fixed-line and domestic long-distance concession agreements are subject to periodic modifications by ANATEL and expire on December 31, 2025. Our bids for new concessions upon the expiration of our existing concessions may not be successful.*

We provide fixed-line telecommunication services in Regions I and II pursuant to concession agreements with the Brazilian government. Our concession agreements expire on December 31, 2025, and may be amended by the parties every five years prior to the expiration date. In connection with each five year amendment, ANATEL has the right, following public consultations, to impose new terms and conditions in response to changes in technology, competition in the marketplace and domestic and international economic conditions.

Our obligations under the concession agreements may be subject to revision in connection with each future amendment. We cannot assure you that any future amendments will not impose requirements on our company that will require us to undertake significant capital expenditures or will not modify the rate-setting procedures applicable to us in a manner that will significantly reduce the net operating revenue that we generate from our fixed-line businesses. If the amendments to our concession agreements have these effects, our business, financial condition and results of operations could be materially adversely affected.

Our concession agreements will expire on December 31, 2025. We expect the Brazilian government to offer new concessions in competitive auctions prior to the expiration of our existing concession agreements. We may participate in such auctions, but our existing fixed-line and domestic long-distance concession agreements will not entitle us to preferential treatment in these auctions. If we do not secure concessions for our existing service areas in any future auctions, or if such concessions are on less favorable terms than our current concessions, our business, financial condition and results of operations would be materially adversely affected.

*Our local fixed-line and domestic long-distance concession agreements, as well as our authorizations to provide personal mobile services, contain certain obligations, and our failure to comply with these obligations may result in various fines and penalties imposed on us by ANATEL.*

Our local fixed-line and domestic long-distance concession agreements contain terms reflecting the General Plan on Universal Service (*Plano Geral de Metas de Universalização*), the General Plan on Quality Goals (*Plano Geral de Metas de Qualidade*) and other regulations adopted by ANATEL, the terms of which could affect our financial condition and results of operations. Our local fixed-line concession agreements also require us to meet



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certain network expansion, quality of service and modernization obligations in each of the states in Regions I and II. In the event of noncompliance with ANATEL targets in any one of these states, ANATEL can establish a deadline for achieving the targeted level of such service, impose penalties and, in extreme situations, terminate the applicable concession agreement for noncompliance with its quality and universal service obligations. See Item 4. Information on the Company Regulation of the Brazilian Telecommunications Industry Regulation of Fixed-Line Services.

On an almost weekly basis, we receive inquiries from ANATEL requiring information from us on our compliance with the various service obligations imposed on us by our concession agreements. If we are unable to respond satisfactorily to those inquiries or comply with our service obligations under our concession agreements, ANATEL may commence administrative proceedings in connection with such noncompliance. We have received numerous notices of the commencement of administrative proceedings from ANATEL, mostly due to our inability to achieve certain targets established in the General Plan on Quality Goals and the General Plan on Universal Service, among others. As of December 31, 2012, we had recorded provisions in the amount of R\$987 million in connection with fines sought to be imposed by ANATEL. Additional fines from ANATEL or fines in excess of the provisioned amount could adversely impact our financial condition and results of operations. See Item 4. Information on the Company Regulation of the Brazilian Telecommunications Industry and Item 8. Financial Information Legal Proceedings Civil Claims Administrative Proceedings.

In addition, our authorizations to provide personal mobile services contain certain obligations requiring us to meet network scope and quality of service targets. If we fail to meet these obligations, we may be fined by ANATEL until we are in full compliance with our obligations and, in extreme circumstances, our authorizations could be revoked by ANATEL. For example, on July 23, 2012, ANATEL temporarily suspended our ability to accept new customers for our mobile services in the States of Amazonas, Amapá, Mato Grosso do Sul, Roraima and Rio Grande do Sul due to their perception of our failure to meet capital investment and quality of service commitments in those states. This suspension lasted for approximately two weeks until we were able to propose new quality of service goals to ANATEL. See Item 4. Information on the Company Regulation of the Brazilian Telecommunications Industry Regulation of Mobile Services Obligations of Personal Mobile Services Providers.

*We may be unable to implement our plans to expand and enhance our existing networks in a timely manner or without unanticipated costs, which could hinder or prevent the successful implementation of our business plan and result in revenues and net income being less than expected.*

Our ability to achieve our strategic objectives depends in large part on the successful, timely and cost-effective implementation of our plans to expand and enhance our networks. Factors that could affect this implementation include:

our ability to generate cash flow or to obtain future financing necessary to implement our projects;

delays in the delivery of telecommunications equipment by our vendors;

the failure of the telecommunications equipment supplied by our vendors to comply with the expected capabilities; and

delays resulting from the failure of third-party suppliers or contractors to meet their obligations in a timely and cost-effective manner.

Although we believe that our cost estimates and implementation schedule are reasonable, we cannot assure you that the actual costs or time required to complete the implementation of these projects will not substantially exceed our current estimates. Any significant cost overrun or delay could hinder or prevent the successful implementation of our business plan and result in revenues and net income being less than expected.

*We rely on strategic suppliers of equipment, materials and services necessary for our operations and expansion. If these suppliers fail to provide equipment, materials or services to us on a timely basis, we could experience disruptions, which could have an adverse effect on our revenues and results of operations.*

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We rely on few strategic suppliers of equipment, materials and services, including Nokia Siemens Networks Serviços Ltda., or Nokia Siemens Networks, Alcatel-Lucent Brasil S.A., or Alcatel-Lucent, Telemont Engenharia de Telecomunicações S.A., or Telemont, A.R.M. Engenharia Ltda., or A.R.M. Engenharia, and Huawei do Brasil Telecomunicações Ltda., or Huawei, to provide us with equipment, materials and services that we need in order to expand and to operate our business. There are a limited number of suppliers with the capability of providing the mobile network equipment and fixed-line network platforms that our operations and expansion plans require or the services that we require to maintain our extensive and geographically widespread networks. In addition, because the supply of mobile network equipment and fixed-line network platforms requires detailed supply planning and this equipment is technologically complex, it would be difficult for our company to replace the suppliers of this equipment. Suppliers of cables that we need to extend and maintain our networks may suffer capacity constraints or difficulties in obtaining the raw materials required to manufacture these cables. As a result, we are exposed to risks associated with these suppliers, including restrictions of production capacity for equipment and materials, availability of equipment and materials, delays in delivery of equipment, materials or services, and price increases. If these suppliers or vendors fail to provide equipment, materials or service to us on a timely basis or otherwise in compliance with the terms of our contracts with these suppliers, we could experience disruptions or declines in the quality of our services, which could have an adverse effect on our revenues and results of operations, and we might be unable to satisfy the requirements contained in our concession and authorization agreements.

*Our controlling shareholder, TmarPart, has control over us and TmarPart's interests may not be aligned with your interests.*

We are controlled by TmarPart which, as of April 25, 2013 directly and indirectly held 56.4% of our outstanding voting shares. TmarPart's shareholders are parties to four shareholders' agreements governing their equity interests in TmarPart. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders TmarPart Shareholders Agreements. TmarPart is entitled to appoint a majority of the members of our board of directors, and it has the power to determine the decisions to be taken at our shareholders' meetings on matters of our management that require the prior authorization of our shareholders, including in respect of related party transactions, corporate restructurings and the date of payment of dividends and other capital distributions. The decisions of TmarPart on these matters may be contrary to the expectations or preferences of holders of our securities, including holders of our common shares, preferred shares and ADSs.

*In order to expand our business, we may take advantage of the consolidation of the telecommunications industry through the acquisition of other telecommunications companies, which could adversely affect our business, results of operations and financial condition.*

We may acquire other companies in the telecommunications industry as part of our growth and convergence strategy. A growth strategy that involves acquisitions may present certain risks to our business, results of operations and financial condition, such as:

difficulties in capturing synergies in the integration process, causing the anticipated benefits of the acquisition to be more limited than originally expected;

costs associated with any unforeseen antitrust restrictions;

failure to identify contingencies during the due diligence process;

uncertainty in relation to regulatory approval; and

distractions from our core business to pursue these acquisitions and implement the integration of acquired businesses.

If acquisition transactions cause us to incur unforeseen costs due to the factors described above, we may have to dedicate more resources than we had originally planned and eventually face substantial losses that would adversely affect our business, results of operations and financial condition.

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Even if we identify suitable acquisition targets, we may be unable to complete acquisitions or obtain necessary financing to do so on satisfactory terms. Paying for acquisitions could require us to incur or assume debt and/or contingent liabilities, amortize certain identifiable intangible assets and incur acquisition-related expenses. In addition, we may be unable to realize all or any of the anticipated benefits from acquisitions or expansion in other related businesses because of operational factors or difficulties in integrating the acquisitions or such other related businesses with our existing businesses, including disparate information technology systems, database systems and business processes.

*We have a substantial amount of existing debt, which could restrict our financing and operating flexibility and have other adverse consequences.*

As of December 31, 2012, we had total debt of R\$33,346 million and a ratio of debt to equity of 2:1. We are subject to certain financial covenants that limit our ability to incur additional debt. Our existing level of indebtedness and the requirements and limitations imposed by our debt instruments could adversely affect our financial condition or results of operations. In particular, the terms of some of these debt instruments restrict our ability, and the ability of our subsidiaries, to:

incur additional debt;

grant liens;

pledge assets;

sell or dispose of assets; and

make certain acquisitions, mergers and consolidations.

Furthermore, some of our debt instruments include financial covenants that require us to maintain certain specified financial ratios. Additionally, the instruments governing a substantial portion of our indebtedness contain cross-default or cross-acceleration clauses and the occurrence of an event of default under one of these instruments could trigger an event of default under other indebtedness or enable the creditors under other indebtedness to accelerate that indebtedness.

If we are unable to incur additional debt, we may be unable to invest in our business and make necessary or advisable capital expenditures, which could reduce future net operating revenue and adversely affect our profitability. In addition, cash required to serve our existing indebtedness reduces the amount available to us to make capital expenditures.

If our growth in net operating revenue slows or declines in a significant manner, for any reason, we may not be able to continue servicing our debt. If we are unable to meet our debt service obligations or comply with our debt covenants, we could be forced to renegotiate or refinance our indebtedness, seek additional equity capital or sell assets. We may be unable to obtain financing or sell assets on satisfactory terms, or at all. For more information regarding the debt instruments of our company and our indebtedness as of December 31, 2012, see Item 5. Operating and Financial

Review and Prospects Liquidity and Capital Resources.

*We are subject to numerous legal and administrative proceedings, which could adversely affect our business, results of operations and financial condition.*

We are subject to numerous legal and administrative proceedings. It is difficult to quantify the potential impact of these legal and administrative proceedings. We classify our risk of loss from legal and administrative proceedings as probable, possible or remote. We make provisions for probable losses but do not make provisions for possible and remote losses. As of December 31, 2012, we had provisioned R\$6,421 million for probable losses relating to various tax, labor and civil legal and administrative proceedings against us. As of December 31, 2012, we had claims against us of R\$765 million in tax proceedings, R\$1,579 million in labor proceedings and R\$4,076 million in civil proceedings with a risk of loss classified as possible for which we had made no provisions.

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If we are subject to unfavorable decisions in any legal or administrative proceedings and the losses in those proceedings significantly exceed the amount for which we have provisioned or involve proceedings for which we have made no provision, our results of operations and financial condition may be materially adversely affected. For a more detailed description of these proceedings, see Item 8. Financial Information Legal Proceedings.

*We are subject to potential liabilities relating to our third-party service providers, which could have a material adverse effect on our business, financial condition and results of operations.*

We are subject to potential liabilities relating to our third-party service providers. Such potential liabilities may involve claims by employees of third-party service providers directly against us as if we were the direct employer of such employees, as well as claims against us for secondary liability for, among other things, occupational hazards, wage parity or overtime pay, in the event that such third-party service providers fail to meet their obligations to their employees. We have not recorded any provisions for such claims, and significant judgments against us could have a material adverse effect on our business, financial condition and results of operations.

*We are subject to delinquencies of our accounts receivables. If we are unable to limit payment delinquencies by our customers, or if delinquent payments by our customers increase, our financial condition and results of operations could be adversely affected.*

Our business significantly depends on our customers' ability to pay their bills and comply with their obligations to us. During 2012, we recorded provisions for doubtful accounts in the amount of R\$503 million, or 2.6% of our gross operating revenue, primarily due to subscribers' delinquencies. As of December 31, 2012, our provision for doubtful accounts was R\$751 million.

ANATEL regulations prevent us from implementing certain policies that could have the effect of reducing delinquency, such as service restrictions or limitations on the types of services provided based on a subscriber's credit record. If we are unable to successfully implement policies to limit subscriber delinquencies or otherwise select our customers based on their credit records, persistent subscriber delinquencies and bad debt will continue to adversely affect our operating and financial results.

In addition, if the Brazilian economy declines due to, among other factors, a reduction in the level of economic activity, depreciation of the *real*, an increase in inflation or an increase in domestic interest rates, a greater portion of our customers may not be able to pay their bills on a timely basis, which would increase our provision for doubtful accounts and adversely affect our financial condition and results of operations.

*Our operations depend on our ability to maintain, upgrade and operate efficiently our accounting, billing, customer service, information technology and management information systems and to rely on the systems of other carriers under co-billing agreements.*

Sophisticated information and processing systems are vital to our growth and our ability to monitor costs, render monthly invoices for services, process customer orders, provide customer service and achieve operating efficiencies. We cannot assure you that we will be able to operate successfully and upgrade our accounting, information and processing systems or that these systems will continue to perform as expected. We have entered into co-billing agreements with each long-distance telecommunication service provider that is interconnected to our networks to include in our invoices the long-distance services rendered by these providers, and they have agreed to include charges owed to us in their invoices. Any failure in our accounting, information and processing systems, or any problems with the execution of invoicing and collection services by other carriers with whom we have co-billing agreements, could impair our ability to collect payments from customers and respond satisfactorily to customer needs, which could

adversely affect our business, financial condition and results of operations.

*Improper use of our network could adversely affect our costs and results of operations.*

We incur costs associated with the unauthorized and fraudulent use of our networks, including administrative and capital costs associated with detecting, monitoring and reducing the incidence of fraud. Fraud also affects interconnection costs and payments to other carriers for non-billable fraudulent roaming. Improper use of our



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network could also increase our selling expenses if we need to increase our provision for doubtful accounts to reflect amounts we do not believe we can collect for improperly made calls. Any increase in the improper use of our network in the future could materially adversely affect our costs and results of operations.

*Our operations are dependent upon our networks. A system failure could cause delays or interruptions of service, which could cause us to suffer losses.*

Damage to our networks and backup mechanisms may result in service delays or interruptions and limit our ability to provide customers with reliable service over our networks. Some of the risks to our networks and infrastructure include (1) physical damage to access lines; (2) power surges or outages; (3) software defects; (4) disruptions beyond our control; (5) breaches of security; and (6) natural disasters. The occurrence of any such event could cause interruptions in service or reduce capacity for customers, either of which could reduce our gross operating revenue or cause us to incur additional expenses. In addition, the occurrence of any such event may subject us to penalties and other sanctions imposed by ANATEL and may adversely affect our business and results of operations.

*The mobile telecommunications industry and participants in this industry, including us, may be harmed by reports suggesting that radio frequency emissions cause health problems and interfere with medical devices.*

Media and other entities frequently suggest that the electromagnetic emissions from mobile handsets and base stations may cause health problems. If consumers harbor health-related concerns, they may be discouraged from using mobile handsets. These concerns could have an adverse effect on the mobile telecommunications industry and, possibly, expose mobile services providers to litigation. We cannot assure you that further medical research and studies will refute a link between the electromagnetic emissions of mobile handsets and base stations, including on frequency ranges we use to provide mobile services, and these health concerns. Government authorities could increase regulation on electromagnetic emissions of mobile handsets and base stations, which could have an adverse effect on our business, financial condition and results of operations. The expansion of our network may be affected by these perceived risks if we experience problems in finding new sites, which in turn may delay the expansion and may affect the quality of our services. In July 2002, ANATEL enacted regulations that limit emission and exposure for fields with frequencies between 9 kHz and 300 GHz. Although these regulations did not have a material impact on our business, new laws or regulations regarding electromagnetic emissions and exposure may be adopted that could have an adverse effect on our business.

***Risks Relating to Brazil***

*The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. This involvement, as well as Brazilian political and economic conditions, could adversely impact our business, results of operations and financial condition.*

All of our operations and customers are located in Brazil, except for minor operations and the customers of these operations provided outside of Brazil. Accordingly, our financial condition and results of operations are substantially dependent on Brazil's economy. The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes significant changes in policy and regulations. The Brazilian government's actions to control inflation and implement macroeconomic policies have often involved increases in interest rates, wage and price controls, currency devaluations, blocking access to bank accounts, imposing capital controls and limits on imports, among other things. We do not have any control over, and are unable to predict, which measures or policies the Brazilian government may adopt in the future. Our business, results of operations and financial condition may be adversely affected by changes in policies or regulations, or by other factors such as:

political instability;

devaluations and other currency fluctuations;

inflation;

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price instability;

interest rates;

liquidity of domestic capital and lending markets;

energy shortages;

exchange controls;

changes to the regulatory framework governing our industry;

monetary policy;

tax policy; and

other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether possible changes in policies or rules affecting these or other factors may contribute to economic uncertainties in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad by Brazilian issuers. The President of Brazil has considerable power to determine governmental policies and actions that relate to the Brazilian economy and, consequently, affect the operations and financial performance of businesses such as our company. Although we do not believe that Ms. Rousseff will significantly alter current governmental policies, we can offer no assurances that the policies that may be implemented by the Brazilian federal or state governments will not adversely affect our business, results of operations and financial condition.

*Instability in the international financial system may adversely affect economic growth in Brazil or limit our access to the financial markets and, therefore, negatively impact our business and financial condition.*

Global economic instability and related instability in the international financial system have had, and may continue to have, a negative effect on economic growth in Brazil. The global economy has shown signs of recovery, however, such recovery depends on a number of factors, including a return of job growth and investments in the private sector as well as the timing of the exit from government credit easing policies by central banks globally. Continued or worsening volatility in the global financial markets could reduce the availability of liquidity and credit to fund the continuation and expansion of industrial business operations worldwide. A prolonged slowdown in economic activity in Brazil could reduce demand for some of our services, which would adversely affect our results of operations.

As a result of instability in the international financial system, our ability to access the capital markets or the commercial bank lending markets may be severely restricted at a time when we would like, or need, to access such markets, which could have an impact on our flexibility to react to changing economic and business conditions. The instability in the international financial system or a prolonged slowdown in economic activity in Brazil could have an

impact on the lenders under our existing credit facilities, on our customers or on the ability of our suppliers to meet scheduled deliveries, causing them to fail to meet their obligations to us. If the instability in the international financial system continues, it could have an adverse effect on the demand for our services and our ability to fund our planned growth.

*Depreciation of the real may lead to substantial losses on our liabilities denominated in or indexed to foreign currencies.*

During the four decades prior to 1999, the Central Bank periodically devalued the Brazilian currency. Throughout this period, the Brazilian government implemented various economic plans and used various exchange rate policies, including sudden devaluations (such as daily and monthly adjustments), exchange controls, dual exchange rate markets and a floating exchange rate system. Since 1999, exchange rates have been set by the market. The exchange rate between the *real* and the U.S. dollar has varied significantly in recent years. For example, the

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*real*/U.S. dollar exchange rate increased from R\$1.9554 per U.S. dollar on December 31, 2000 to R\$3.5333 on December 31, 2002. In 2008, primarily as a result of the international financial crisis, the *real* depreciated by 31.9% against the U.S. dollar and prompted foreign investors to remove billions of *reais* from the Brazilian Securities, Commodities and Futures Exchange (*BM&FBOVESPA S.A. - Bolsa de Valores Mercadorias e Futuros*), which we refer to as the *BM&FBOVESPA*. The *real* appreciated against the U.S. dollar by 25.5% during 2009 and by 4.3% during 2010. The *real* depreciated by 12.6% against the U.S. dollar during 2011 and by 8.9% during 2012.

A significant amount of our financial liabilities are denominated in or indexed to foreign currencies, primarily U.S. dollars and euros. As of December 31, 2012, R\$13,277 million of our financial indebtedness was denominated in a foreign currency. When the *real* depreciates against foreign currencies, we incur losses on our liabilities denominated in or indexed to foreign currencies, such as our U.S. dollar-denominated long-term debt and foreign currency loans, and we incur gains on our monetary assets denominated in or indexed to foreign currencies, as the liabilities and assets are translated into *reais*. If significant depreciation of the *real* were to occur when the value of such liabilities significantly exceeds the value of such assets, including any financial instruments entered into for hedging purposes, we could incur significant losses, even if the value of those assets and liabilities has not changed in their original currency. In addition, a significant depreciation in the *real* could adversely affect our ability to meet certain of our payment obligations. A failure to meet certain of our payment obligations could trigger a default under certain financial covenants in our debt instruments, which could have a material adverse effect on our business and results of operations. Additionally, we currently have currency swaps and non-deliverable forwards in place for most of our foreign currency debt. If the cost of currency swap instruments increases substantially, we may be unable to maintain our hedge positions, resulting in an increased foreign currency exposure which could in turn lead to substantial foreign exchange losses.

In addition, a portion of our capital expenditures require us to acquire assets at prices denominated in or linked to foreign currencies, some of which are financed by liabilities denominated in foreign currencies, principally the U.S. dollar. We generally do not hedge against risks related to movements of the *real* against foreign currencies. To the extent that the value of the *real* decreases relative to the U.S. dollar, it becomes more costly for us to purchase these assets, which could adversely affect our business and financial performance.

Depreciation of the *real* relative to the U.S. dollar could create additional inflationary pressures in Brazil by increasing the price of imported products and requiring recessionary government policies, including tighter monetary policy. On the other hand, appreciation of the *real* against the U.S. dollar may lead to a deterioration of the country's current account and balance of payments, as well as to a dampening of export-driven growth.

*If Brazil experiences substantial inflation in the future, our margins and our ability to access foreign financial markets may be reduced. Government measures to curb inflation may have adverse effects on the Brazilian economy, the Brazilian securities market and our business and results of operations.*

Brazil has, in the past, experienced extremely high rates of inflation, with annual rates of inflation reaching as high as 2,708% in 1993 and 1,093% in 1994. Inflation and some of the Brazilian government's measures taken in an attempt to curb inflation have had significant negative effects on the Brazilian economy.

Since the introduction of the *real* in 1994, Brazil's inflation rate has been substantially lower than in previous periods. However, actions taken in an effort to control inflation, coupled with speculation about possible future governmental actions, have contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market. More recently, Brazil's rates of inflation, as measured by the General Market Price Index – Internal Availability (*Índice Geral de Preços – Disponibilidade Interna*), or IGP-DI, published by Fundação Getúlio Vargas, or FGV, were 9.1% in 2008, (1.4)% in 2009, 11.3% in 2010, 5.0% in 2011 and 8.1% in 2012. According to the Broad Consumer

Price Index (*Índice Nacional de Preços ao Consumidor Ampliado*), or IPCA, published by the Brazilian Institute for Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or IBGE, the Brazilian consumer price inflation rates were 5.9% in 2008, 4.3% in 2009, 5.9% in 2010, 6.5% in 2011 and 5.8% in 2012.

If Brazil experiences substantial inflation in the future, our costs may increase and our operating and net margins may decrease. Although ANATEL regulations provide for annual price increases for most of our services, such increases are linked to inflation indices, discounted by increases in our productivity. During periods of rapid

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increases in inflation, the price increases for our services may not be sufficient to cover our additional costs and we may be adversely affected by the lag in time between the incurrence of increased costs and the receipt of revenues resulting from the annual price increases. Inflationary pressures may also curtail our ability to access foreign financial markets and may lead to further government intervention in the economy, including the introduction of government policies that may adversely affect the overall performance of the Brazilian economy.

*Fluctuations in interest rates could increase the cost of servicing our debt and negatively affect our overall financial performance.*

Our financial expenses are affected by changes in the interest rates that apply to our floating rate debt. As of December 31, 2012, we had, among other debt obligations, R\$5,538 million of loans and financing and debentures that were subject to the *Taxa de Juros de Longo Prazo*, or TJLP, a long-term interest rate, R\$9,139 million of loans and financing and debentures that were subject to the Interbank Certificate of Deposit (*Certificado de Depósito Interbancário*), or CDI, rate, an interbank rate, R\$3,794 million of loans and financing that were subject to the London Interbank Offered Rate, or LIBOR, and R\$3,377 million of loans and financing that were subject to the IPCA.

The TJLP includes an inflation factor and is determined quarterly by the National Monetary Council (*Conselho Monetário Nacional*). In particular, the TJLP and the CDI rate have fluctuated significantly in the past in response to the expansion or contraction of the Brazilian economy, inflation, Brazilian government policies and other factors. For example, the CDI increased from 8.55% per annum as of December 31, 2009 to 10.64% per annum as of December 31, 2010 and 10.87% per annum as of December 31, 2011 and decreased to 6.90% per annum as of December 31, 2012. A significant increase in any of these interest rates, particularly the CDI rate, could adversely affect our financial expenses and negatively affect our overall financial performance.

*The market value of securities issued by Brazilian companies is influenced by the perception of risk in Brazil and other countries, which may have a negative effect on the trading price of our common shares, preferred shares and ADSs and may restrict our access to international capital markets.*

Economic and market conditions in other countries, including the United States, the European Union and emerging market countries, may affect to varying degrees the market value of securities of Brazilian issuers. Although economic conditions in these countries may differ significantly from economic conditions in Brazil, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers, the availability of credit in Brazil and the amount of foreign investment in Brazil. Crises in the European Union, the United States and emerging market countries may diminish investor interest in securities of Brazilian issuers, including our company. This could materially and adversely affect the market price of our securities, and could also make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all.

*Restrictions on the movement of capital out of Brazil may impair our ability to service certain debt obligations.*

Brazilian law provides that whenever there exists, or there is a serious risk of, a material imbalance in Brazil's balance of payments, the Brazilian government may impose restrictions for a limited period of time on the remittance to foreign investors of the proceeds of their investments in Brazil as well as on the conversion of the *real* into foreign currencies. The Brazilian government imposed such a restriction on remittances for approximately six months in 1989 and early 1990. The Brazilian government may in the future restrict companies from paying amounts denominated in foreign currency or require that any such payment be made in *reais*. Many factors could affect the likelihood of the Brazilian government imposing such exchange control restrictions, including the extent of Brazil's foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the size of Brazil's debt service

burden relative to the economy as a whole, and political constraints to which Brazil may be subject. There can be no certainty that the Brazilian government will not take such measures in the future.

A more restrictive policy could increase the cost of servicing, and thereby reduce our ability to pay, our foreign currency-denominated debt obligations and other liabilities. As of December 31, 2012, our foreign-currency denominated debt represented 39.1% of our indebtedness. If we fail to make payments under any of these obligations, we will be in default under those obligations, which could reduce our liquidity as well as the market price of our common shares, preferred shares and ADSs.



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In addition, a more restrictive policy could hinder or prevent the Brazilian custodian of the common shares and preferred shares underlying our ADSs or holders who have exchanged our ADSs for the underlying common shares or preferred shares from converting dividends, distributions or the proceeds from any sale of such shares into U.S. dollars and remitting such U.S. dollars abroad. In such an event, the Brazilian custodian for our common shares and preferred shares will hold the *reais* that it cannot convert for the account of holders of our ADSs who have not been paid. Neither the custodian nor The Bank of New York Mellon, as depositary of our ADS programs, or the depositary, will be required to invest the *reais* or be liable for any interest.

***Risks Relating to Our Common Shares, Preferred Shares and ADSs***

*Holders of our common shares, preferred shares or ADSs may not receive any dividends or interest on shareholders equity.*

According to our by-laws, we must generally pay our shareholders at least 25% of our annual net income as dividends or interest on shareholders' equity, as calculated and adjusted under Brazilian GAAP. This adjusted net income may be capitalized, used to absorb losses or otherwise retained as allowed under Brazilian GAAP and may not be available to be paid as dividends or interest on shareholders' equity. Holders of our common shares or Common ADSs, may not receive any dividends or interest on shareholders' equity in any given year due to the dividend preference of our preferred shares. Additionally, the Brazilian Corporation Law allows a publicly traded company like ours to suspend the mandatory distribution of dividends in any particular year if our board of directors informs our shareholders that such distributions would be inadvisable in view of our financial condition or cash availability. Holders of our preferred shares or Preferred ADSs may not receive any dividends or interest on shareholders' equity in any given year if our board of directors makes such a determination or if our operations fail to generate net income.

*Our preferred shares and Preferred ADSs have limited voting rights and are not entitled to vote to approve corporate transactions, including mergers or consolidations of our company with other companies, or the declaration of dividends.*

Under the Brazilian Corporation Law and our by-laws, holders of our preferred shares and, consequently, our Preferred ADSs, are not entitled to vote at meetings of our shareholders, except in very limited circumstances. These limited circumstances directly relate to key rights of the holders of preferred shares, such as modifying basic terms of our preferred shares or creating a new class of preferred shares with superior rights. Holders of preferred shares without voting rights are entitled to elect one member and his or her respective alternate to our board of directors and our fiscal council. Holders of our preferred shares and Preferred ADSs are not entitled to vote to approve corporate transactions, including mergers or consolidations of our company with other companies, or the declaration of dividends. See Item 10. Additional Information Description of Our Company's By-laws Voting Rights.

*Holders of our ADSs may find it difficult to exercise their voting rights at our shareholders' meetings.*

Under Brazilian law, only shareholders registered as such in our corporate books may attend our shareholders meetings. All common shares and preferred shares underlying our ADSs are registered in the name of the depositary. ADS holders may exercise the voting rights with respect to our common shares and the limited voting rights with respect to our preferred shares represented by our ADSs only in accordance with the deposit agreements relating to our ADSs. There are practical limitations upon the ability of the 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' meetings in certain newspapers in Brazil. To the extent that holders of our common shares or preferred shares are entitled to vote at a shareholders' meeting, they will be able to exercise their voting rights by attending the meeting in person or voting by proxy. By contrast, holders of the ADSs may receive notice of a shareholders' meeting

by mail from the depositary if notify the depositary of the shareholders meeting and request the depositary to inform ADS holders of the shareholders meeting. To exercise their voting rights, ADS holders must instruct the depositary on a timely basis. This noticed voting process will take longer for ADS holders than for holders of our common shares or preferred shares. If the depositary fails to receive timely voting instructions for all or part of our ADSs, the depositary will assume that the holders of those ADSs are instructing it to give a discretionary proxy to a person designated by us to vote their ADSs, except in limited circumstances.

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In the circumstances in which holders of our ADSs have voting rights, they may not receive the voting materials in time to instruct the depository to vote our common shares or preferred shares underlying their ADSs. In addition, the depository and its agents are not responsible for failing to carry out voting instructions of the holders of our ADSs or for the manner of carrying out those voting instructions. Accordingly, holders of our ADSs may not be able to exercise voting rights, and they will have no recourse if the common shares or preferred shares underlying their ADSs are not voted as requested.

*Holders of our common shares, preferred shares or ADSs in the United States may not be entitled to the same preemptive rights as Brazilian shareholders have, pursuant to Brazilian legislation, in the subscription of shares resulting from capital increases made by us.*

Under Brazilian law, if we issue new shares in exchange for cash or assets as part of a capital increase, subject to certain exceptions, we must grant our shareholders preemptive rights at the time of the subscription of shares, corresponding to their respective interest in our share capital, allowing them to maintain their existing shareholding percentage. We may not legally be permitted to allow holders of our common shares, preferred shares or ADSs in the United States to exercise any preemptive rights in any future capital increase unless (1) we file a registration statement for an offering of shares resulting from the capital increase with the U.S. Securities and Exchange Commission, or SEC, or (2) the offering of shares resulting from the capital increase qualifies for an exemption from the registration requirements of the Securities Act. At the time of any future capital increase, we will evaluate the costs and potential liabilities associated with filing a registration statement for an offering of shares with the SEC and any other factors that we consider important in determining whether to file such a registration statement. We cannot assure the holders of our common shares, preferred shares or ADSs in the United States that we will file a registration statement with the SEC to allow them to participate in any of our capital increases. As a result, the equity interest of such holders in our company may be diluted.

*If holders of our ADSs exchange them for common shares or preferred shares, they may risk temporarily losing, or being limited in, the ability to remit foreign currency abroad and certain Brazilian tax advantages.*

The Brazilian custodian for the common shares and preferred shares underlying our ADSs must obtain an electronic registration number with the Central Bank to allow the depository to remit U.S. dollars abroad. ADS holders benefit from the electronic certificate of foreign capital registration from the Central Bank obtained by the custodian for the depository, which permits it to convert dividends and other distributions with respect to the common shares or preferred shares into U.S. dollars and remit the proceeds of such conversion abroad. If holders of our ADSs decide to exchange them for the underlying common shares or preferred shares, they will only be entitled to rely on the custodian's certificate of registration with the Central Bank for five business days after the date of the exchange. Thereafter, they will be unable to remit U.S. dollars abroad unless they obtain a new electronic certificate of foreign capital registration in connection with the common shares or preferred shares, which may result in expenses and may cause delays in receiving distributions. See Item 10. Additional Information Exchange Controls.

Also, if holders of our ADSs that exchange our ADSs for our common shares or preferred shares do not qualify under the foreign investment regulations, they will generally be subject to less favorable tax treatment of dividends and distribution on, and the proceeds from any sale of, our common shares or preferred shares. See Item 10. Additional information Exchange Controls and Item 10. Additional Information Taxation Brazilian Tax Considerations.

*Holders of our ADSs may face difficulties in protecting their interests because, as a Brazilian company, we are subject to different corporate rules and regulations and our shareholders may have fewer and less well-defined rights.*

Holders of our ADSs are not direct shareholders of our company and are unable to enforce the rights of shareholders under our by-laws and the Brazilian Corporation Law.

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Our corporate affairs are governed by our by-laws and the Brazilian Corporation Law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States, such as the State of Delaware or New York, or elsewhere outside Brazil. Even if a holder of our ADSs surrenders its ADSs and becomes a direct shareholder, its rights as a holder of our common shares or preferred shares under the Brazilian Corporation Law to protect its interests relative to actions by our board of directors may be fewer and less well-defined than under the laws of those other jurisdictions.

Although insider trading and price manipulation are crimes under Brazilian law, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or the markets in some other jurisdictions. In addition, rules and policies against self-dealing or for preserving shareholder interests may be less well-defined and enforced in Brazil than in the United States and certain other countries, which may put holders of our common shares, preferred shares and ADSs at a potential disadvantage. Corporate disclosures also may be less complete or informative than those of a public company in the United States or in certain other countries.

*We are exempt from some of the corporate governance requirements of the New York Stock Exchange.*

We are a foreign private issuer, as defined by the SEC for purposes of the Exchange Act. As a result, for so long as we remain a foreign private issuer, we will be exempt from, and you will not be provided with the benefits of, some of the corporate governance requirements of The New York Stock Exchange, or the NYSE. We are permitted to follow practice in Brazil in lieu of the provisions of the NYSE's corporate governance rules, except that:

we are required to have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act;

we are required to disclose any significant ways in which our corporate governance practices differ from those followed by domestic companies under NYSE listing standards;

our chief executive officer is obligated to promptly notify the NYSE in writing after any of our executive officers becomes aware of any non-compliance with any applicable provisions of the NYSE corporate governance rules; and

we must submit an executed written affirmation annually to the NYSE. In addition, we must submit an interim written affirmation as and when required by the interim written affirmation form specified by the NYSE.

The standards applicable to us are considerably different than the standards applied to U.S. domestic issuers. Although Rule 10A-3 under the Exchange Act generally requires that a listed company have an audit committee of its board of directors composed solely of independent directors, as a foreign private issuer, we are relying on a general exemption from this requirement that is available to us as a result of the features of Brazilian law applicable to our fiscal council. In addition, we are not required to, among other things:

have a majority of the board be independent;

have a compensation committee or a nominating or corporate governance committee of our board of directors;

have regularly scheduled executive sessions with only non-management directors; or

have at least one executive session of solely independent directors each year.

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We intend to rely on some or all of these exemptions. As a result, you will not be provided with the benefits of certain corporate governance requirements of the NYSE.

*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 the members of our board of directors, our executive officers and our independent registered public accountants reside or are based in Brazil. The vast majority of our assets and those of these other persons are located in Brazil. As a result, it may not be possible for holders of our ADSs to effect service of process upon us or these other persons within the United States or other jurisdictions outside Brazil or to enforce against us or these other persons judgments obtained in the United States or other jurisdictions outside Brazil. In addition, because substantially all of our assets and all of our directors and officers reside outside the United States, any judgment obtained in the United States against us or any of our directors or officers may not be collectible within the United States. 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 in the case of actions by us or our board of directors or executive officers than would shareholders of a U.S. corporation.

*Brazilian tax laws may have an adverse impact on the taxes applicable to the disposition of our common shares, preferred shares and ADSs.*

According to Law No. 10,833, enacted on December 29, 2003, if a nonresident of Brazil disposes of assets located in Brazil, the transaction will be subject to taxation in Brazil, even if such disposition occurs outside Brazil or if such disposition is made to another nonresident. Dispositions of our ADSs between nonresidents, however, are currently not subject to taxation in Brazil. Nevertheless, in the event that the concept of disposition of assets is interpreted to include the disposition between nonresidents of assets located outside Brazil, this tax law could result in the imposition of withholding taxes in the event of a disposition of our ADSs made between nonresidents of Brazil. Due to the fact that as of the date of this annual report Law No. 10,833/2003 has no judicial guidance as to its application, we are unable to predict whether an interpretation applying such tax laws to dispositions of our ADSs between nonresidents could ultimately prevail in Brazilian courts. See Item 10. Additional Information Taxation Brazilian Tax Considerations.

*The relative volatility and illiquidity of the Brazilian securities markets may adversely affect holders of our common shares, preferred shares and ADSs.*

The Brazilian securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. The BM&FBOVESPA, which is the principal Brazilian stock exchange, had a market capitalization of R\$2,524 billion (US\$1,235 billion) as of December 31, 2012 and an average daily trading volume of R\$7.3 billion (US\$3.6 billion) for 2012. In comparison, aggregate market capitalization of the companies (including U.S. and non-U.S. companies) listed on the NYSE was US\$16.9 trillion as of December 31, 2012 and the NYSE recorded an average daily trading volume of US\$59.9 billion for 2012. There is also significantly greater concentration in the Brazilian securities markets. The ten largest companies in terms of market capitalization represented approximately 51% of the aggregate market capitalization of the BM&FBOVESPA as of December 31, 2012. The ten most widely traded stocks in terms of trading volume accounted for approximately 45% of all shares traded on the BM&FBOVESPA in 2012. These market characteristics may substantially limit the ability of holders of our ADSs to sell the preferred shares underlying our ADSs at a price and at a time when they wish to do so and, as a result, could negatively impact the market price of our ADSs themselves.

*The imposition of IOF taxes may indirectly influence the price and volatility of our ADSs, common shares and preferred shares.*

Brazilian law imposes the Tax on Foreign Exchange Transactions, or the IOF/Exchange Tax, on the conversion of *reais* into foreign currency and on the conversion of foreign currency into *reais*. Brazilian law also imposes the Tax on Transactions Involving Bonds and Securities, or the IOF/Securities Tax, due on transactions involving bonds and securities, including those carried out on a Brazilian stock exchange.



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In October 2009, the Brazilian government imposed the IOF/Exchange Tax at a rate of 2.0% in connection with inflows of funds related to investments carried out by non-Brazilian investors in the Brazilian financial and capital markets with the objective of slowing the pace of speculative inflows of foreign capital into the Brazilian market and the appreciation of the *real* against the U.S. dollar. The rate of the IOF/Exchange Tax generally applicable to foreign investments in the Brazilian financial and capital markets was later increased to 6.0%. In December 2011, the rate of the IOF/Exchange Tax applicable to several types of investments was reduced back to zero percent, although the general rate of 6.0% still applies. In November 2009, the Brazilian government also established that the rate of the IOF/Securities Tax applicable to the transfer of shares with the specific purpose of enabling the issuance of ADSs would be 1.5% with the objective of correcting an asymmetry created by the imposition of the IOF/Exchange Tax.

The imposition of these taxes may discourage foreign investment in shares of Brazilian companies, including our company, due to higher transaction costs, and may negatively impact the price and volatility of our ADSs, common shares and preferred shares on the NYSE and the BM&FBOVESPA.

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**ITEM 4. INFORMATION ON THE COMPANY**

**Overview**

We are one of the largest integrated telecommunication service providers in Brazil, based on information available from ANATEL regarding the total number of fixed-lines in service and mobile subscribers of our company as of December 31, 2012, and one of the principal telecommunication services providers offering quadruple play services in Brazil. We offer a range of integrated telecommunication services that includes fixed-line and mobile telecommunication services, data transmission services (including broadband access services), ISP services and other services for residential customers, small, medium and large companies, and governmental agencies. We are the largest telecommunications provider in both Region I and Region II in Brazil, based on information available from ANATEL and other publicly available information regarding revenues and customers of our company as of and for the year ended December 31, 2012. We have also been offering mobile telecommunication services in Region III since October 2008.

According to IBGE:

Region I (which consists of 16 Brazilian states located in the northeastern and part of the northern and southeastern regions) had a population of approximately 104.4 million as of 2010, representing 54.7% of the total Brazilian population, and represented approximately 39.8% of Brazil's total gross domestic product, or GDP, for 2010 (the most recent period for which such information is currently available).

Region II (which consists of the Federal District and nine Brazilian states located in the western, central and southern regions) had a population of approximately 45.1 million as of 2010, representing 23.7% of the total Brazilian population, and represented approximately 27.1% of Brazil's total GDP for 2010.

Region III (comprising the state of São Paulo) had a population of approximately 41.3 million as of 2010, representing 21.6% of the total Brazilian population, and represented approximately 33.1% of Brazil's total GDP for 2010.

***Fixed-Line Telecommunications and Data Transmission Services***

Our traditional fixed-line telecommunications business in Regions I and II includes local and long-distance services, network usage services (interconnection) and public telephones, in accordance with the concessions and authorizations granted to us by ANATEL. We are one of the largest fixed-line telecommunications companies in South America in terms of total number of lines in service as of December 31, 2012. We are the principal fixed-line telecommunication service provider in Region I and Region II, based on our 11.7 million and 6.7 million fixed lines in service in Region I and Region II, respectively, as of December 31, 2012, with market shares of 71.2% and 64.7%, respectively, of the total fixed lines in service in these regions as of May 31, 2012, based on the most recent information available from ANATEL.

We offer a variety of high-speed data transmission services in Regions I and II, including services offered by our subsidiaries BrT Serviços de Internet S.A. and Brasil Telecom Comunicação Multimídia Ltda. We also operate a fiber optic cable system that connects the United States, Bermuda, Brazil, Venezuela and Colombia through our subsidiaries Brasil Telecom Cabos Submarinos Ltda., Brasil Telecom Subsea Cable System (Bermuda) Ltd., Brasil Telecom of America Inc. and Brasil Telecom de Venezuela S.A. Our broadband services, primarily utilizing

Asymmetric Digital Subscriber Line, or ADSL, technology, are marketed under the brand name *Oi Velox*. As of December 31, 2012, we had 5.7 million ADSL subscribers in Regions I and II, representing 31.0% of our fixed lines in service at that date. Additionally, we provide voice and data services to corporate clients throughout Brazil.

For the year ended December 31, 2012, our fixed-line and data transmission services segment generated R\$18,117 million in net operating revenue and recorded operating income before financial income (expenses) and taxes of R\$1,870 million.

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### ***Mobile Telecommunication Services***

We offer mobile telecommunication services throughout Brazil. Based on our 49.3 million mobile subscribers as of December 31, 2012, we believe that we are one of the principal mobile telecommunication service providers in Brazil. Based on information available from ANATEL, as of December 31, 2012 our market share was 23.0% in Region I, 15.1% in Region II and 14.0% in Region III, respectively, of the total number of mobile subscribers in these regions.

For the year ended December 31, 2012, our mobile services generated R\$10,983 million in net operating revenue and recorded operating income before financial income (expenses) and taxes of R\$2,503 million.

### ***Other Services***

We offer subscription television services under our *Oi TV* brand. We deliver subscription television services throughout Regions I and II using direct-to-home, or DTH, satellite technology, in Belo Horizonte, Poços de Caldas, Uberlândia and Barbacena in the State of Minas Gerais using a hybrid network of fiber optic and bidirectional coaxial cable, and in December 2012 introduced delivery of *Oi TV* through our fixed-line network in Rio de Janeiro.

We also operate a call center business for the sole purpose of providing services to our company and our subsidiaries.

Our principal executive office is located at Rua do Lavradio, No. 71, 2<sup>nd</sup> floor Centro, 20230-070 Rio de Janeiro, RJ, Brazil, and our telephone number at this address is (55-21) 3131-1211.

### **Our History and Development**

Prior to the formation in 1972 of Telebrás, the Brazilian state-owned telecommunications monopoly, there were more than 900 telecommunications companies operating throughout Brazil. Between 1972 and 1975, Telebrás and its operating subsidiaries acquired almost all of the other telecommunications companies in Brazil and thus achieved a monopoly in providing public telecommunication services in almost all areas of the country.

Beginning in 1995, the Brazilian government undertook a comprehensive reform of Brazil's telecommunications regulations. In July 1997, Brazil's Congress adopted the Brazilian General Telecommunications Law (*Lei Geral das Telecomunicações*), which, together with the regulations, decrees, orders and plans on telecommunications issued by Brazil's executive branch, provided for the establishment of a comprehensive regulatory framework introducing competition into the Brazilian telecommunications industry and promoting the privatization of Telebrás and its subsidiaries.

### ***Privatization of Telebrás***

In January 1998, in preparation for its restructuring and privatization, Telebrás spun-off its previously integrated mobile telecommunications operations from its fixed-line operations into separate companies. In May 1998, Telebrás was restructured to form 12 new holding companies, or the New Holding Companies, by means of a procedure under Brazilian Corporation Law called *cisão*, or spin-off. Virtually all of the assets and liabilities of Telebrás were allocated to the New Holding Companies, including Telebrás's interest in its operating subsidiaries. The New Holding Companies consisted of:

eight holding companies each of which controlled one or more mobile services providers, each operating in one of the ten service regions into which Brazil had been divided for mobile telecommunication services and using the frequency range called Band A (other than one mobile services provider that operated in two regions and one region in which the mobile services provider was not part of the Telebrás system);

three regional holding companies, including Brasil Telecom Participações S.A., or Brasil Telecom Holding, and TNL, each of which controlled the fixed-line service providers that provided local and intraregional long-distance service in one of the three service regions into which Brazil has been divided for fixed-line telecommunications; and

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a holding company, which controlled Embratel, a provider of domestic (including interstate and interregional) and international long-distance service throughout Brazil.

We are the successor to Brasil Telecom Holding and TNL, two of the New Holding Companies in the fixed-line telecommunications business. In the restructuring and privatization of Telebrás, Brasil Telecom Holding was allocated all of the share capital held by Telebrás in the operating subsidiaries that provided fixed-line telecommunication service in Region II, including our company, and TNL was allocated all of the share capital held by Telebrás in the operating subsidiaries that provided fixed-line telecommunication service in Region I, including Telemar.

In August 1998, the Brazilian government privatized Telebrás by selling all of the voting shares that it held in the New Holding Companies, including Brasil Telecom Holding and TNL, to private-sector buyers.

### ***Expansion of Fixed-Line Network in Rio Grande do Sul***

In July 2000, we acquired the control of Companhia Riograndense de Telecomunicações, or CRT. CRT was the leading fixed-line telecommunication service company in the State of Rio Grande do Sul. In December 2000, CRT was merged with and into us.

### ***Corporate Reorganization of Brasil Telecom***

Following the formation of Brasil Telecom Holding, it provided fixed-line telecommunication services through nine separate operating subsidiaries, including our company, each of which provided telecommunication services in one of the nine states of Region II or the Federal District of Brazil. In February 2000, Brasil Telecom Holding implemented a corporate reorganization, which resulted in each of its other fixed-line operating companies being merged into our company.

### ***Corporate Reorganization of TNL***

Following its formation, TNL provided fixed-line telecommunication services through 16 separate operating subsidiaries, each of which provided telecommunication services in one of the 16 states of Region I. In August 2001, TNL implemented a corporate reorganization, which resulted in all of the other fixed-line operating companies being merged into our subsidiary Telecomunicações do Rio de Janeiro S.A., or Telerj. In September 2001, Telerj changed its name to Telemar Norte Leste S.A.

### ***Entry into the Internet Service Provider Business***

In October 2001, we formed BrT Serviços de Internet S.A., or BrTI, to provide broadband internet services.

### ***Entry into the Personal Mobile Services Business***

In December 2002, we established our wholly-owned subsidiary, 14 Brasil Telecom Celular S.A., which we refer to as Brasil Telecom Mobile, to provide personal mobile services (*Serviço Móvel Pessoal*) in Region II. In December 2002, Brasil Telecom Mobile was granted an authorization by ANATEL to provide personal mobile services in Region II following its successful bid in an auction held for the authorization and the related radio frequency license. Brasil Telecom Mobile commenced operations in September 2004.

### ***Expansion of Our Internet Service Provider Business***

In June 2003, we acquired all of the share capital of iBest Holding Corporation that we did not own. Prior to this acquisition, we owned 12.8% of the share capital of iBest Holding Corporation. iBest Holding Corporation controlled (1) iBest S.A., or iBest, a free ISP and the then-largest ISP in Region II, (2) Freelance S.A., and (3) Febraio S.A. In May 2004, iBest and Febraio S.A. merged with and into Freelance S.A.

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***Acquisition of Submarine Fiber-Optic Cable System***

In June 2003, we acquired the submarine fiber-optic cable system of 360 Networks Americas do Brasil Ltda. We refer to this system as GlobeNet. GlobeNet consists of a fiber optic cable system that connects the United States, Bermuda, Brazil, Venezuela and Colombia.

***Entry into the Internet Protocol Business***

In May 2004, we acquired substantially all of the share capital of Vant Telecomunicações S.A., or Vant, that we did not own. Prior to this acquisition, we owned 19.9% of the share capital of Vant. Vant offered Internet Protocol, or IP, services as well as other services to the corporate market throughout Brazil.

***Expansion of Data Transmission Network***

In May 2004, we acquired substantially all of the share capital of MetroRED Telecomunicações Ltda., or MetroRED, that we did not own. Prior to this acquisition, we owned 19.9% of the share capital of MetroRED. We have changed the corporate name of MetroRED to Brasil Telecom Comunicação Multimídia Ltda., or Brasil Telecom Multimedia. Brasil Telecom Multimedia is a leading local fiber optic network provider and also has an internet solutions data center in São Paulo which provides internet support to our customers. In October 2012, Vant merged with and into Brasil Telecom Multimedia.

***Acquisition of iG***

In November 2004, we acquired 63.0% of the capital stock of Internet Group (Cayman) Ltd., the parent company of Internet Group do Brasil Ltda., or iG. Prior to this acquisition, Brasil Telecom Holding owned 10.0% of the capital stock of Internet Group (Cayman) Ltd. In July 2005, we acquired an additional 25.6% of the capital stock of Internet Group (Cayman) Ltd. iG is a free internet services provider. iG is the leading dial-up ISP in Brazil and operates in the dial-up and broadband access markets. In October 2012, we implemented a corporate reorganization, which resulted in iG becoming a wholly-owned subsidiary of BrTI.

***Consolidation of Call Centers***

In December 2007, our subsidiary Brasil Telecom Call Center S.A. commenced operations, rendering call center services to us and our subsidiaries that demand this type of service. We invested approximately R\$50 million in infrastructure and customer service technologies to create call centers in Goiânia, Campo Grande, Florianópolis, Brasília and Curitiba to replace our 30 pre-existing sites.

***Acquisition by Telemar***

On January 8, 2009, Copart 1 Participações S.A., or Copart 1, a wholly-owned subsidiary of Coari, itself a wholly-owned subsidiary of Telemar, acquired indirectly all of the outstanding shares of Invitel S.A., or Invitel, and 12,185,836 common shares of Brasil Telecom Holding owned by the shareholders of Invitel. At that time, Invitel owned 100% of the outstanding shares of Solpart Participações S.A., or Solpart, which owned 52.0% of the outstanding voting share capital, representing 19.0% of the outstanding share capital, of Brasil Telecom Holding, which, in turn, owned 67.2% of the outstanding share capital, including 99.1% of the outstanding voting share capital, of our company.



During 2008, Copart 1 had acquired 76,645,842 preferred shares of Brasil Telecom Holding, representing 33.3% of the outstanding preferred shares of Brasil Telecom Holding, and Copart 2 Participações S.A., or Copart 2, a wholly-owned subsidiary of Coari, had acquired 58,956,565 preferred shares of our company, representing 18.9% of our outstanding preferred shares.

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As a result of the acquisition of Invitel, Telemar acquired indirect control of Brasil Telecom Holding and Brasil Telecom.

In connection with the approval in October 2010 of Telemar's acquisition of control of our company by the Administrative Council for Economic Defense (*Conselho Administrativo de Defesa Econômica*), or CADE, the Brazilian antitrust regulator, Telemar entered into a Performance Commitment Term (*Termo de Compromisso de Desempenho*) containing obligations related to the wholesale market, specifically with regard to the provision of interconnection and Industrial Exploitation of Dedicated Lines (*Exploração Industrial de Linha Dedicada*), or EILD. Under this agreement, we must, among other obligations:

maintain a separate business area exclusively responsible for providing interconnection services, EILD and other wholesale services for a minimum of five years;

adopt specific procedures and provide specified assistance for our interconnection services and EILD customers; and

submit reports to CADE periodically and upon CADE's request regarding our activities in these markets. In addition, in connection with the approval by ANATEL in December 2008 of Telemar's acquisition of control of our company, ANATEL imposed a number of conditions contained in the order granting the approval, some of which have already been fulfilled. The most significant of the remaining conditions require us to:

extend fiber optic cables to the city of Macapá within six months after the implementation of certain infrastructure connecting the cities of Tucuruí and Macapá by the power companies in this region;

expand our fiber optic network to 40 new municipalities in Regions I and II in each of 2012 through 2015;

offer broadband services in 50% of the municipalities covered by our obligations to provide transmission lines connecting the fiber-optic internet backbones of Brasil Telecom and Telemar to municipalities in their concession areas in which they do not provide internet service, which we refer to as backhaul, at rates no greater than Telemar's highest existing rate for broadband services, within five months of completing the backhaul extensions, and 100% of such municipalities within ten months of completing the backhaul extensions; and

make annual investments in research and development in each of the next ten years in amounts equal to at least 50% of the amounts of Telemar's contributions to the Telecommunications Technology Development Fund (*Fundo para o Desenvolvimento Tecnológico das Telecomunicações*), or the FUNTTEL, which may be increased to 100% at ANATEL's discretion.

*Mandatory Tender Offers by Copart 1 and Copart 2*

As a result of the acquisition of control of Brasil Telecom and Brasil Telecom Holding by Telemar on January 8, 2009, under Article 254-A of the Brazilian Corporation Law and CVM Instruction No. 361, of March 5, 2002, as amended, Telemar was required to offer to purchase any and all common shares of Brasil Telecom Holding and Brasil Telecom held by public shareholders.

As a result of these auctions, in June 2009 (1) Copart 1 acquired 40,452,227 common shares of Brasil Telecom Holding, representing 30.5% of the outstanding common shares of Brasil Telecom Holding and 11.2% of the outstanding share capital of Brasil Telecom Holding, and (2) Copart 2 acquired 630,872 common shares of Brasil Telecom, representing 0.3% of the outstanding common shares of Brasil Telecom and 0.1% of the outstanding share capital of Brasil Telecom.

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*Merger of Copart 1 into Brasil Telecom Holding*

On July 31, 2009, (1) Invitel merged with and into Solpart, with Solpart as the surviving company, (2) Solpart merged with and into Copart 1, with Copart 1 as the surviving company, and (3) Copart 1 merged with and into Brasil Telecom Holding, with Brasil Telecom Holding as the surviving company. As a result of these mergers, Coari owned 54.7% of the outstanding share capital, including 91.7% of the outstanding voting share capital, of Brasil Telecom Holding.

*Merger of Copart 2 into Brasil Telecom*

On July 31, 2009, Copart 2 merged with and into Brasil Telecom, with Brasil Telecom as the surviving company. As a result of this transaction, Coari owned 10.9% of the outstanding share capital, including 0.3% of the outstanding voting share capital, of Brasil Telecom.

*Merger of Brasil Telecom Holding into Brasil Telecom*

On September 30, 2009, the shareholders of Brasil Telecom and Brasil Telecom Holding approved a merger (*incorporação*) under Brazilian law of Brasil Telecom Holding with and into Brasil Telecom, with Brasil Telecom as the surviving company. In the Brasil Telecom merger:

each issued and then outstanding common share of Brasil Telecom Holding (other than any common shares held by shareholders that exercised their withdrawal rights) was converted automatically into 1.2190981 common shares of Brasil Telecom;

each issued and then outstanding preferred share of Brasil Telecom Holding was converted automatically into 0.1720066 common shares of Brasil Telecom and 0.9096173 preferred shares of Brasil Telecom; and

all issued and then outstanding shares of Brasil Telecom held by Brasil Telecom Holding were cancelled. As a result of the Brasil Telecom merger, Brasil Telecom Holding ceased to exist and Coari owned 48.2% of the total outstanding share capital of Brasil Telecom, including 79.6% of its outstanding voting share capital.

***Corporate Reorganization of TNL, Telemar and Our Company***

On February 27, 2012, the shareholders of TNL, Telemar, Coari and Brasil Telecom approved a series of transactions, which we refer to as the corporate reorganization, including:

a split-off (*cisão*) and merger of shares (*incorporação de ações*) under Brazilian law in which:

Telemar transferred its shares of Coari to Coari;

Coari assumed a portion of the liabilities of Telemar, which became joint and several liabilities of Telemar and Coari or obligations of Coari guaranteed by Telemar;

Coari issued one common share and/or one preferred share to the holders of Telemar common and preferred shares (other than the shares of holders who exercised their withdrawal rights with respect to such shares) in exchange for each of their common and preferred shares of Telemar, respectively; and

Coari retained the Telemar shares exchanged for Coari shares and as a result, Telemar became a wholly-owned subsidiary of Coari;

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a merger (*incorporação*) under Brazilian law of Coari with and into our company, with our company as the surviving company, in which:

each issued and then outstanding share of Brasil Telecom held by Coari and all Coari shares held in treasury were cancelled;

each issued and then outstanding common share of Coari was converted automatically into 5.1149 common shares of Brasil Telecom;

each issued and then outstanding preferred share of Coari was converted automatically into 0.3904 common shares of Brasil Telecom and 4.0034 preferred shares of Brasil Telecom;

Coari ceased to exist; and

Telemar became a wholly-owned subsidiary of Brasil Telecom; and

a merger (*incorporação*) under Brazilian law of TNL with and into our company, with our company as the surviving company, in which:

each TNL share held in treasury prior to the TNL merger was cancelled, and each issued and then outstanding share of Brasil Telecom held by TNL was cancelled, other than 24,647,867 common shares of Brasil Telecom, which were transferred to the treasury of Brasil Telecom;

each issued and then outstanding common share of TNL (other than common shares held by shareholders who exercised their withdrawal rights with respect to such common shares) was converted automatically into 2.3122 common shares of Brasil Telecom;

each issued and then outstanding preferred share of TNL was converted automatically into 0.1879 common shares of Brasil Telecom and 1.9262 preferred shares of Brasil Telecom; and

TNL ceased to exist.

As a result of these transactions, TmarPart has become our direct controlling shareholder. For additional information about TmarPart, see Item 7. Major Shareholders and Related Party Transactions Major Shareholders.

In addition, on February 27, 2012, our shareholders approved:

the issuance and distribution of (1) one Class B redeemable preferred share of our company to the holder of each of our common shares, and (2) one Class C redeemable preferred share of our company to the holder of each of our preferred shares;

the redemption of each Class B redeemable preferred share and Class C redeemable preferred share at a redemption price equal to R\$2.543282 per share, or an aggregate of R\$1,502 million; and

the change of our corporate name to Oi S.A.

We have accounted for the Coari merger and the TNL merger using the carry-over basis of our own assets and liabilities and of the assets and liabilities assumed of TNL, Telemar, and Coari as from the date of the reorganization. The carry-over basis of the assets and liabilities were determined at the lowest level entity in the group (i.e., the effects of the purchase accounting relating to Coari's acquisition of Brasil Telecom (now Oi S.A.) will not be reflected in the assets and liabilities of Oi S.A. in its consolidated financial statements as a result of the TNL merger). Additionally, our historical financial statements have not been restated to reflect the impacts of the corporate reorganization on a retrospective basis. Due to the limited guidance in IFRS as issued by the IASB and Brazilian GAAP regarding restructurings of entities under common control, we made a formal request for consultation with the CVM regarding the accounting policy to be applied to these common-control mergers. On April 24, 2013, the Board of Directors of the CVM unanimously decided that the accounting policy to use our carry-over basis of our own assets and liabilities is the most adequate policy given the fact pattern, and would provide more relevant and reliable information for the investor. As part of their decision, the CVM also required that our parent company, Telemar Participações S.A., file their quarterly and annual financial statements with the CVM on the same date that we file our financial statements. Our non-current intangible assets and property, plant and equipment are recorded on a different basis in our parent company's consolidated financial statements, reflecting the amortized purchase price allocated to these assets resulting from Coari's acquisition of our company on January 8, 2009.

Holders of Telemar common shares, class A preferred shares and class B preferred shares and holder of TNL preferred shares as of the close of trading on May 23, 2011, the date prior to the publication of the Relevant Fact that

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first announced the split-off and share exchange and the TNL merger were entitled to withdrawal rights in connection with the split-off and share exchange and the TNL merger. Shareholders who exercised these withdrawal rights with respect to the Telemar shares were entitled to receive R\$74.37 per share and shareholders who exercised these withdrawal rights with respect to the TNL preferred shares were entitled to receive R\$28.93 per share. As of March 29, 2012, the expiration of the period for the exercise of these withdrawal rights, holders of 1,020,215 Telemar common shares, 17,856,585 Telemar class A preferred shares, 47,714 Telemar class B preferred shares and 20,446,097 TNL preferred shares had validly exercised their withdrawal rights for an aggregate cost to our company of R\$1,999 million.

### ***Acquisition of Shares of Portugal Telecom***

As a result of the corporate reorganization, Oi became the indirect owner of 64,557,566 shares of Portugal Telecom, representing 7.2% of its outstanding shares, that were owned by Telemar. Between April 4, 2012 and May 25, 2012, we acquired 25,093,639 additional shares of Portugal Telecom and now hold 89,651,205 common shares of Portugal Telecom, representing 10.0% of its outstanding shares.

### ***Sale of Communications Towers***

In December 2012, we sold Sumbe Participações S.A., or Sumbe, our wholly-owned subsidiary, to São Paulo SPE Locação de Torres Ltda. for R\$516 million. Sumbe owned approximately 1,200 communications towers used in our mobile services business. Contemporaneously with the sale of these communications towers, we entered into an operating lease with a term of 15 years with Sumbe permitting us to continue to use space on these communications towers for our mobile services business.

### **Corporate Structure**

The following chart presents our corporate structure and principal subsidiaries as of April 25, 2013. The percentages in bold italics represent the percentage of the voting capital owned directly and indirectly by the parent company of each entity, and the percentages not in bold italics represent the percentage of the total share capital owned directly and indirectly by the parent company of each entity.



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Our concessions and authorizations from the Brazilian government allow us to provide:

fixed-line telecommunication services in Regions I and II;

long-distance telecommunication services throughout Brazil;

mobile telecommunication services in Regions I, II and III;

data transmission services throughout Brazil; and

direct to home (DTH) satellite television services throughout Brazil.

In addition, we have authorizations to provide fixed-line local telecommunication services in Region III.

Region I consists of 16 Brazilian states located in the northeastern and part of the northern and southeastern regions. Region I covers an area of approximately 5.4 million square kilometers, which represents approximately 64% of the country's total land area and accounted for 39.8% of Brazil's GDP in 2010. The population of Region I was 104.4 million as of 2010, which represented 54.7% of the total population of Brazil as of that date. In 2010, per capita income in Region I was approximately R\$14,376, varying from R\$6,883 in the State of Maranhão to R\$25,461 in the State of Rio de Janeiro.

Region II consists of the Federal District and nine Brazilian states located in the western, central and southern regions. Region II covers an area of approximately 2.9 million square kilometers, which represents approximately 33.5% of the country's total land area and accounted for approximately 27.1% of Brazil's GDP in 2010. The population of Region II was 45.1 million as of 2010, which represented 23.7% of the total population of Brazil as of that date. In 2010, per capita income in Region II was approximately R\$22,651, varying from R\$11,555 in the State of Acre to R\$58,326 in the Federal District.

Region III consists of the State of São Paulo. Region III covers an area of approximately 248,000 square kilometers, which represents approximately 2.9% of the country's total land area and accounted for approximately 33.1% of Brazil's GDP in 2010. The population of Region III was 41.3 million as of 2010, which represented 21.6% of the total population of Brazil as of that date. In 2010, per capita income in Region III was approximately R\$30,236.

The following table sets forth key economic data, compiled by IBGE, for the Federal District and each of the Brazilian states.

| <b>State</b> | <b>Population<br/>(in<br/>millions)</b> | <b>Population<br/>per<br/>Square</b> | <b>% of<br/>GDP<br/>(2010)</b> | <b>GDP<br/>per<br/>Capita</b> |
|--------------|---|--------------------------------------|--------------------------------|-------------------------------|
|--------------|---|--------------------------------------|--------------------------------|-------------------------------|

|                     | (2010) | Kilometer<br>(2010) |      | (in<br>reais)<br>(2010) |
|---------------------|--------|---------------------|------|-------------------------|
| <b>Region I:</b>    |        |                     |      |                         |
| Rio de Janeiro      | 16.0   | 365.9               | 10.8 | 25,461                  |
| Minas Gerais        | 19.6   | 33.4                | 9.3  | 17,930                  |
| Bahia               | 14.0   | 24.8                | 4.1  | 11,011                  |
| Pernambuco          | 8.8    | 89.5                | 2.5  | 10,821                  |
| Pará                | 7.6    | 6.1                 | 2.1  | 10,269                  |
| Amazonas            | 3.5    | 2.2                 | 1.6  | 17,158                  |
| Espírito Santo      | 3.5    | 73.6                | 2.2  | 23,364                  |
| Ceará               | 8.5    | 56.8                | 2.1  | 9,212                   |
| Paraíba             | 3.8    | 66.7                | 0.8  | 8,482                   |
| Rio Grande do Norte | 3.2    | 60.0                | 0.9  | 10,208                  |
| Maranhão            | 6.6    | 19.8                | 1.2  | 6,883                   |

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| <b>State</b>                           | <b>Population<br/>(in<br/>millions)<br/>(2010)</b> | <b>Population<br/>per<br/>Square<br/>Kilometer<br/>(2010)</b> | <b>% of<br/>GDP<br/>(2010)</b> | <b>GDP<br/>per<br/>Capita<br/>(in reais)<br/>(2010)</b> |
|--|--|---|--------------------------------|---|
| Sergipe                                | 2.1  | 94.4  | 0.6                            | 11,573  |
| Alagoas                                | 3.1  | 112.4   | 0.7                            | 7,875   |
| Piauí                                  | 3.1  | 12.4  | 0.6                            | 7,074   |
| Amapá                                  | 0.7  | 4.7   | 0.2                            | 12,346  |
| Roraima                                | 0.5  | 2.0   | 0.2                            | 14,075  |
| Subtotal                               | 104.4  |   | 39.1                           |   |
| <b>Region II:</b>                      |  |   |                                |   |
| Rio Grande do Sul                      | 10.7   | 38.0  | 6.7                            | 23,610  |
| Paraná                                 | 10.4   | 52.4  | 5.8                            | 20,804  |
| Santa Catarina                         | 6.2  | 65.5  | 4.0                            | 24,403  |
| Goiás                                  | 6.0  | 17.7  | 2.6                            | 16,252  |
| Mato Grosso                            | 3.0  | 3.4   | 1.6                            | 637   |
| Federal District                       | 2.6  | 441.4   | 4.0                            | 58,326  |
| Mato Grosso do Sul                     | 2.4  | 6.9   | 1.2                            | 17,768  |
| Rondônia                               | 1.6  | 6.6   | 0.6                            | 15,080  |
| Tocantins                              | 1.4  | 5.0   | 0.5                            | 12,462  |
| Acre                                   | 0.7  | 4.5   | 0.2                            | 11,555  |
| Subtotal                               | 45.1   |   | 27.1                           |   |
| <b>Region III (State of São Paulo)</b> | 41.3   | 166.2   | 33.1                           | 30,236  |
| <b>Total</b>                           | 190.8  |   | 100.0                          |   |

Source: IBGE.

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Set forth below is a map of Brazil showing the areas in Region I, Region II and Region III.

Our business, financial condition, results of operations and prospects depend in part on the performance of the Brazilian economy. See Item 3. Key Information Risk Factors Risks Relating to Brazil.

**Our Services**

We provide a variety of telecommunication services to the residential market, the personal mobility market and the business and corporate markets throughout Brazil.

***Residential Services***

Our primary services to the residential market are fixed-line voice services, broadband services from fixed-line devices, subscription television services. We offer these services on an a la carte basis and as bundles, including bundles with other services including our mobile voice services and our mobile data communications services.

***Fixed-Line Voice Services***

As of December 31, 2012, we and had approximately 11.8 million local fixed-line customers in Region I and approximately 6.7 million local fixed-line customers in Region II. Local fixed-line services include installation,

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monthly subscription, metered services, collect calls and supplemental local services. Metered services include local calls that originate and terminate within a single local area and calls between separate local areas within specified metropolitan regions which, under ANATEL regulations, are charged as local calls. ANATEL has divided Region I into 2,920 local areas and Region II into 1,772 local areas.

Under our concession agreements, we are required to offer two local fixed-line plans to users: the Basic Plan per Minute (*Plano Básico de Minutos*) and the Mandatory Alternative Service Plan (*Plano Alternativo de Serviços de Oferta Obrigatória*), each of which includes installation charges, monthly subscription charges, and charges for local minutes. As of December 31, 2012, 17.9% of our fixed-line customers subscribed to the Basic Plan per Minute or the Mandatory Alternative Service Plan.

Calls within Brazil that are not classified as local calls are classified as domestic long-distance calls. We provide domestic long-distance services for calls originating from fixed-line devices in Region I and Region II through our network facilities in São Paulo, Rio de Janeiro and Belo Horizonte and through interconnection agreements with other telecommunications providers, both fixed-line and mobile, that permit us to interconnect directly with their networks. We provide international long-distance services originating from fixed-line devices in Region I and Region II through agreements to interconnect our network with those of the main telecommunication service providers worldwide.

In addition to the Basic Plan per Minute and the Mandatory Alternative Service Plan, we offer a variety of alternative fixed-line plans that are designed to meet our customers' usage profiles. As of December 31, 2012, 82.1% of our fixed-line customers subscribed to alternative plans, including our bundled plans.

We offer a variety of voice only plans, including:

Our unlimited plans, such as our *Oi Fixo Ilimitado* plan which permits a subscriber to make unlimited local calls from a fixed-line device to fixed-line customers of any carrier and local calls to our mobile customers at the rates established for calls to fixed lines. Subscribers to our *Oi Fixo Ilimitado* plan have the option of upgrading this plan for an additional monthly fee to permit unlimited long distance calls to fixed-line customers of any carrier using our carrier selection codes.

Our controlled plans, such as our *Oi Fixo a Vontade* plan which permits a subscriber to make unlimited local calls from a fixed-line device to fixed-line customers of any carrier and purchase a minutes for long-distance calls and calls to mobile devices.

Our *Orelhão Gratis* plan which we introduced in Rio de Janeiro State introduced in November 2012 and which, in addition to the features of our *Oi Fixo Ilimitado* plan, permits a subscriber to make unlimited local calls from a public telephone to our fixed-line customers.

We also own and operate public telephones throughout Region I and Region II. As of December 31, 2012, we had approximately 727,000 public telephones in service, all of which are operated by pre-paid cards.

We continually monitor market trends and the usage profile of our customer to assist us in designing new plans and promotions in order to retain our existing customers and attract new customers to our fixed-line voice services.

*Broadband Services*

We provide high-speed internet access services using ADSL technology, which we refer to as broadband services, to residential customers in the primary cities in Region I and Region II under the brand name *Oi Velox*. As of December 31, 2012, we offered broadband services in 2,833 municipalities in Region I and 1,848 municipalities in Region II. As of December 31, 2012, we had 5.7 million ADSL customers in Regions I and II.

Offer ADSL services through ADSL modems installed using our customers' conventional lines which permit customers to use the telephone line simultaneously with the internet. Customers pay a fixed monthly subscription fee, irrespective of their actual connection time to the internet.

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We offer broadband subscriptions to customers that do not subscribe to our bundled services plans at speeds ranging from 300 kbps to 15 Mbps. To attract customers to this service, we offer new subscribers complementary anti-virus software and offer a free wireless router with subscriptions at speeds of 5 Mbps or more. We offer bundles of voice and broadband services to our fixed-line subscribers at rates that are lower than the combined rate for separate comparable voice and broadband subscriptions.

In the fourth quarter of 2011, we launched our *Oi Internet Total* plan which permits a subscriber to receive broadband services through the subscriber's fixed-line and mobile devices, including laptops, tablets and 3G phones. This bundled service is available in geographic areas in which we offer 3G mobile coverage. Subscribers to our *Oi Internet Total* plan select the speed of their fixed-line connection from among 2 Mbps, 5 Mbps, 10 Mbps and 15 Mbps and select a mobile connection of 500 kbps or 2 Mbps. In addition to unlimited use of the fixed-line connection, subscribers have unlimited access to our 3G network. As with our a la carte broadband subscriptions, we offer subscribers to our *Oi Internet Total* plan anti-virus software and a free wireless router. In addition, we offer subscribers to our *Oi Internet Total* plan a free mini-modem for use with a laptop or tablet.

We are engaged in capital expenditure programs to upgrade the broadband speeds that we are able to offer and periodically offer promotions designed to encourage our existing broadband customers to migrate to plans offering higher speeds and to attract new customers to our broadband services.

### *Subscription Television Services*

We offer subscription television services under our *Oi TV* brand. We deliver subscription television services throughout Regions I and II using our DTH satellite network, in Belo Horizonte, Poços de Caldas, Uberlândia and Barbacena in the State of Minas Gerais using a hybrid network of fiber optic and bidirectional coaxial cable, and in December 2012 introduced delivery of *Oi TV* through our fixed-line network in Rio de Janeiro. As of December 31, 2012, we had approximately 718,000 subscribers to our DTH subscription television services in Regions I and II and approximately 59,000 subscribers to our cable network in the State of Minas Gerais.

We offer more than 100 channels of content, including 24 high definition channels, through our two subscription packages for our *Oi TV* services. Our *Oi TV Mais HD* package was launched in July 2012 and includes 56 channels, including 11 high-definition, or HD, channels. Our *Oi TV Mega HD* package was launched in May 2012 and includes 72 channels, of which 18 are HD channels. Subscribers to each of these packages have the option to customize the package through the purchase of additional channels featuring films offered by HBO/MAX and Telecine. Although these packages are available for a la carte purchase, we promote these packages and approximately 48% of our subscribers for these packages purchase these packages as part of a bundle with our *Oi Velox* service or as part of our *Oi Conta Total* plan.

### *Bundled Services*

In addition to our combined internet and voice services and our *Oi Internet Total* plan, we offer our *Oi Conta Total* plan and our *Oi Conta Total Smartphone* plans, which provides fixed-line voice services, fixed-line devices broadband services and mobile voice services. Subscribers to these plans have the option to subscribe to our *Oi TV* service.

Our *Oi Conta Total* plan permits subscribers to make unlimited local calls to any of our fixed-line or mobile customers and includes an allowance of minutes selected by the customer for use to make long-distance calls and local calls to customers of other service providers. Subscribers also elect the speed of their fixed-line broadband service, which is available under this plan at speeds ranging from 2 Mbps to 15 Mbps. Subscribers to this plan are entitled to 5 MB of data usage through our Oi WiFi hotspots and subscribers who elect speeds of 5 Mbps or greater are provided

with a complimentary wireless router. Subscribers can elect add-on features for this plan, including unlimited text messages to subscribers of any provider and unlimited long-distance calls to our fixed line or mobile customers.

In April 2012, we launched our *Oi Conta Total Smartphone* plan which has the same structure as our *Oi Conta Total* plan, with the addition of our *Oi Smartphone* data plan and unlimited text messages. We provide a smartphone, mini-modem or tablet at a subsidized price and access to our network of Oi WiFi hotspots to our *Oi Conta Total Smartphone* subscribers.



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In December 2012, we launched our offering of subscription television services on our fiber optic network using an internet protocol, or IP TV, in the Rio de Janeiro. This service is only available as part of our *Oi Conta Total* bundled service. Subscribers to our IP TV service may subscribe to our *Oi TV Mais HD* package, together with a broadband subscription at 100 Mbps, or our *Oi TV Mega HD* package, together with a broadband subscription at 200 Mbps. Subscriptions to our IP TV packages are only available in areas in which we have implemented our FTTH network. We plan to gradually expand our IP TV service to other cities. We are engaged in capital expenditure programs to expand our fiber-to-the-home, or FTTH, network to permit us to offer IP TV to a broader range of potential subscribers.

We also launched a bundled plan combining fixed-line voice service with pre-paid mobile service under the brand *Fixo Ilimitado + Pré Ilimitado* in March 2012. This plan is available in most Brazilian states and, in addition to the features of the *Oi Fixo Ilimitado* plan, permits a subscriber to make unlimited local calls to our fixed-line and mobile customers from a mobile device.

### ***Personal Mobility Services***

Our personal mobility services are comprised of post-paid and pre-paid mobile voice services and post-paid and pre-paid mobile data communications services. As of December 31, 2012, we had an aggregate of approximately 49.2 million subscribers for our mobile services, including subscribers to our bundled plans. As of December 31, 2012, 83.6% of our mobile voice customers subscribed to pre-paid plans and 16.4% subscribed to post-paid plans.

#### ***Post-Paid Voice Services***

Post-paid customers pay a monthly subscription fee and are billed on a monthly basis for services provided during the previous month. Post-paid plans include voice mail, caller ID, conference calling, call forwarding, calls on hold and special services.

Our *Oi Conta* plans permit a subscriber to make unlimited local calls to our fixed-line and mobile subscribers and purchase a fixed allocation of minutes per month for local calls and text messages to customers of other providers. We offer our *Oi Familia* plans, which include the features of our *Oi Conta* plans and are available to share on as many as four separate mobile devices. Subscribers can elect add-on features for this plan, including unlimited text messages to subscribers of any provider and unlimited long-distance calls to our fixed line or mobile customers.

We launched our *Oi Smartphone* plan in April 2012 which (1) permits a subscriber to make unlimited local calls to our fixed-line and mobile subscribers and purchase a fixed number of minutes per month for local calls to subscribers of other providers, and (2) permits unlimited access to our 3G network and our network of WiFi hotspots and unlimited text messaging. We offer smartphones at subsidized prices to new subscribers to our *Oi Smartphone* plan. We offer our *Oi Familia Smartphone* plans, which include the features of our *Oi Smartphone* plans and are available to share on as many as four separate mobile devices. Subscribers can elect add-on features for this plan, including unlimited long-distance calls to our fixed line or mobile customers.

We also offer hybrid plans under the brand name *Oi Controle* that permit a subscriber to purchase a fixed number of local and long-distance minutes per month, but restrict outgoing calls after the purchased minutes have been consumed, other than calls made using a pre-paid card. We account of these hybrid plans as post-paid plans as customers selecting these plans pay monthly subscription fees for their fixed allocations of minutes. In general, these plans are attractive to post-paid customers that migrate to these plans to place self-imposed limits on their mobile calling habits and to pre-paid customers who are able to place calls at lower cost than with our pre-paid services.



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*Pre-Paid Voice Services*

Pre-paid customers activate their cellular numbers through the purchase and installation of a SIM card in their mobile handsets. Our pre-paid customers are able to add credits to their accounts through point-of-sale machines, ATMs, Apple and Android applications installed on their mobile devices such as *Minha Oi* and *Recarga Oi* using a credit card, our toll-free number or the purchase of pre-paid cards at a variety of prices. These credits are valid for a fixed period of time following activation and can be extended when additional credits are purchased.

We sell credits in minimum denominations of R\$1.00 and permit our pre-paid customers to add credits to their account in any amount, including *centavos*, in order to facilitate the continued activation of their mobile handsets, allowing them to continue to receive incoming calls. We regularly launch various packages and promotions designed to incentivize the purchase and use of credits by our pre-paid customers.

We market *Bônus Diário* subscriptions to our pre-paid customers. When a customer that is a subscriber to *Bônus Diário* purchases additional credits in any amount, the customer receives bonus credits in that amount (or double that amount depending on the area code of the customer) on each day during the remainder of the month in which the additional credits were purchased. These bonus credits may be used for (1) local or long-distance calls to our fixed-line or mobile subscribers, and (2) sending text messages to mobile subscribers of any Brazilian mobile service provider. We charge our customers a nominal subscription fee to participate in the *Bônus Diário* program for six-months, and may waive this fee during the first six-month period as part of our marketing activities.

Our customers may also exchange the credits that they purchase for additional services, such as:

*Bônus Extra* which permits our customers to purchase additional minutes for use for local or long-distance calls to our fixed-line or mobile subscribers at discounted rates;

*Pacote de Dados* which permits our customers to purchase a specified data allowance for use on their handsets; and

*Pacote de SMS* which permits our customers to purchase the ability to send specified number of text messages.

*Mobile Internet (3G) Services*

We offer post-paid and pre-paid mobile data communication services to customers that seek to access the internet through our 3G network, using mobile devices, including smartphones or tablets and laptop computers with the aid of a mini-modem. As with our post-paid voice plans, our post-paid mobile internet customers pay a monthly subscription fee and are billed on a monthly basis for services provided during the previous month.

We offer a variety of post-paid plans that provide data allowances from 100 MB to 2 GB for mobile devices and 250 MB to 5 GB for tablets and laptop computers and provide data transmission at speeds of 1 Mbps. In addition to data traffic, our post-paid mobile internet plans for use with mobile devices include allowances for text messages. Our post-paid mobile internet plans for mobile devices are available to our *Oi Conta* customers. Our post-paid mobile internet plans for tablets and laptop computers are sold on a stand-alone basis only. However, subscribers to our *Oi Conta* plans receive a discount on such plans. We may also offer mini-modems and tablets at subsidized prices to new

subscribers to our post-paid mobile data communication services based on the size of the data package purchased. Subscribers to our access to our post-paid mobile internet plans for tablets and laptop computers also receive free access to our network of WiFi hotspots. In addition to these post-paid plans, subscribers can purchase anti-virus software and backup data storage services.

We launched our pre-paid mobile internet service in November 2012. Pre-paid customers activate their mobile internet services through the purchase and installation of a SIM card in their mini-modem or tablet. Our pre-paid customers are able to add credits to their accounts through the purchase of pre-paid credits at prices that vary based on the data allowance purchased and duration (daily, weekly and monthly). These credits are valid for a fixed period of time following activation. The basic services consist of data traffic and text messaging. Customers that purchase a 500 MB allowance also receive free access to our network of WiFi hotspots.

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### *Mobile Long-Distance*

Each mobile subscriber in Brazil is registered in a geographic area (identified by the corresponding area codes, such as 11 (São Paulo) and 21 (Rio de Janeiro)), which we refer to as the subscriber's home registration area. A call originated by a mobile subscriber registered in one home registration area to a mobile subscriber registered in another home registration area, is classified as a mobile long-distance call.

We provide mobile long-distance services originating from Region I and Region II through network facilities and through interconnection agreements with Telefônica in Region III and each of the other principal mobile services providers operating in Brazil that permit us to interconnect directly with their local fixed-line and mobile networks. We provide international long-distance services originating or terminating on our customer's mobile handsets through agreements to interconnect our network with those of the main telecommunication service providers worldwide. We also use our submarine fiber optic network to transport international mobile long-distance calls.

### *Value-Added Services*

We provide value-added services include voice, text and data applications, including voicemail, caller ID, and other services, such as personalization (video downloads, games, ring tones and wallpaper), text messaging subscription services (horoscope, soccer teams and love match), chat, mobile television, location-based services and applications (mobile banking, mobile search, email and instant messaging).

### *Business and Corporate Services*

In the business and corporate services market, we serve small and medium-sized enterprise, or SMEs, and large enterprises, or corporate customers. We market a variety of services to SMEs, including our core fixed-line and mobile services, and our higher-value added services, such as broadband services, voice, text and data applications, advanced voice services and commercial data transmission services. We also market these services to corporate customers, combining these service offerings with information technology services.

### *Services for SMEs*

We offer SMEs services similar to those offered to our residential and personal mobility customers, including fixed-line and mobile voice services, and fixed-line and mobile broadband services. In addition, we offer SMEs:

digital trunk services, which optimize and increase the speed of the customer's telephone system;

advanced voice services, primarily 0800 (toll free) services, as well as voice portals where customers can participate in real-time chats and other interactive voice services; and

dedicated Line Services (*Serviços de Linhas Dedicadas*), or SLD, under which we lease dedicated digital and analog lines to customers for use in private networks.

We offer a variety of mobile plans to SMEs, including our *Oi Equipe Flat* plan for groups of employees, our *Oi Empresa Especial* plan for individual users in an SME and our *Oi Controle* plan which, similarly to our residential fixed-line plan, is designed to permit an SME to control usage of mobile minutes. In general, our sales team works

with an SME customer to determine their telecommunications needs and negotiates a package of services and pricing structure that is tailored to the needs of that SME.

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### *Services for Corporate Customers*

We offer corporate customers all of the services offered to our SME customers. In addition, we provide a variety of customized, high-speed data transmission services through various technologies and means of access to corporate customers. Our data transmission services include interconnection between local area networks at data transmission speeds of 34 Mbps, 155 Mbps and 10 Gbps, videoconferencing, video/image transmission and multimedia applications. Our principal commercial data transmission services are:

SLD, under which we lease dedicated lines to corporate customers for use in private networks that link different corporate websites;

IP services which consist of dedicated private lines which we provide to most of the leading ISPs in Brazil, as well as Virtual Private Network, or VPN, services that enable our customers to operate private intranet and extranet networks; and

frame relay services which we provide to our corporate customers to allow them to transmit data using protocols based on direct use of our transmission lines, enabling the creation of VPNs.

In 2012, we have broadened the scope of services that we offer to our corporate clients to include information technology infrastructure services, seeking to offer our customers end-to-end solutions through which we are able to provide and manage their connectivity and information technology needs. In February 2012 we launched *Oi Smartcloud*, a suite of data processing and data storage services that we perform through our six cyber data centers located in Brasília, São Paulo, Curitiba, Porto Alegre and Fortaleza. In addition, through these data centers, we provide hosting, collocation and IT outsourcing services, permitting our customers to outsource their IT structures to us or to use these centers to provide backup for their IT systems.

In addition, in the second quarter of 2012, we launched our *Oi Gestão* service through which we offer corporate clients managed services for their mobile devices. This service is focused on providing logistics and security solutions relating to mobile devices.

In order to provide complete solutions to our corporate clients, we have entered into service agreements for the joint supply of international data services with a number of important international data services providers. These commercial relationships with international data services providers are part of our strategy of offering telecommunication services packages to our customers.

### *Services for Other Telecommunications Providers*

We offer specialized services to other telecommunications providers, primarily consisting of interconnection to our networks, network usage charges for the use of portions of our long-distance network, and traffic transportation through our physical infrastructure.

### *Interconnection and Network Usage Charges*

All telecommunication services providers in Brazil are required, if technically feasible, to make their networks available for interconnection on a non-discriminatory basis whenever a request is made by another telecommunication

services provider. Interconnection permits a call originated on the network of a requesting local fixed-line, mobile or long-distance service provider's network to be terminated on the local fixed-line or mobile services network of the other provider.

We are authorized to charge for the use of our local fixed-line network on a per-minute basis for (1) all calls terminated on our local fixed-line networks in Regions I and II that originate on the networks of other local fixed-line, mobile and long-distance service providers, and (2) all long-distance calls originated on our local fixed-line networks in Regions I and II that are carried by other long-distance service providers.



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Conversely, other local fixed-line service providers charge us interconnection fees (1) to terminate calls on their local fixed-line networks that are originated on our local fixed-line, mobile or long-distance networks, and (2) for long-distance calls originated on their local fixed-line networks that are carried by our long-distance network.

In addition, we charge network usage fees to long-distance service providers and operators of trunking services that connect switching stations to our local fixed-line networks.

We are authorized to charge for the use of our long-distance network on a per-minute basis for all calls that travel through a portion of our long-distance networks for which the caller has not selected us as the long-distance provider. Conversely, other long-distance service providers charge us interconnection fees on a per-minute basis for all calls that travel through a portion of their long-distance networks for which the caller has selected us as the long-distance provider.

We are authorized to charge for the use of our mobile network on a per-minute basis for all calls terminated on our mobile network that originate on the networks of other local fixed-line, mobile and long-distance service providers. Conversely, other mobile services providers charge us interconnection fees to terminate calls on their mobile networks that are originated on our local fixed-line, mobile or long-distance networks.

### *Transportation*

We provide Industrial Exploitation of Dedicated Lines (Exploração Industrial de Linha Dedicada), or EILD, services under which lease trunk lines to other telecommunication services providers, primarily mobile services providers, which use these trunk lines to link their radio base stations to their switching centers;

Long-distance and mobile services providers may avoid paying long-distance network usage charges to us by establishing an interconnection to our local fixed-line networks. In order to retain these customers of our long-distance services, we offer a long-distance usage service, called national transportation, under which we provide discounts to our long-distance network usage fees based on the volume of traffic and geographic distribution of calls generated by a long-distance or mobile services provider.

We also offer international telecommunication service providers the option to terminate their Brazilian inbound traffic through our network, as an alternative to Embratel and TIM. We charge international telecommunication service providers a per-minute rate, based on whether a call terminates on a fixed-line or mobile telephone and the location of the local area in which the call terminates.

We also own and operate a submarine fiber optic network, which connects Brazil with the United States, Bermuda, Venezuela and Colombia. Through this network, we offer international data transportation services, primarily leased lines to other telecommunication services providers.

### **Rates**

Our rates for local fixed-line services, domestic long-distance services, mobile services, interconnection, EILD and SLD services are subject to regulation by ANATEL, subject to certain exceptions relating to the rates we charge under alternative fixed-line and mobile plans that we are authorized to offer to our customers. For information on ANATEL regulation of our rates, see Regulation of the Brazilian Telecommunications Industry Regulation of Fixed-Line Services Rate Regulation, Regulation of the Brazilian Telecommunications Industry Regulation of Mobile Services Personal Mobile Services Rate Regulation, Regulation of the Brazilian Telecommunications Industry Interconnection Regulations, and Regulation of the Brazilian Telecommunications Industry Regulation of Data

Transmission and Internet Services.

Many of the services we provide charge on a per-minute basis. For these services, we charge for calls based on the period of use. The charge unit is a tenth of a minute (six seconds), and rounding is permitted to the next succeeding tenth of a minute. There is a minimum charge period of 30 seconds for every call. For local fixed-line to fixed-line calls during off-peak hours, charges apply on a per-call basis, regardless the duration of the call.

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***Local Fixed-Line Rates***

*Local Rates*

Our revenues from local fixed-line services consist mainly of monthly subscription charges, charges for local calls and charges for the activation of lines for new subscribers or subscribers that have changed addresses. Monthly subscription charges are based on the plan to which the customer subscribes and whether the customer is a residential, commercial or trunk line customer.

Under our concession agreements, we are required to offer two local fixed-line plans to users: the Basic Plan per Minute and the Mandatory Alternative Service Plan, each of which includes installation charges, monthly subscription charges, and charges for local minutes. As of December 31, 2012, 17.9% of our local fixed-line customers subscribed to the Basic Plan per Minute or the Mandatory Alternative Service Plan.

The monthly subscription fees under the Basic Plan per Minute and the Mandatory Alternative Service Plan vary in accordance with the subscribers' profiles, as defined in the applicable ANATEL regulations. The monthly subscription fee for the Basic Plan per Minute includes the use of 200 local minutes per month by residential customers and 150 local minutes per month by commercial customers and trunk line customers. The monthly subscription fee for the Mandatory Alternative Service Plan includes the use of 400 local minutes per month by residential customers and 360 local minutes per month by commercial customers and trunk line customers. We deduct only two local minutes from a Basic Plan per Minute customer's monthly allotment and four minutes from a Mandatory Alternative Service Plan customer's monthly allotment for each local call made, regardless of the duration of the call, during off-peak hours. If the minute limits are exceeded, customers will incur additional metered-minute charges, the prices of which vary depending on whether the customer is a Basic Plan per Minute subscriber or a Mandatory Alternative Service Plan subscriber. If a customer does not use all of the minutes covered by the monthly subscription fee, the minutes cannot be carried over to the next month.

In addition to the Basic Plan per Minute and the Mandatory Alternative Service Plan, we are permitted to offer non-discriminatory alternative plans to the basic service plans. The rates for applicable services under these plans (e.g., monthly subscription rates and charges for local and long-distance calls) must be submitted for ANATEL approval prior to the offering of those plans to our customers. In general, ANATEL does not raise objections to the terms of these plans. As of December 31, 2012, 82.1% of our local fixed-line customers subscribed to alternative plans.

Under our fixed-line rate plans, we charge for calls on a per-minute basis. There is a minimum charge period of 30 seconds for every call. However, calls of three seconds or less are not charged, except in certain specific instances as provided for in ANATEL regulations.

On an annual basis, ANATEL increases or decreases the maximum rates that we are permitted to charge for our basic service plans. ANATEL increased the rates that we and Telemar may charge by an average of 0.66% as of October 23, 2010, 1.97% as of December 24, 2011 and 0.55% as of February 8, 2013. In addition, we are authorized to adjust the rates applicable to our alternative plans annually by no more than the rate of inflation, as measured by the IST. Discounts from the rates set in basic service plans and alternative service plans may be granted to customers without ANATEL approval.

The following table sets forth selected information regarding service rates under the Basic Plan per Minute of Oi and Telemar during the periods indicated.



**Table of Contents****Oi S.A. and Subsidiaries**

| Monthly subscription rates for Basic Plan per Minute (1) | Year Ended<br>December 31, |       |       |
|--|----------------------------|-------|-------|
|  | 2012                       | 2011  | 2010  |
|  | (in reais)                 |       |       |
| <b>Oi:</b>   |                            |       |       |
| Basic Plan per Minute (residential)                      | 29.71                      | 29.22 | 29.22 |
| Basic Plan per Minute (commercial)                       | 44.09                      | 43.26 | 43.26 |
| Basic Plan per Minute (trunk lines)                      | 43.30                      | 42.52 | 42.52 |
| <b>Telemar:</b>  |                            |       |       |
| Basic Plan per Minute (residential)                      | 29.52                      | 28.96 | 28.96 |
| Basic Plan per Minute (commercial)                       | 50.83                      | 49.91 | 49.91 |
| Basic Plan per Minute (trunk lines)                      | 50.73                      | 49.78 | 49.78 |

(1) The amounts represent the weighted average of monthly rates, net of taxes.

*Local Fixed Line-to-Mobile Rates*

When one of our fixed-line customers makes a call to a mobile subscriber of our company or another mobile services provider that terminates in the mobile registration area in which the call was originated, we charge our fixed-line customer per-minute charges for the duration of the call based on rates designated by ANATEL as VC-1 rates. In turn, we pay the mobile services provider a per-minute charge based on rates designated by ANATEL as VU-M rates for the use of its mobile network in completing the call. VC-1 rates vary depending on the time of the day and day of the week, and are applied on a per-minute basis.

On an annual basis, ANATEL may increase or decrease the maximum VC-1 rates that we are permitted to charge. ANATEL authorized our company and Telemar to increase our VC-1 rates by an average 0.98% as of February 9, 2010. Discounts from the VC-1 rates approved by ANATEL may be granted to customers without ANATEL approval. In November 2011, ANATEL adopted new regulations under which ANATEL was authorized to reduce the then-current VC-1 rates by as much as 18% in 2011, 12% in 2012 and 10% in 2013, after giving effect to an inflation adjustment based on the IST measured from June 2009. In February 2012, ANATEL ordered us to reduce our VC-1 rates by approximately 10%, although we are appealing the timing of the application of this rate decrease to our company as our VC-1 rate was increased in Region I by 1.54% in accordance with our application for this increase in February 2012. In March 2013, ANATEL reduced our VC-1 rates in Region I and Region II by approximately 18.6% and 8%, respectively; we will similarly appeal the timing of the application of the rate decrease to our company in Region II.

The following table sets forth the average per-minute VC-1 rates that Oi and Telemar were permitted to charge for fixed-line to mobile calls during the periods indicated.

| Per-minute charges for local fixed-line calls made to mobile telephones (1) | Year Ended December 31, |      |      |
|---|-------------------------|------|------|
|   | 2012                    | 2011 | 2010 |
|   | (in reais)              |      |      |
| Oi  | 0.51                    | 0.51 | 0.51 |
| Telemar   | 0.51                    | 0.51 | 0.51 |

(1) The amounts represent the weighted average of monthly rates, net of taxes.

*Domestic Long-Distance Rates*

*Fixed Line-to-Fixed-Line*

If a caller selects one of our carrier selection codes for a long-distance call that originates and terminates on fixed-line telephones, we receive the revenues from the call and must pay interconnection fees to the service providers that operate the networks on which the call originates and terminates. Rates for these long-distance calls are based on the physical distance separating callers (which are categorized by four distance ranges), time of the day and day of the week, and are applied on a per-minute basis for the duration of the call. Rates on these calls are applied on a per-minute basis.

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On an annual basis, ANATEL increases or decreases the maximum domestic fixed line-to-fixed line long-distance rates that we are permitted to charge. ANATEL increased the rates that our company and Telemar may charge by an average of 0.66% as of October 23, 2010, 1.97% as of December 24, 2011 and 0.55% as of February 8, 2013. Discounts from the domestic fixed line-to-fixed line long-distance rates approved by ANATEL may be granted to customers without ANATEL approval.

The following table sets forth selected information on domestic fixed line-to-fixed line long-distance rates that Oi and Telemar were permitted to charge per minute during peak hours (*i.e.*, between the hours of 9 a.m. and noon and 2 p.m. and 6 p.m. on weekdays) during the periods indicated.

| Domestic long-distance rates per minute (1) | Year Ended December 31, |      |      |
|---|-------------------------|------|------|
|   | 2012                    | 2011 | 2010 |
|   | (in reais)              |      |      |
| <b>Oi:</b>                                  |                         |      |      |
| 0 to 50 km                                  | 0.15                    | 0.13 | 0.20 |
| 50 to 100 km                                | 0.37                    | 0.28 | 0.35 |
| 100 to 300 km                               | 0.40                    | 0.31 | 0.38 |
| Over 300 km                                 | 0.42                    | 0.32 | 0.39 |
| <b>Telemar:</b>                             |                         |      |      |
| 0 to 50 km                                  | 0.13                    | 0.11 | 0.17 |
| 50 to 100 km                                | 0.32                    | 0.23 | 0.30 |
| 100 to 300 km                               | 0.41                    | 0.32 | 0.39 |
| Over 300 km                                 | 0.46                    | 0.38 | 0.43 |

(1) The amounts represent the weighted average of monthly rates, net of taxes.

*Mobile Long-Distance*

Rates for long-distance calls that originate or terminate on mobile telephones are based on whether the call is an intrasectorial long-distance call, which is charged at rates designated by ANATEL as VC-2 rates, or an intersectorial long-distance call, which is charged at rates designated by ANATEL as VC-3 rates. If the caller selects one of our carrier selection codes for the call, we receive the revenues from the call and must pay interconnection fees to the service providers that operate the networks on which the call originates and terminates. The applicable VC-2 and VC-3 rates vary depending on the time of the day and day of the week, and are applied on a per-minute basis.

On an annual basis, ANATEL may increase or decrease the maximum VC-2 and VC-3 rates we are authorized to charge. ANATEL authorized our company and Telemar to increase our VC-2 and VC-3 rates by an average of 0.98% as of February 9, 2010. In November 2011, ANATEL adopted new regulations under which ANATEL was authorized to reduce the then-current VC-2 and VC-3 rates by as much as 18% in 2011, 12% in 2012 and 10% in 2013, after giving effect to an inflation adjustment based on the IST measured from June 2009. In February 2012, ANATEL ordered us to reduce our VC-2 and VC-3 rates by approximately 10%, although we are appealing the timing of the application of these rate decreases to our company as our VC-1, VC-2 and VC-3 rates were increased by 1.54% in Region I in accordance with our application for this increase in February 2012. In March 2013, ANATEL reduced our VC-2 and VC-3 rates in Region I and Region II by approximately 18.6% and 8%, respectively; we will similarly appeal the timing of the application of the rate decrease to our company in Region II.

The following table sets forth the average per-minute rates that Oi and Telemar were permitted to charge for mobile long-distance calls during peak hours (*i.e.*, Monday to Saturday between the hours of 9 a.m. and noon and 7 a.m. and 9 p.m. on weekdays) during the periods indicated.



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| Per-minute charges for mobile long-distance calls (1) | Year Ended December 31, |      |      |
|---|-------------------------|------|------|
|   | 2012                    | 2011 | 2010 |
|   | (in reais)              |      |      |
| <b>Oi:</b>  |                         |      |      |
| VC-2  | 1.12                    | 1.12 | 1.12 |
| VC-3  | 1.28                    | 1.28 | 1.28 |
| <b>Telemar:</b>                                       |                         |      |      |
| VC-2  | 1.13                    | 1.11 | 1.11 |
| VC-3  | 1.28                    | 1.27 | 1.27 |

(1) The amounts represent the weighted average of monthly rates, net of taxes.

**Mobile Rates**

Mobile telecommunication service in Brazil, unlike in the United States, is offered on a calling-party-pays basis under which a mobile subscriber pays only for calls that he or she originates (in addition to roaming charges paid on calls made or received outside the subscriber's home registration area). A mobile subscriber receiving a collect call is also required to pay mobile usage charges.

Our revenues from mobile services consist mainly of charges for local and long-distance calls paid by our pre-paid and post-paid mobile subscribers and monthly subscription charges paid by our post-paid plan subscribers. Monthly subscription charges are based on a post-paid subscriber's service plan. If one of our mobile subscribers places or receives a call from a location outside of his or her home registration area, we are permitted to charge that customer the applicable roaming rate.

Under ANATEL regulations, TNL PCS S.A., or TNL PCS, and Brasil Telecom Mobile were each required to submit a basic post-paid service plan and a basic pre-paid service plan to ANATEL for its approval. As of December 31, 2012, fewer than 1% of our mobile customers subscribed to our basic post-paid plans or our basic pre-paid plans.

In addition to the basic service plans, we are permitted to offer non-discriminatory alternative plans to the basic service plans. The rates for applicable services under these plans (*e.g.*, monthly subscription rates, charges for local and long-distance calls and roaming charges) must be submitted for ANATEL approval prior to the offering of those plans to our customers. In general, ANATEL does not raise objections to the terms of these plans. As of December 31, 2012, substantially all of our post-paid and pre-paid customers subscribed to these alternative plans.

Although subscribers of a plan cannot be forced to migrate to new plans, existing plans may be discontinued as long as all subscribers of the discontinued plan receive a notice to that effect and are allowed to migrate to new plans within six months of such notice.

We charge for all mobile calls made by our pre-paid customers, and for mobile calls made by our post-paid customers in excess of their allocated monthly number of minutes, on a per-minute basis.

Rates under our mobile plans may be adjusted annually by no more than the rate of inflation, as measured by the IST. These rate adjustments occur on the anniversary dates of the approval of the specific plans. Discounts from the rates set in basic service plans and alternative service plans may be granted to customers without ANATEL approval. The rate of inflation as measured by the IST was 5.65% in 2010, 4.90% in 2011 and 4.77% in 2012.



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***Network Usage (Interconnection) Rates***

***Fixed-Line Networks***

Our revenues from the use of our local fixed-line networks consist primarily of payments on a per-minute basis, which are charged at rates designated by ANATEL as TU-RL rates, from:

long-distance service providers to complete calls terminating on our local fixed-line networks;

long-distance service providers for the transfer to their networks of calls originating on our local fixed-line networks;

mobile services providers to complete calls terminating on our local fixed-line networks; and

other fixed-line service providers for local fixed-line calls that originate on their local fixed-line networks and terminate on our local fixed-line networks.

TU-RL rates vary depending on the time of the day and day of the week, and are applied on a per-minute basis. Charges for the use of our local fixed-line networks to terminate local calls originating on the network of another local fixed-line service provider are only billed and due when usage of one of our networks exceeds 55% of the total traffic registered between that network and the network of the other telecommunication service provider.

Since January 1, 2007, the TU-RL rates of Oi and Telemar have been equal to 40% of the rate included in their respective Basic Plan per Minute for a local fixed-line call, which is adjusted on an annual basis by ANATEL. As of the date of this annual report, Oi's TU-RL rate during peak hours (*i.e.*, between the hours of 9 a.m. and noon and 2 p.m. and 6 p.m. on weekdays) is R\$0.032 per minute, and Telemar's TU-RL rate during peak hours is R\$0.029 per minute. ANATEL announced that beginning in 2008, the method used to determine the TU-RL rates would be based on a cost methodology, known as long-run incremental costs. However, in October 2007, ANATEL published an official letter delaying this change until the end of 2010. In September 2010, ANATEL commenced the bidding process to engage an international consultant to assist with the development of the long-run incremental cost methodology. ANATEL has indicated that it will provide a definitive timetable for the completion of the project in September 2013. Therefore, we cannot predict when this new methodology will be adopted.

In May 2012, ANATEL adopted revisions to the regulations relating to TU-RL rates that became effective in August 2012. Under the revised regulations (1) between August of 2012 and December of 2013, fixed-line service providers will be able to charge other fixed-line service providers for local fixed-line calls originating on their local fixed-line networks and terminating on the other provider's local fixed-line networks only if the outgoing traffic in a given direction of transmission is higher than 75% of the total traffic between such providers, and (2) beginning in January 2014, fixed-line service providers will no longer be able to charge other fixed-line service providers for local fixed-line calls originating on their local fixed-line networks and terminating on the other provider's local fixed-line networks.

Our revenues from the use of our long-distance networks consist primarily of payments on a per-minute basis, which are charged at rates designated by ANATEL as TU-RIU rates, from other long-distance carriers that use a portion of

our long-distance networks to complete calls initiated by callers that have not selected us as the long-distance provider.

TU-RIU rates vary depending on the time of the day and day of the week, and are applied on a per-minute basis. From January 1, 2007 through July 31, 2012, the TU-RIU rates of Oi and Telemar were equal to 30% of their respective domestic fixed line-to-fixed line long-distance rates for calls of more than 300 km, which are typically adjusted on an annual basis by ANATEL. From August 1, 2012 through December 31, 2012, the TU-RIU rates of Oi and Telemar were equal to 25% of their respective domestic fixed line-to-fixed line long-distance rates for such calls. Since January 1, 2013, the TU-RIU rates of Oi and Telemar have been equal to 20% of their respective domestic fixed line-to-fixed line long-distance rates for such calls. See [Local Fixed-Line Rates](#) [Domestic Long-Distance Rates](#) [Fixed Line-To-Fixed Line](#). As of the date of this annual report, Oi's TU-RIU rate is R\$0.10 per minute and Telemar's TU-RIU rate is R\$0.12 per minute.

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The following table sets forth the average per-minute rates Oi and Telemar charged for the use of our fixed-line networks during the periods indicated.

| Fixed-Line Network Usage Rates (1) | Year Ended December 31, |       |       |
|------------------------------------|-------------------------|-------|-------|
|                                    | 2012                    | 2011  | 2010  |
|                                    | (in reais)              |       |       |
| <b>Oi:</b>                         |                         |       |       |
| TU-RL                              | 0.032                   | 0.032 | 0.031 |
| TU-RIU                             | 0.095                   | 0.097 | 0.094 |
| <b>Telemar:</b>                    |                         |       |       |
| TU-RL                              | 0.030                   | 0.029 | 0.029 |
| TU-RIU                             | 0.111                   | 0.118 | 0.108 |

(1) The amounts represent the weighted average of monthly rates, net of taxes.

*Mobile Networks*

Our revenues from the use of our mobile networks consist primarily of payments on a per-minute basis from (1) local fixed-line, long-distance and mobile services providers to complete calls terminating on our mobile networks, and (2) long-distance service providers for the transfer to their networks of calls originating on our mobile networks.

The terms and conditions of interconnection to our mobile networks, including the rates charged to terminate calls on these mobile networks, which are designated by ANATEL as VU-M rates, commercial conditions and technical issues, are freely negotiated between us and other mobile and fixed-line telecommunication service providers, subject to compliance with regulations established by ANATEL relating to traffic capacity and interconnection infrastructure that must be made available to requesting providers, among other things. We must offer the same VU-M rates to all requesting service providers on a nondiscriminatory basis. We apply VU-M charges on a per-minute basis.

If we are not able to establish interconnection rates for use of our mobile networks with other mobile and fixed-line telecommunication service providers, ANATEL is empowered to arbitrate, at its discretion, the interconnection rates that we may charge. In January 2010, ANATEL set provisional reference rates for each mobile services provider for each region based on the mean VU-M previously charged by that mobile services provider in the applicable service region. In February 2010, ANATEL authorized an increase of 0.67% in the VU-M rates of our company and Telemar, equivalent to 68.5% of the increase in our VC-1 rates granted at that time.

In November 2011, ANATEL adopted new regulations that provided procedures under which ANATEL adopted a maximum VU-M rate that is applicable in the event that providers cannot agree upon the VU-M applicable in their interconnection agreements. The maximum VU-M rate established by ANATEL is R\$0.35 per minute.

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The following table sets forth the average per-minute VU-M rates that Oi and Telemar charged during the periods indicated.

| Per-minute charges for local fixed-line calls made to mobile telephones (1) | Year Ended December 31, |      |      |
|---|-------------------------|------|------|
|   | 2012                    | 2011 | 2010 |
|   | (in reais)              |      |      |
| Oi  | 0.35                    | 0.42 | 0.42 |
| Telemar   | 0.36                    | 0.41 | 0.41 |

(1) The amounts represent the weighted average of monthly rates, net of taxes.

**Data Transmission Rates**

Broadband services, IP services and frame relay services are deemed to be value-added services under ANATEL regulations and, therefore, the rates and prices for these services are not subject to regulation and are market-driven. We offer broadband services subscriptions at prices that vary depending on the download speeds available under the purchased subscription.

A significant portion of our revenues from commercial data transmission services are generated by monthly charges for EILD and SLD services, which are based on contractual arrangements for the use of part of our networks. Under ANATEL regulations, because we are deemed to have significant market power in the fixed-line services business, we are required to make publicly available the forms of agreements that we use for EILD and SLD services, including the applicable rates, and are only permitted to offer these services under these forms of agreements. We are allowed to increase these rates on an annual basis by no more than the rate of inflation, as measured by the IST. ANATEL also publishes reference rates for these services and if one of our customers objects to the rates that we charge for these services, that customer is entitled to seek to reduce the applicable rate through arbitration before ANATEL.

Our revenue from IP services is based on the number of data ports to which the customer is granted access. Our revenue from frame relay services consists mainly of charges for access to the data transmission network and metered service charges based on the amount of data transmitted. Such services are offered as pay-per-use or volume-based packages. Our revenue from cyber data center services is generally based on contractual arrangements that are tailored to the specific services provided.

**DTH Services Rates**

DTH services are deemed to be value-added services under ANATEL regulations and, therefore, the rates and prices for these services are not subject to regulation and are market-driven. We offer DTH subscriptions at prices that vary depending on the content of the subscription package. We offer basic subscription packages for our *Oi TV* services, as well as a variety of premium packages which allow subscribers to tailor the content that they receive to their individual tastes.

**Marketing**

In 2012, we incurred R\$443 million in marketing expenses, primarily to:

strengthen the *Oi* brand, reinforcing the image of the convergence of the integrated company;

promote our bundled plans, such as *Oi Internet Total*, *Oi Fixo + Oi Velox + Oi TV* and *Fixo Ilimitado + Pré Ilimitado* as part of our effort to expand and strengthen our customer base;

expand our *Oi TV* customer base with offers through our other services;

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promote our pre-paid mobile services through a promotional campaign that awards prizes to new and existing customers who recharge their Oi SIM cards;

promote our post-paid mobile plans, primarily those that include unlimited calls and 3G data services at higher speeds, through specific marketing campaigns and mobile device subsidies for customers who subscribe to our post-paid plans, as part of our effort to increase our market share in mobile services; and

expand our broadband and 3G internet customer base, focusing on geographic regions covered by the National Broadband Plan;

Throughout 2012, we focused our marketing efforts on three types of customers: (1) retail customers, including mobile telephone and residential fixed-line customers; (2) SMEs; and (3) corporate customers.

We advertise through a diverse array of media outlets as part of our strategy to reach all types and classes of customers and potential customers. We use television, radio, billboards, exterior signage, telemarketing, direct mail and internet advertising to market our fixed-line, mobile, long-distance, broadband and subscription television services. We use our branded fixed assets in advertising campaigns, such as the *Orelhão Mágico* Christmas campaign, in which children are able to place calls to Santa Claus from our telephone booths. We also sponsor sporting events and individual athletes, as well as cultural events, such as fashion shows and popular music concerts. We are the official telecom provider and a sponsor of the 2014 World Cup in Brazil. The goal of our marketing initiatives is to increase brand awareness of our company as a convergent provider capable of meeting all of the telecommunications needs of our customers and expand the use of our distribution channels to increase net operating revenue.

### ***Distribution Channels***

During the last months of 2011, we revised our distribution model and now distribute our services through channels focused on three separate sectors of the telecommunication services market: (1) residential customers, including customers of our mobile services to whom we sell bundled plans; (2) personal mobility customers that purchase our mobile services independently of our bundled plans; and (3) business and corporate customers.

#### ***Residential Customers***

Our distribution channels for residential customers are focused on sales of fixed-line services, including voice, Oi Velox and Oi TV, and post-paid mobile services. As part of the restructuring of our distribution channels, we have begun to provide more extensive training to our employees and the employees of third-party sales agents and have revised our commission structures to incentivize sales of plans and services that generate higher average revenue per user. The principal distribution channels that we use for sales to residential customers are:

our own network of stores, which we began opening in 2011. As of December 31, 2012, we had opened 197 *Oi* branded stores and expect to open additional *Oi* branded stores during 2013.

approximately 500 *Oi* franchised service stores and kiosks located in the largest shopping malls and other high density areas throughout Brazil.



approximately 430 stores located throughout our service area that primarily sell telecommunications products and services and have entered into exclusivity agreements with us.

our telemarketing sales channel, which is operated by our call center and other third-party agents and consists of approximately 2,300 sales representatives that answer more than 2.1 million calls per month. This channel provides us with the ability to pro-actively reach new customers, thereby increasing our client base and revenues, and also receives calls prompted by our offers made in numerous types of media.

our teleagents channel, which consists of approximately 1,200 local sales agents that operate in specific regions and complement our telemarketers.

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door-to-door sales calls made by our sales force of approximately 500 salespeople and by exclusive agents with approximately 6,500 salespeople trained to sell our services throughout Brazil in places where customers generally are not reachable by telemarketing.

Our e-commerce sites through which customers may purchase a variety of our services.

*Personal Mobility*

Our distribution channels for personal mobility customers are focused on sales of mobile services to post-paid customers and pre-paid customers, including mobile broadband customers. As part of the restructuring of our distribution channels, our distribution channels for our post-paid personal mobility services have converged with our distribution channels for residential services. The principal distribution channels that we use for sales of our pre-paid personal mobility services are:

approximately 8,500 stores that are part of large national chains which sell our SIM cards and pre-paid mobile cards.

approximately 40 multibrand distributors that distribute our SIM cards and pre-paid mobile cards to approximately 150,000 pharmacies, supermarkets, newsstands and similar outlets.

our website, through which our pre-paid customers may recharge their SIM cards.

*Business and Corporate Customers*

We have established separate distribution channels to serve small and medium-sized enterprise, or SMEs, and large enterprises, or corporate customers. We market a variety of services to SMEs, including our core fixed-line and mobile services, and our higher-value added services, such as broadband services, voice, text and data applications, advanced voice services and commercial data transmission services. As part of the restructuring of our distribution channels, in 2012 we opened nine regional offices from which approximately 250 employees supervise our marketing efforts to SMEs and our third-party sales force serving this sector. We also have begun to provide more extensive training to our employees and the employees of third-party sales agents. The principal distribution channels that we use to market our services to SMEs are:

approximately 200 *Oi* exclusive agents with approximately 3,000 door-to-door sales consultants that are dedicated to understanding and addressing the communications needs of our existing and prospective SME customers.

our telemarketing sales channel, which consists of 14 agents that use approximately 600 sales representatives that are specifically trained to discuss the business needs of our prospective SME customers to make sales calls, as well as representatives in our call center and representatives at call centers under contract with us to receive calls from existing and prospective SME customers to sell services to new customers and promote higher-value and additional services to existing customers. In addition, our telemarketing channel utilizes

approximately 480 customer retention representatives.

We market our entire range of services to corporate customers through our own direct sales force which meets with current and prospective corporate customers to discuss the business needs of these enterprises and design solutions intended to address their communications needs. As part of the restructuring of our distribution channels, in 2012 we redesigned our client service model to increase our focus on post-sale service, regularly discussing service needs and improvements with our customers through calls and meetings with our customers. Our corporate sales team, including post-sale service personnel, is composed of approximately 1,000 employees operating in six regional offices.

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We send each of our fixed-line customers a monthly bill covering all the services provided during the prior monthly period. Customers are grouped in billing cycles based on the date their bills are issued. Each bill separately itemizes local calls, long-distance calls, calls terminating on a mobile network, toll-free services and other services such as call waiting, voicemail and call forwarding. We have agreements with several banks for the receipt and processing of payments from our customers. A variety of businesses, such as lottery houses, drugstores and grocery stores, accept payments from our customers as agents for these banks.

We are required to include in our monthly bills charges incurred by our customers for long-distance services provided by other long-distance service providers upon the request of these providers. We have billing agreements with each long-distance telecommunication service provider that interconnects with our networks under which we bill our customers for any long-distance calls originated on our network that are carried by another long-distance service provider and transfer the balance to the relevant provider after deducting any access fees due for the use of our network. Payments are due within an average of 15 days after the billing date. We charge late-payment interest at a rate of 1% per month plus a one-time late charge of 2% of the amount outstanding. As of December 31, 2012, 11.3% of all accounts receivable due from our fixed-line customers were outstanding for more than 30 days and 5.1% were outstanding for more than 90 days.

ANATEL regulations permit us to restrict outgoing calls made by a fixed-line customer when the customer's account is more than 31 days past due, restrict incoming calls received by a fixed-line customer when the customer's account is more than 61 days past due, and disconnect a fixed-line customer when the customer's account is more than 91 days past due, provided in each case that 15-days' prior notice has been given to that customer prior to the imposition of each restriction. The disconnection process thus comprises several stages, including customer notification regarding the referral of their delinquency to credit bureaus, before the fixed-line customer may be ultimately disconnected due to non-payment. Notices range from voice messages to active calls for negotiation with the customer. Our collection system enables us to access delinquent subscribers' accounts according to their payment profile. This profile takes into consideration, among other things, the length of subscription, the outstanding balance of the account and the longest payment delays.

***Mobile Telecommunication Services***

We bill our mobile post-paid customers on a monthly basis and itemize charges in the same manner as we bill our fixed-line customers. See *Fixed-Line Telephone Services*. In addition, the monthly bills also provide details regarding minutes used and roaming charges. Payments are due within an average of 15 days after the billing date. We charge late-payment interest at a rate of 1% per month plus a one-time late charge of 2% of the amount outstanding. As of December 31, 2012, 9.8% of all accounts receivable due from our mobile customers were outstanding for more than 30 days and 6.1% were outstanding for more than 90 days.

ANATEL regulations permit us to partially suspend services to a mobile customer when the customer's account is more than 15 days past due, restrict all incoming calls received and outgoing calls made by a mobile customer when the customer's account is more than 45 days past due, and cancel services to a mobile customer when the customer's account is more than 90 days past due, provided in each case that 15-days' prior notice has been given to that customer prior to the imposition of each restriction. The cancellation process thus comprises several stages, including customer notification regarding the referral of their delinquency to credit bureaus, before services to the mobile customer may be ultimately cancelled due to non-payment. Notices range from text messages to active calls for negotiation with the

customer. Our collection system enables us to access delinquent subscribers' accounts according to their payment profile. This profile takes into consideration, among other things, the length of subscription, the outstanding balance of the account and the longest payment delays. We have also implemented an information tool to assist with account management that is designed to warn subscribers of high outstanding amounts due and unpaid.

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### **Network and Facilities**

Our networks are comprised of physical and logical infrastructures through which we provide fully-integrated services, whether fixed-line or mobile, voice, data or image, thereby optimizing available resources. We monitor our networks remotely from our centralized national network operations center in Rio de Janeiro. Network operating and configuration platforms, located at the network operations center, perform failure monitoring, database and configuration management, security management and performance analysis for the each network.

#### *Access Networks*

Our access networks connect our customers to our signal aggregation and transportation networks. We have a large number of network access points, including twisted copper pair wires to residences and commercial buildings, fiber optic lines to residences and commercial buildings, wireless transmission equipment and WiFi hotspots. Our fixed-line networks are fully digitalized.

Voice and data signals that originate through fixed-line access points are routed through Multi-service Access Nodes, or MSANs, to our aggregation networks, or are rerouted to our aggregation networks through Digital Subscriber Line Access Multiplexer, or DSLAM, equipment which split the voice signal from the digital signal which is transmitted using ADSL or VDSL technology. We are engaged in a long-term program to update our MSAN equipment to DSLAM equipment as demand for data services increases. As of December 31, 2012, approximately 49.5% of our fixed-line network had been updated to support ADSL2+ or VDSL2 and we provided ADSL or VDSL2 services in 4,683 municipalities.

ADSL technology allows high-speed transmission of voice and data signals on a single copper wire pair for access to the network. Since voice transmission through telephone lines uses only one of many available frequency bands, the remaining frequency bands are available for data transmission. Our network supports ADSL2+ and VDSL2, or very-high-bitrate digital subscriber line, technologies. ADSL2+ is a data communications technology that allows data transmission at speeds of up to 24 Mbps downstream and 1 Mbps upstream, which is much faster than data transmission through conventional ADSL. ADSL2+ permits us to offer a wider range of services than ADSL, including IP TV. VDSL2 is a DSL technology providing faster data transmission, up to 100 Mbps (downstream and upstream), permitting us to support high bandwidth applications such as HDTV, Voice over Internet Protocol, or VoIP, and broadband internet access, over a single connection.

We are engaged in a long-term program to upgrade portions of our fixed-line access networks with optical fiber networks based on gigabit passive optical network, or GPON, technology to support VDSL2 service and facilitate our offering of our *Oi TV* service. The implementation of this technology permits us to provide broadband with speeds up to 100 Mbps to residential customers and up to 1 Gbps to commercial customers.

For our non-residential customers, we have a fully integrated and managed network providing access for networks based on internet protocol, or IP, and Asynchronous Transfer Mode, or ATM, protocol over legacy copper wire through which are able to provide:

symmetric and transparent access to Frame Relay services at speeds from 64 kbps to 1.5 Mbps;

symmetrical access with PPP (Point to Point) for the Internet connection services at speeds from 64 kbps to 1.5 Mbps; and

symmetrical access with PPP (Point to Point) to provide connection services for virtual private networks, or VPNs, through Multiprotocol Label Switching, or MPLS, protocol at speeds from 64 kbps to 1.5 Mbps.

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The following table sets forth selected information about our fixed-line networks as of the dates and for the periods indicated.

|   | <b>As of and For Year Ended<br/>December 31,</b> |             |             |
|---|--|-------------|-------------|
|   | <b>2012</b>                                      | <b>2011</b> | <b>2010</b> |
| <b>Region I:</b>                                |  |             |             |
| Installed access lines (in millions)            | 17.7   | 17.8        | 18.0        |
| Access lines in service (in millions)           | 11.3   | 10.6        | 12.8        |
| Public telephones in service (in thousands)     | 489.6  | 504.3       | 560.8       |
| Broadband access lines in service (in millions) | 3.5  | 2.9         | 2.4         |
| <b>Region II:</b>                               |  |             |             |
| Installed access lines (in millions)            | 10.6   | 10.4        | 10.4        |
| Access lines in service (in millions)           | 6.5  | 6.8         | 7.2         |
| Public telephones in service (in thousands)     | 237.9  | 265.0       | 266.1       |
| Broadband access lines in service (in millions) | 2.3  | 2.1         | 1.9         |

Mobile devices access our GSM (Global System for Mobile Communications), or 2G, mobile networks on frequencies of 900 MHz/1800 MHz access our UMTS (Universal Mobile Telecommunications System), or 3G, mobile networks on frequencies of 2100 MHz. Our 2G access points use General Packet Radio Service, or GPRS, which allows speeds in the range of 115 kilobytes per second (Kbps), and Enhanced Data Rates for Global Evolution, or EDGE, which allows speeds in the range of 230 Kbps, to send and receive data signals. Our 3G access points use high speed packet access, or HSPA, which allows speeds in the range of 14.2 Mbps, to send and receive data signals. Voice and data signals sent and received through our 2G and 3G access points are routed to our aggregation networks. Our mobile networks have unique data core and are fully integrated with our fixed-line data networks.

As of December 31, 2012, our 2G mobile access networks, consisting of 13,092 active radio base stations, covered 1,475 municipalities in Region I, or 88.0% of the urban population in Region I, 1,287 municipalities in Region II, or 96.0% of the urban population in Region II, and 547 municipalities in Region III, or 99.0% of the urban population in Region III. We have GPRS coverage in 100% of the localities covered and EDGE coverage in all state capitals.

As of December 31, 2012, our 3G mobile access networks, consisting of 7,575 active radio base stations, covered 297 municipalities in Region I, or 67.1% of the urban population in Region I, 231 municipalities in Region II, or 73.6% of the urban population in Region II, and 165 municipalities in Region III, or 85.4% of the urban population in Region III. We have HSPA coverage in all state capitals.

In the fourth quarter of 2012, we began deploying our 2.1 GHz mobile access networks to support 4G service in cities scheduled to host the 2014 World Cup.

In addition to these mobile access networks, we also operate WiFi hotspots in public areas such as coffee shops, airports and shopping centers. Since 2012, we have provided outdoor urban wireless networks, including in the neighborhoods of Copacabana and Ipanema in the city of Rio de Janeiro. As of December 31, 2012, our WiFi network consisted of approximately 40,000 hotspots. We have also begun to offer broadband access compatible with access points provided by Fon Wireless Ltd., or Fon, which allows our customers to access Fon lines worldwide.

**Aggregation Networks**



Voice and data signals sent through our access network are routed through our aggregation networks to digital switches which connect voice calls and route digital signals to their destinations. Portions of our aggregation network use conventional copper trunk lines to connect our access network to our switches and transportation networks. We use ATM protocol to permit high speed transmission of these signals. Other portions of our aggregation network use fiber optic cable to connect our access network to our switches and transportation networks

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using Synchronous Digital Hierarchy, or SDH, protocol. In large metropolitan areas where the density of access point results in increased demand, we have deployed Metro Ethernet networks. We are currently deploying Metro Ethernet networks in additional cities to serve rising customer demand. Our Metro Ethernet networks are fully-integrated management systems and provide:

ethernet data services from 4 Mbps up to 1 Gbps for point-to-point and multipoint dedicated access;

ethernet access services from 4 Mbps up to 1 Gbps for IP access and MPLS/VPN access;

aggregation network services for ADSL2+ and VDSL2 platforms; and

aggregation network services for GPON platforms.

Historically, we have used ATM protocol to transport digital signals through our access network from non-residential customers that require dedicated bandwidth to our switching stations. Our ATM networks have a fully-integrated management system and provide:

frame relay data services (a data transmission service using fast protocols based on direct use of transmission lines) from 64 Kbps up to 2 Mbps;

ATM data services supporting access rates from 2 Mbps to 622 Mbps; and

aggregation network services for ADSL2+ platforms.

In response to changing customer needs, we converting elements of our network that use ATM and SDH protocols, that permit us to offer dedicated bandwidth to our customers, to MPLS protocol, which supports IP and permits the creation of VPNs through our MetroEthernet networks.

We have begun to use MPLS-TP capable devices that have been designed to interface with our existing Metro Ethernet Network to increase the bandwidth of our networks to support our 4G network data traffic and replace our legacy SDH networks.

***Transportation Networks***

Our long-distance transportation network consists of optical fiber cable networks supporting high capacity Dense Wavelength Division Multiplex, or DWDM, systems that can operate with up to 80 channels at 10 and 40 Gbps. Currently We are in the process of quadrupling the capacity of our backbone as a result of the deployment of 40 Gbps optical technology. In 2013, we are implementing DWDM links of 100 Gbps between Rio de Janeiro, São Paulo, Belo Horizonte and Salvador. Our optical cable network is complemented by microwave links that we use in Region I and Region II. We have a nationwide long-distance backbone, consisting of an optical fiber network that connects the Federal District and the state capitals in Region I and Region II, other than Macapá (located in the State of Amapá)

and is complimented by our satellite system. We expect that our optical fiber network will reach Macapá in 2013. Most of the large urban areas of Regions I and II are also connected by our fiber optic cable networks. Our transmission infrastructure connects our digital switches to four international gateway switches: two in Rio de Janeiro, one in Curitiba and one in Brasília.

We employ automatic traffic protection to improve the reliability of our network and increase its traffic capacity. The network is fully supervised and operated by management systems that allow rapid response to customer service requests and reduce the recovery time in case of failures.

We operate an internet backbone network and a fully IP-routed network, which provides a backbone for all internet dedicated services and VPN offerings. Our internet backbone connects to the public internet via international links that we maintain abroad. With these international links, we do not need to rely on other companies to connect our outbound internet traffic with the internet backbones of international ISPs.

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We have implemented an address control and name resolution system for our IP networks with the objective of optimizing resources and improving the availability of internet access services.

Our transportation network is directly interconnected to the national and international long-distance networks of all long-distance service providers operating in Regions I, II and III and all mobile services providers in Regions I, II and III.

***Satellite Network***

We have deployed an expanded range of satellite-based services to comply with our public service obligations to the rural and remote areas of Brazil, including the Amazon rainforest region. These satellite services include internet access and access to corporate data applications. As of December 31, 2012, our satellite network covered approximately 4,500 localities in 24 states and the Federal District and provided voice and data services to approximately 6.8 million customers.

In 2000, we began the implementation of the land-based segment of our respective satellite networks in order to extend transmission to remote areas in the states of Acre, Paraná, Rondônia, Rio Grande do Sul, Santa Catarina, Pará, Amazonas, Amapá and Roraima, as well as to other areas with limited access to telecommunication services due to geographical conditions, such as Mato Grosso, Mato Grosso do Sul, Goiás and Tocantins. The satellite network comprises satellite earth stations located in less-populated rural areas, as well as hub stations in the cities of Brasília, Manaus, Boa Vista, Macapá, Belém, Santarém, Marabá, Rio de Janeiro, Curitiba, Porto Alegre, Florianópolis, Cuiabá, Porto Velho and Goiânia. These satellite networks use digital technology and began operating in August 2000. The fiber optic and satellite backbones are interconnected in Brasília, Belém, Fortaleza, Rio de Janeiro, Curitiba, Porto Alegre, Florianópolis, Cuiabá, Porto Velho and Goiânia. The integration of the land-based segment of our satellite network allows us to service our subscribers in any location in Regions I and II.

Hisparmar Satellite S.A., or Hisparmar, a Spanish-Brazilian consortium created in November 1999 by Hispasat (the leading satellite telecommunications provider in the Iberian Peninsula), and our company operate the Amazonas 1 satellite, which was manufactured by Astrium (EADS Space Company). In December 2002, we entered into an agreement with Hispasat that granted and transferred to Hisparmar the rights to exploit geostationary orbital position 61 degrees west, and we acquired a minority equity stake in Hisparmar. The Amazonas 1 satellite was launched into geostationary orbit over the Americas and started to operate in November 2004. The Amazonas 1 satellite provides both C and Ku band transponders and on-board switching. The Amazonas 1 satellite is owned by a subsidiary of Hispasat and Hisparmar has been granted the right to operate and lease all of the transponder space on this satellite.

In 2009, the Amazonas 2 satellite was launched and this satellite commenced commercial operations in early 2010. The Amazonas 2 satellite was manufactured by Astrium and launched into geostationary orbit of 61 degrees West. This satellite provides both C and Ku band transponders and on-board switching, with an expected lifetime of 15 years. The Amazonas 2 satellite is owned by a subsidiary of Hispasat and Hisparmar has been granted the right to operate and lease all of the transponder space on this satellite.

We lease transponders from:

Hisparmar with 754 MHz of capacity in the C band on the Amazonas 1 satellite and 540 MHz of capacity in the C band on the Amazonas 2 satellite to provide voice and data services through 653 remote switches covering 390 municipalities;

Hispamar with 98.3 Mhz of capacity in the Ku band on the Amazonas 1 satellite and 576 Mhz of capacity in the Ku band on the Amazonas 2 satellite to provide voice and data services to approximately 3,028 localities;

Intelsat Satellite with 122 MHz of capacity in the C band on the IS-805 satellite and 648 MHz of capacity in the C band on the IS 10-02 satellite to transport voice and data signals from Manaus to Rio de Janeiro; and

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SES New Skies with 108 MHz of capacity in the K band on the SES-4 satellite to provide voice and data services throughout Brazil;

Intelsat Satellite with 103 MHz of capacity in the C band on the IS-905 satellite to transport voice and data signals from Macapá to Rio de Janeiro and Boa Vista to Rio de Janeiro.

In 2005, we and Telemar started to operate satellite platforms operating in the Ku band that are comprised of a satellite transport solution with Digital Video Broadcast Return Channel Satellite, or DVB-RCS, technology and an NGN control solution.

### ***DTH Network***

We provide our DTH services through a satellite uplink located in Lurin, Peru which receives, encodes and transmits the television signals to satellite transponders. We lease these facilities and license the related technology from Telefónica.

We lease transponders for the delivery of the television signals to our subscribers from Telefónica. We have leased 216 Mhz of capacity in the Ku band on the Amazonas 1 satellite and 36 Mhz of capacity in the Ku band on the Amazonas 2 satellite to provide DTH services.

Our customers lease satellite dishes and set-top boxes from us as part of their subscriptions to our *Oi TV* services.

### ***HFC Network***

We provide subscription analog and digital television services and broadband internet access to the residential and commercial market segments in the cities of Belo Horizonte, Poços de Caldas, Uberlândia and Barbacena using an HFC network. The analog television signal is distributed from integrated headend equipment owned by Cemig Telecom that is located in these cities. The digital television signal is distributed to the HFC network in Belo Horizonte from our integrated headend equipment located in Alvorada in the city of Rio de Janeiro.

### ***Network Maintenance***

Most of our maintenance, installation and network servicing are performed by third-party service providers. For example, we have contracts with some well-known providers such as A.R.M. Engenharia for the maintenance of our external plant and equipment, and Alcatel-Lucent and Nokia Siemens Networks and Telemont for the maintenance of our internal plant and equipment. We also perform some of our ordinary course maintenance with our own team of maintenance technicians, which also coordinate the planning and execution of maintenance services performed by third parties.

In July 2009, Oi and Telemar entered into a services agreement with Nokia Siemens Networks for installation, operation, and corrective and preventive maintenance in connection with their fixed-line telecommunication services, mobile telecommunication services, data transmission services (including broadband access services), satellite services, buildings, access ways, and towers, in the States of Rio de Janeiro, Minas Gerais, Espírito Santo, São Paulo, Bahia, Sergipe, Pernambuco, Alagoas, Paraíba, Rio Grande do Norte, Ceará, Piauí, Maranhão, Pará, Amapá, Amazonas and Roraima. The total estimated payments under this contract are R\$2.5 billion during the five-year term of this contract.

In November 2009, Oi and Telemar entered into a services agreement with Alcatel-Lucent to perform the same services in the States of Rio Grande do Sul, Santa Catarina, Paraná, Mato Grosso do Sul, Mato Grosso, Goiás, Tocantins, Acre, Rondônia and the Federal District, as well as Pegasus data transmission network equipment in the States of Paraná, Santa Catarina, Rio Grande do Sul, Goiás and the Federal District. The total estimated payments under this contract are R\$1.2 billion during the five-year term of this contract.

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In January 2012, we entered into a services agreement with Telemont for installation, operation, and corrective and preventive maintenance in connection with our external plant and associated equipment, public telephones, and fiber optic and data communication networks (including broadband access services) in the State of Rio de Janeiro. The total estimated payments under this contract are expected to be R\$2.6 billion during the five-year term of this contract.

In January 2012, we entered into a services agreement with Serede Serviços de Rede S/A for installation, operation, and corrective and preventive maintenance in connection with our external plant and associated equipment, public telephones and fiber optic in the State of Rio de Janeiro. The total estimated payments under this contract are R\$1.4 billion during the five-year term of this contract.

In October 2012, we entered into a services agreement with Telemont, which replaced and superseded an agreement that we had entered into with Telemont in March 2010, for installation, operation, and corrective and preventive maintenance in connection with our external plant and associated equipment, public telephones, and fiber optic and data communication networks (including broadband access services) in the States of Minas Gerais, Espírito Santo, the Federal District, Mato Grosso, Mato Grosso do Sul, Tocantins, Acre, Rondônia and Goiás. The total estimated payments under this contract are expected to be R\$3.9 billion during the five-year term of this contract.

In October 2012, we entered into a services agreement with A.R.M. Engenharia, which replaced and superseded an agreement that we had entered into with A.R.M. Engenharia in July 2010, for installation, operation, and corrective and preventive maintenance in connection with our external plant and associated equipment, public telephones, and fiber optic and data communication networks (including broadband access services) in the States of Maranhão, Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco, Alagoas, Sergipe, Bahia, Amazonas, Roraima, Pará, Amapá, Paraná, Santa Catarina and Rio Grande do Sul. The total estimated payments under this contract are R\$6.2 billion during the five-year term of this contract.

## **Competition**

Our industry is highly competitive. The competitive environment is significantly affected by key trends, including technological and service convergence, market consolidation and combined service offerings by service providers. See Item 5. Operating and Financial Review and Prospects Principal Factors Affecting Our Financial Condition and Results of Operations Effects of Competition on the Rates that We Realize and the Discounts We Record.

### ***Local Fixed-Line Services***

In the local fixed-line telecommunication services market, competition has historically been focused on corporate customers, however, recently our competitors have begun compete in the consumer market with bundles or services targeted to the needs of lower income customers. In addition, competition from other telecommunication services has been increasing, particularly from mobile telecommunication services, which has led to traffic migration from fixed-line traffic to mobile traffic and the substitution of mobile services in place of fixed-line services, encouraged by offers of aggressively-priced packages from some mobile telecommunication service providers. Finally, the decrease in interconnection rates has discouraged the construction of new fixed-line networks and has led to decreases in market prices for telecommunication services by enabling telecommunication service providers that use the local fixed-line networks of incumbent fixed-line providers to offer lower prices to their customers.

We are the leading provider of local fixed-line services in Regions I and II with 11.8 million fixed lines in service in Region I and 6.7 million fixed lines in service in Region II as of December 31, 2012. Based on the most recent information available from ANATEL, as of May 31, 2012 we had an estimated market share of 71.2% of the total fixed lines in service in Region I and an estimated market share of 64.7% of the total fixed lines in service in Region



II. Our principal competitors for fixed-line services are (1) Embratel (a subsidiary of América Móvil), which had an estimated market share of 18.2% of the total fixed lines in service in Region I and an estimated market share of 11.7% of the total fixed lines in service in Region II as of May 31, 2012, based on the most recent information available from ANATEL, and (2) GVT (an affiliate of Vivendi S.A.), which had an estimated market share of 5.6% of the total fixed lines in service in Region I and an estimated market share of 19.6% of the total fixed lines in service in Region II as of May 31, 2012, based on the most recent information available from ANATEL.

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Embratel provides local fixed-line services to residential customers through fixed devices that receive wireless signals from a single transmission tower located near the subscriber's residence and through the cable network owned by its subsidiary Net in the portions of Regions I and II where Net provides cable television service. As a result, Net is able to offer cable television, broadband and telephone services as a bundle at a very competitive price. We also expect competition from Embratel to increase in certain large cities, such as Rio de Janeiro, Belo Horizonte and Salvador, where it continues to expand its local fixed-line network.

GVT has been increasing its competitive activities in Regions I and II, expanding its fiber optic network in high-income residential areas and increasing its services to low- and medium-size businesses. We expect competition from GVT to increase in certain large cities, such as Rio de Janeiro, Belo Horizonte and Salvador, and in some medium size cities with population in the range of 350,000 to 1,000,000, where GVT continues to expand its local fixed-line network.

We expect to continue to face competition from mobile services providers, which represent the main source of competition in the local fixed-line service market. As of December 31, 2012, there were 132.2 million mobile subscribers (including our mobile customers) in Region I, an 8.4% increase over December 31, 2011, and there were 66.5 million mobile subscribers (including our mobile customers) in Region II, a 9.4% increase over December 31, 2011, based on information available from ANATEL. The increase in the number of mobile users, in addition to reduced mobile services rates, is expected to continue to adversely affect the number of fixed-line subscribers and the volume of local fixed-line traffic. In addition, because mobile providers offer promotions and service plans that permit subscribers to make calls within the mobile provider's network at rates that are less than those charged for calls from a fixed-line telephone to a mobile telephone, we believe that we may be vulnerable to traffic migration as customers with both fixed-line and mobile telephones use their mobile devices to make calls to other mobile subscribers.

***Long-Distance Services***

The long-distance services market is highly competitive. As of May 31, 2012, based on the most recent information available from ANATEL, (1) of the total number of national long-distance minutes originated in Region I, we had a market share of 8.6%, ranking behind TIM with 57.9% and Embratel with 30.7%, (2) of the total number of national long-distance minutes originated in Region II, we had a market share of 18.3%, ranking behind TIM with 49.4% and Embratel with 26.6%, and (3) of the total number of national long-distance minutes originated in Region III, we had a market share of 11.1%, ranking behind TIM with 34.0%, Embratel with 28.9% and Telefônica with 22.6%.

Our principal competitors for long-distance services are TIM and Embratel, which are currently offering long-distance services throughout Brazil at rates that are charged on a per call, rather than per minute, basis. As a result of our commencement of mobile services in Region III, we have also begun to compete with Telefônica, which is the incumbent fixed-line service provider in Region III.

Generally, we believe that callers placing fixed-line long-distance calls in Brazil tend to select the long-distance carrier affiliated with the provider of their fixed-line service. Similarly, we believe that callers placing mobile long-distance calls in Brazil tend to select the long-distance carrier affiliated with the provider of their mobile or fixed-line service. However, increased competition from long-distance service providers has resulted in pressure on our long-distance rates and adversely affected our revenue from these services.

In addition, the offering of plans by other mobile services providers that include free minutes for calls to other subscribers of those mobile services providers may adversely impact our revenues from mobile long-distance calls if our mobile customers migrate to our competitors to remain within the network of the people to whom they plan to place long-distance calls. However, as a result of the increased use of SIM card only strategies by other mobile service

providers, there is a trend among Brazilian pre-paid customers to purchase SIM cards from multiple mobile service providers to maximize the number of calls that they can make which are covered by these promotional offers.

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New technologies that serve as an alternative to traditional long-distance telephone calls, such as VoIP, may start to capture part of Brazil's long-distance traffic.

### ***Mobile Services***

The mobile telecommunication services market in Brazil is characterized by intense competition among providers of mobile telecommunication services. We compete primarily with the following mobile services providers, each of which provides services throughout Brazil:

Telefónica, which is a subsidiary of Telefónica S.A, and which markets its mobile services under the brand name Vivo ;

TIM, which is a subsidiary of Telecom Italia S.p.A.; and

Claro, which is a subsidiary of América Móvil.

In December 2010, Nextel Brazil acquired licenses to provide 3G services throughout Brazil. Nextel has launched commercial services on its 3G network in December 2012. Nextel's entrance in the market could increase competition for mobile services as it expands its network.

As of December 31, 2012, based on information available from ANATEL, we had a market share of 18.8% of the total number of subscribers in Brazil, ranking behind Telefónica with 29.1%, TIM with 26.9% and Claro with 24.9%, and we captured 19.0% of all net additions of mobile subscribers in Brazil (calculated based on the number of mobile subscribers at the end of a period less the number of mobile subscribers at the beginning of that period) during 2012.

Competitive efforts in the Brazilian mobile telecommunication services market generally take the form of handset subsidies in the post-paid market and traffic subsidies in both the pre-paid and post-paid market. The aggressiveness of promotions is generally driven by the desire of the provider offering the promotion to increase market share; however, these promotions generally are for a short duration as the pricing terms offered are not sustainable over the long term.

### ***Data Transmission Services***

Cable television providers that offer broadband services, particularly Net, represent our principal competition in the broadband market. We face competition from these providers that offer integrated packages, consisting of subscription television, broadband and voice telephone services to cable television subscribers who, in general, have more purchasing power than other consumers.

Our principal competitors in the commercial data transmission services market are Embratel, GVT and Telefónica. The commercial data transmission services market is significantly less regulated than the fixed-line, long-distance and mobile services markets. Along with growth in traffic volume and increasing demand for broadband capacity, we expect significant price reductions in data transmission services as competitors expand their networks. In recent years, there has been a shift in competition towards value-added services provided over IP platforms and VPN services.

### ***Subscription Television Services***

In Brazil, the high quality programming of television broadcasters has resulted in aggregate ratings for these broadcasters of approximately 90% of viewers and has limited the perceived value of subscription television. As a result, the subscription television market in Brazil has a low penetration compared to developed countries and even to other South American countries such as Argentina, Chile and Mexico. Penetration rates by subscription television have grown from 8.0% of Brazilian households in 2005 to 28.2% in 2012. According to information available from ANATEL, the Brazilian subscription television market grew by more than 27.0% in 2012.

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The primary providers of subscription television services in Regions I and II in Brazil are, SKY, which provides DTH services, and América Móvil, which provides DTH service through Embratel under the Claro TV brand and provides subscription television services using coaxial cable through Net. We commenced offering DTH subscription television services to the low-income residential market in the states of Rio de Janeiro, Minas Gerais, Rio Grande do Sul, Paraná and Santa Catarina. In 2010, we expanded this service to the Distrito Federal and the states of Bahia, Sergipe, Pernambuco, Ceará, Paraíba, Rio Grande do Norte, Alagoas, Espírito Santo and Goiás. In 2011, we expanded this service to the remaining states of Regions I and II.

In December 2012, we began to offer IP TV in the city of Rio de Janeiro. We plan to gradually expand our IP TV service to other cities.

## **Concessions, Authorizations and Licenses**

Under the General Telecommunications Law and ANATEL regulations, the right to provide telecommunication services is granted either through a concession under the public regime or an authorization under the private regime. For additional details regarding the rights and obligations of service providers operating under the public regime and the private regime, see Regulation of the Brazilian Telecommunications Industry Concessions and Authorizations. We operate under:

a concession to provide local fixed-line services in Region I (other than the 57 municipalities in the State of Minas Gerais that are excluded from the concession area of Region I) and a concession to provide local fixed-line services in Region II (other than the nine municipalities in the States of Goiás, Mato Grosso do Sul and Paraná that are excluded from the concession area of Region II);

a concession to provide domestic long-distance services in Region I (other than the 57 municipalities in the State of Minas Gerais that are excluded from the concession area of Region I) and a concession to provide domestic long-distance services in Region II (other than the nine municipalities in the States of Goiás, Mato Grosso do Sul and Paraná that are excluded from the concession area of Region II);

authorizations to provide personal mobile services in Regions I, II and III;

radio frequency licenses to provide 3G mobile services in Regions I, II and III (other than 23 municipalities in the interior of the State of São Paulo that include the city of Franca and surrounding areas);

radio frequency licenses to provide 4G mobile services in Regions I, II and III;

authorizations to provide local fixed-line services and domestic long-distance services in (1) the 57 municipalities in the State of Minas Gerais that are excluded from the concession area of Region I, (2) the nine municipalities in the States of Goiás, Mato Grosso do Sul and Paraná that are excluded from the concession area of Region II, and (3) Region III;

authorizations to provide international long-distance services originating anywhere in Brazil;

authorizations to provide Multimedia Communication Services (*Serviço de Comunicação Multimídia*) throughout Brazil; and

an authorization to provide subscription television services throughout Brazil.

These concessions and authorizations allow us to provide specific services in designated geographic areas and set forth certain obligations with which we must comply.

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***Fixed-Line Services Concession Agreements***

We have entered into concession agreements with ANATEL that govern our concessions to provide fixed-line services in the Federal District and each of the states of Regions I and II. Each of our concession agreements:

expires on December 31, 2025;

sets forth the parameters that govern adjustments to our rates for fixed-line services;

requires us to comply with the network expansion obligations set forth in the General Plan on Universal Service;

requires us to comply with certain quality of service obligations set forth in these concession agreements as well as the quality of service obligations set forth in the General Plan on Quality Goals;

requires payment of biannual fees equal to 2.0% of our net operating revenue that is derived from the provision of local fixed-line services (excluding taxes and social contributions) during the immediately preceding year, while allowing us to apply the amount of such fees to finance the expanded service obligations created by the amended General Plan on Universal Service in lieu of making payment to ANATEL;

allows us to offer subscription television services such as IP TV, over our fixed-line networks;

requires us to implement electronic billing systems;

sets forth the conditions under which ANATEL may access information from us;

requires us to pay fines for systemic service interruptions; and

requires us to rescind our contracts if ANATEL determines they are contrary to any rules or regulations, economic order or public interest.

These concession agreements also required us to provide transmission lines connecting our fiber-optic internet backbones to municipalities in our concession areas in which we did not provide internet service, which we refer to as backhaul. Under these concession agreements, we were obligated to set up backhaul in 3,252 municipalities in Regions I and II. The facilities that we constructed to meet these obligations are considered to be property that is part of our concessions and will therefore revert to the Brazilian government on January 1, 2026.



These concession agreements provide that ANATEL may modify their terms in 2015 and 2020 and may revoke them prior to expiration under the circumstances described under Regulation of the Brazilian Telecommunications Industry Regulation of Fixed-Line Services Termination of a Concession. The modification right permits ANATEL to impose new terms and conditions in response to changes in technology, competition in the marketplace and domestic and international economic conditions. ANATEL is obligated to engage in public consultation in connection with each of these potential modifications.

For more information regarding the regulation of our fixed-line services, the General Plan on Universal Service and the General Plan on Quality Goals, see Regulation of the Brazilian Telecommunications Industry Regulation of Fixed-Line Services.

***Domestic Long-Distance Services Concession Agreements***

We have entered into concession agreements with ANATEL that govern our concessions to provide domestic long-distance services originating from the Federal District and each of the states of Regions I and II. Each of our concession agreements:

expires on December 31, 2025;

sets forth the parameters that govern adjustments to our rates for domestic long-distance services;

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requires us to comply with certain quality of service obligations set forth in these concession agreements as well as the quality of service obligations set forth in the General Plan on Quality Goals;

requires payment of biannual fees equal to 2.0% of our net operating revenue that is derived from the provision of domestic long-distance services (excluding taxes and social contributions) during the immediately preceding year;

requires us to implement electronic billing systems;

sets forth the conditions under which ANATEL may access information from us;

requires us to pay fines for systemic service interruptions; and

requires us to rescind our contracts if ANATEL determines they are contrary to any rules or regulations, economic order or public interest.

These concession agreements provide that ANATEL may further modify their terms in 2015 and 2020 and may revoke them prior to expiration under the circumstances described under Regulation of the Brazilian Telecommunications Industry Regulation of Fixed-Line Services Termination of a Concession. The modification right permits ANATEL to impose new terms and conditions in response to changes in technology, competition in the marketplace and domestic and international economic conditions. ANATEL is obligated to engage in public consultation in connection with each of these potential modifications.

For more information regarding the regulation of our fixed-line services, the General Plan on Universal Service and the General Plan on Quality Goals, see Regulation of the Brazilian Telecommunications Industry Regulation of Fixed-Line Services.

***Personal Mobile Services Authorization Agreements and Radio Frequency Spectrum Licenses***

We have entered into authorization agreements with ANATEL that govern our authorizations to provide personal mobile services in Regions I, II and III. These authorizations permit us to provide personal mobile services for an indeterminate period of time, but do not provide us with the right to use specific radio frequency spectrum.

We hold nine licenses to use radio frequency spectrum to provide 2G services in specific geographic regions of Region II. These licenses grant us permission to use the applicable radio spectrum for 15 years from the date of the authorization agreement under which they are granted and are renewable for additional 15-year terms. Upon renewal of any of these licenses and on every second anniversary of such renewal, we will be required to pay an amount equal to 2.0% of our prior year's net operating revenue from personal mobile services. The initial terms of our radio frequency spectrum licenses expire between 2016 and 2022.

Our authorization agreements are subject to network scope and service performance obligations set forth in these authorization agreements. Under these obligations we are required to (1) service all municipalities in Regions I and II with a population in excess of 100,000, and (2) service all municipalities in Region III with a population in excess of 200,000. In addition, by the fifth anniversary of the date of the authorization agreement for Region III, we will be

required to service all municipalities in Region III with a population in excess of 100,000. A municipality is considered serviced when the covered service area contains at least 80% of the urban area in the municipality. Our failure to meet these targets may result in the imposition of penalties established in ANATEL regulations and, in extreme circumstances, in termination of our personal mobile services authorizations by ANATEL. As of the date of this annual report, we have satisfied the network scope and service performance obligations set forth in these authorization agreements.

In August 2007, ANATEL adopted a revision of the personal mobile services regulations that became effective in February 2008. These revised regulations imposed additional obligations on personal mobile services providers, in particular in connection with customers' rights. For a discussion of these additional obligations, see Regulation of the Brazilian Telecommunications Industry Regulation of Mobile Services Additional Obligations.

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***3G Radio Frequency Licenses***

We hold five licenses to use radio frequency spectrum to provide 3G services in Regions I, II and III. Each of these licenses grants us permission to use the applicable radio spectrum for 15 years from the date of grant and is renewable for additional 15-year terms. We will be required to pay an amount equal to 2.0% of our prior year's net operating revenue from personal mobile services upon renewal of the license and on every second anniversary of the renewal. The initial terms of these licenses expire in 2023.

These radio frequency licenses include network scope obligations. Under these obligations, we are currently required to (1) provide service to 168 municipalities in Region II that did not have mobile services at the time these licenses were granted with either 2G or 3G mobile telecommunication services, and (2) provide 3G service to all state capitals in Region II, the Federal District and all municipalities with a population in excess of 200,000 inhabitants. In addition, we will be required to:

provide 3G service to all of the municipalities covered by these licenses with a population in excess of 100,000 by the fifth anniversary of the date of these licenses;

provide 3G service to 50% of all of the municipalities with a population between 30,000 and 100,000 by the fifth anniversary of the date of these licenses; and

provide 3G service to 60% of the municipalities, including 242 specified municipalities, covered by these licenses with a population less than 30,000 by the eighth anniversary of the date of these licenses.

A municipality is considered serviced when the covered service area contains at least 80% of the urban area in the municipality. Our failure to meet these targets may result in the imposition of penalties established in ANATEL regulations and, in extreme circumstances, in termination of our 3G frequency licenses by ANATEL. As of the date of this annual report, we have satisfied the network scope and service performance obligations set forth in these licenses.

***4G Radio Frequency Licenses***

We hold three licenses to use radio frequencies in 2.5 GHz sub-bands to provide 4G services in Regions I, II and III. Each of these licenses grants us permission to use the applicable radio spectrum for 15 years from the date of grant and is renewable for additional 15-year terms. We will be required to pay an amount equal to 2.0% of our prior year's net operating revenue from 4G services upon renewal of the license and on every second anniversary of the renewal. The initial terms of these licenses expire in 2027.

These radio frequency licenses include network scope obligations. Under these obligations, we will be required to:

provide 4G service in all of the host municipalities of the 2013 FIFA Confederations Cup by April 30, 2013 and all of the host municipalities of the 2014 FIFA World Cup by December 31, 2013;

provide 4G service in all state capitals, municipalities with a population in excess of 500,000 and the Federal District by May 31, 2014;

provide 4G service to all of the municipalities covered by these licenses with a population in excess of 200,000 by December 31, 2015;

provide 4G service to all of the municipalities covered by these licenses with a population in excess of 100,000 by December 31, 2016;

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provide 4G service to all of the municipalities covered by these licenses with a population between 30,000 and 100,000 by December 31, 2017;

provide 4G service to 30% of the municipalities covered by these licenses with a population less than 30,000 by December 31, 2017;

provide 4G service to 60% of the municipalities covered by these licenses with a population less than 30,000 by December 31, 2018;

provide 4G service to all of the municipalities covered by these licenses with a population less than 30,000 by December 31, 2019;

provide voice services in the 450 MHz spectrum and data services at minimum upload speeds of 128 kbps and download speeds of 256 kbps and a minimum monthly allowance of 250 MB in 289 municipalities in the States of Goiás, Mato Grosso, Mato Grosso do Sul, Rio Grande do Sul and the Federal District by June 30, 2014, and in 384 such municipalities by December 31, 2015 and offer voice services in the 450 MHz spectrum and data services at minimum upload speeds of 256 kbps and download speeds of 1Mbps and a minimum monthly allowance of 500 MB in 962 such municipalities by December 31, 2017;

provide unlimited data services at minimum upload speeds of 256 kbps and download speeds of 128 kbps to rural schools in 289 municipalities in the States of Goiás, Mato Grosso, Mato Grosso do Sul, Rio Grande do Sul and the Federal District by June 30, 2014, in 384 such municipalities by December 31, 2015 and in 962 such municipalities by December 31, 2017; and

make our fixed-line network available to other telecommunication service providers to allow them to comply with their obligations under the General Plan on Universal Service in 289 municipalities in the States of Goiás, Mato Grosso, Mato Grosso do Sul, Rio Grande do Sul and the Federal District by June 30, 2014, in 384 such municipalities by September 30, 2014 and in 962 such municipalities by September 30, 2015.

In addition, our 4G radio frequency licenses impose minimum investment obligations in domestic technologies. At least 60% of the cost of all goods, services, equipment, telecommunications systems and data networks that we purchase to meet our 4G service obligations must be developed in Brazil. This minimum requirement will increase to 65% between January 1, 2015 and December 31, 2016 and 70% between January 1, 2017 to December 31, 2022.

Our failure to meet these targets may result in the imposition of penalties established in ANATEL regulations and, in extreme circumstances, in termination of our 4G frequency licenses by ANATEL. As of the date of this annual report, we have satisfied the network scope and service performance obligations set forth in these licenses.

***Fixed-Line Services Authorization Agreements***

We have entered into authorization agreements with ANATEL that govern our authorizations to provide local fixed-line services in and domestic long-distance services originating from (1) the 57 municipalities in the State of Minas Gerais that are excluded from the concession area of Region I, (2) the nine municipalities in the States of

Goiás, Mato Grosso do Sul and Paraná that are excluded from the concession area of Region II, and (3) Region III. These authorizations do not have termination dates and require us to comply with certain quality of service obligations set forth in the General Plan on Quality Goals.

We have also entered into authorization agreements with ANATEL that govern our authorizations to provide international long-distance services originating from anywhere in Brazil. These authorizations do not have termination dates and require us to comply with quality of service obligations set forth in the General Plan on Quality Goals.

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***Multimedia Communication Services Authorization Agreements***

We have a Multimedia Communication Services authorizations, which superseded our prior Telecommunications Network Transportation Services (*Serviço de Rede de Transporte de Telecomunicações*) authorizations, permitting us to provide high speed data service.

The Multimedia Communication Services authorizations became effective in May 2003 and cover the same geographical areas as our concession agreements. In April 2008, in connection with the amendments to our fixed-line services concessions, we agreed to provide internet service free of charge until December 31, 2025 to all urban schools in the areas of our concession agreements.

***Term of Commitment to Adhere to National Broadband Plan***

On June 30, 2011, we entered into a Term of Commitment (*Termo de Compromisso*) with ANATEL and the Ministry of Communications to formalize our voluntary commitment to adhere to the terms of the National Broadband Plan, created in May 2010 by Executive Decree No. 7,175/10 with the goal to make broadband access available at low cost, regardless of technology, throughout Brazil. Pursuant to the Term of Commitment, we are required to offer (1) broadband services with minimum upload and download capabilities to retail customers in certain sectors of Region I and II for a maximum price of R\$35 per month (or R\$29.90 in ICMS-exempt states), plus fees, and (2) access to our broadband infrastructure to certain wholesale customers, including small businesses and municipalities, in certain sectors of Region I and II for a maximum price of R\$1,253 per 2 Mbps per month and a one-time installation fee, while observing all quality standards under ANATEL regulations. Both retail and wholesale services are subject to certain network capacity limits and need only be provided at the demand of the customer. The services provided under the Term of Commitment may be implemented gradually, beginning in November 2011, although we are obligated to make services available to 100% of eligible retail and wholesale customers by December 31, 2014 and June 30, 2013, respectively. The Term of Commitment also requires that we:

provide one public internet access point for the first 20,000 inhabitants and one additional access point for each subsequent 10,000 inhabitants, with a limit of six access points, at a speed of 2 Mbps, in each municipality that has only satellite service, free of charge and upon demand of such municipality;

adequately advertise the services contemplated by the Term of Commitment and present to the Ministry of Communications semi-annual reports detailing our marketing efforts; and

make our best efforts to offer broadband services to retail customers at speeds of up to 5 Mbps, reaching the largest possible number of municipalities by 2015.

The Term of Commitment will expire on December 31, 2016.

***Subscription Television Authorization Agreement***

In November 2008, we entered into an authorization agreement with ANATEL that governs our use of satellite technology to provide DTH satellite television services throughout Brazil. The authorization agreement permits us to provide DTH satellite television services for 15-years and is renewable for an additional 15 year term in exchange for a fee to be agreed upon between us and ANATEL.



Under this authorization, we are required to furnish equipment to certain public institutions, to make channels available for broadcasting by specified public institutions, and to comply with quality of service obligations set forth in applicable ANATEL regulations.

In December 2012, ANATEL granted our request to convert our DTH authorization agreement into a Conditional Access Service authorization allowing us to provide nationwide subscription television services through any technology, including satellite, wireline and coaxial cable. Although we have not yet signed the Conditional Access Service authorization agreement, the act by which ANATEL granted our request authorized us to begin offering the services to be governed by such agreement, including IP TV. In accordance with the ANATEL

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resolution that approved the Conditional Access Service regime, our Conditional Access Service authorization will prohibit us from creating television content or owning more than 30% of a company that creates content. We will also be required to carry a certain percentage of Brazilian programming, including open channels and public access channels.

## **Research and Development**

We conduct independent innovation, research and development in areas of telecommunication services but historically we have not independently developed new telecommunications technologies. We depend primarily on suppliers of telecommunications equipment for the development of new technology.

As a condition to ANATEL's approval of Telemar's acquisition of control of our company in January 2009, Telemar agreed to make annual investments in innovation, research and development through 2018 in amounts equal to at least 50% of the amounts of its contributions to the FUNTTEL. To fulfill this obligation, as well as to centralize our innovation, research and development activities and programs, in 2009, we have created a division to manage innovation, research and development with the mission of coordinating and promoting efforts and projects that it develops.

Our technology laboratory performs a variety of functions, such as operation support systems, business support systems and information security. We conduct trials of technologies from different vendors in this laboratory to evaluate these technologies for deployment.

Since 2009, we have executed cooperation agreements with the following national research centers: CERTI Foundation, C.E.S.A.R., Technological Projects, Research and Studies Coordination Foundation (*Fundação Coordenação de Projetos, Pesquisas e Estudos Tecnológicos - COPPETEC*), Telecommunications Research and Development Foundation (*Fundação Centro de Pesquisa e Desenvolvimento em Telecomunicações - CPqD*), Technological Innovation Foundation (*Fundação Para Inovações Tecnológicas - FITEC*), National Institute for Telecommunications Foundation (*Fundação Instituto Nacional de Telecomunicações - Inatel*) and PUC-RJ. We have also executed cooperation agreements with Brazilian national telecommunication suppliers which develop technology in Brazil, such as AsGa S.A., Digitel S.A., Indústria Eletrônica and Padtec S.A.

In order to achieve our goals on innovation investments, in 2011, we intensified the process for the exploration of innovative services and activities concerning innovation, research and development to promote our innovation ecosystem and in October 2011 launched the first call for Innovative Mobile Applications for Major Events through the Oi Innovation Program (*Programa Oi Inovação*).

Our investments in innovation, research and development totaled R\$2 million in 2010, R\$23 million in 2011 and R\$11 million in 2012.

## **Property, Plant and Equipment**

Our principal properties, owned and leased, are located in Regions I and II. As of December 31, 2012, the net book value of our property, plant and equipment was R\$23,110 million. Our main equipment consists of transmission equipment, trunking and switching stations (including local, tandem and transit telephone exchanges), metallic and fiber-optic cable networks and lines, underground ducts, posts and towers, data communication equipment, network systems and infrastructure (including alternating and direct current supply equipment) and motor-generator groups.

As of December 31, 2012, of the net book value of our property, plant and equipment, transmission and other equipment represented 41.0%; infrastructure, primarily underground ducts, post and towers, cables and lines represented 22.3%; work in progress represented 17.9%; automatic switching equipment represented 8.9%; buildings represented 5.1%; and other fixed assets represented 4.8%.

All property, plant and equipment that are essential in providing the services described in our concession agreements are considered reversible assets, which means that, should our concession agreements expire or

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terminate without being renewed, these assets will automatically revert to ANATEL. There are no other encumbrances that may affect the utilization of our property, plant and equipment. For more details, see note 16 to our consolidated financial statements.

## **Intellectual Property**

We believe the trademarks that identify us and our businesses are important for us, and as a result, we have taken steps to protect them. As of December 31, 2012, we had 961 trademarks registered with the National Institute of Industrial Property (*Instituto Nacional de Propriedade Industrial*), or INPI, and 929 pending trademark applications. Our main trademark, *Oi*, is registered with the INPI in several classes, which allows us to use this trademark in a variety of markets in which we operate, including in connection with our fixed-line, mobile and broadband services. Among the various trademarks we have registered with the INPI, 17 are being contested by third parties. In addition, of our 929 pending trademark applications, 58 have been challenged by third parties.

As of December 31, 2012, we had 1,545 domain names registered with the Center of Information and Coordination of Dot Br NIC. Br, an agency responsible for registering domain names in Brazil. The information included on our websites or that might be accessed through our websites is not included in this annual report and is not incorporated into this annual report by reference.

As of December 31, 2012, we the INPI had granted seven patents to our company. We had also filed 21 patent applications, which are pending with the INPI. Requests for technical examination have been submitted to the INPI for all of these pending patent applications. Once examination is concluded, a decision accepting or rejecting the application will be issued. If granted, the patent will have a term of 20 years from the date of filing and no less than ten years from the date the application is granted.

## **Insurance**

Pursuant to requirements in our concession agreements, we maintain the following insurance policies: (1) all risk property insurance covering all insurable assets pertaining to the concessions; (2) loss of profit insurance covering lost profits deriving from property damage and business interruption; and (3) performance bond insurance to assure compliance with our obligations related to quality of service and universal service targets set forth in our concession agreements.

In addition to the above policies, we maintain civil liability insurance. Our assets that are of material value and/or exposed to high degrees of risks are also insured. All of our insurance coverage was purchased from highly rated insurance companies in Brazil.

We believe that our current insurance coverage is suitable to our operations.

## **Social Responsibility**

In 2001, we created *Oi Futuro*, a corporate social responsibility program that has been designated a Public Interest Organization (*Organização da Sociedade Civil de Interesse Público*) by the Brazilian Ministry of Justice (*Ministério da Justiça*). *Oi Futuro* operates cultural, sustainability and educational programs using information technology and communications to promote social change.

*Oi Futuro* operates two cultural centers in Rio de Janeiro and a cultural center in Belo Horizonte, as well as two telecommunications museums. *Oi Futuro* also manages the *Programa Oi de Patrocínios Culturais Incentivados*. In

2012, we remained one of the primary sponsors of cultural activities in Brazil, sponsoring more than 90 projects through a public selection process.

*Oi Futuro* supports and develops education projects that use new communication and information technologies to transform the classroom environment and prepare young people for jobs of the future. *Oi Futuro*'s diverse initiatives include (1) the Advanced Education Center (*Núcleo Avançado em Educação*), a public vocational high school established through a public-private partnership with campuses in Rio de Janeiro and Recife that was elected by Microsoft as one of the 33 most innovative schools in the world in

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2012, and (2) the Oi Kabum! Arts and Technology School (*Oi Kabum! Escola de Arte e Tecnologia*) with campuses in Rio de Janeiro, Recife, Belo Horizonte and Salvador. In 2012, more than 1,200 students participated in these programs.

*Oi Futuro* supports social-environmental programs through its *Oi Novos Brasis* program, which focuses on guaranteeing rights, employment and income, and on sustainability education. In 2012, more than 4,000 people benefited from these programs. In addition, in 2012, *Oi Futuro* supported 28 projects through the Public Funds for Childhood and Adolescence (*FIA - Fundos Públicos da Infância e da Adolescência*).

We contributed R\$28 million to *Oi Futuro* in 2010, R\$31 million in 2011 and R\$20 million in 2012.

## **Regulation of the Brazilian Telecommunications Industry**

### ***Overview***

Our business, including the nature of the services we provide and the rates we charge, is subject to comprehensive regulation under the General Telecommunications Law and a comprehensive regulatory framework for the provision of telecommunication services promulgated by ANATEL. We provide fixed-line, domestic and international long-distance and mobile telecommunication services under concessions, authorizations and licenses that were granted by ANATEL and allow us to provide specified services in designated geographic areas, as well as set forth certain obligations with which we must comply. See Concessions, Authorizations and Licenses.

ANATEL is a regulatory agency that was established in July 1997 pursuant to the General Telecommunications Law and the *Regulamento da Agência Nacional de Telecomunicações*. ANATEL oversees our activities and enforces the General Telecommunications Law and the regulations promulgated thereunder. ANATEL is administratively independent and is financially autonomous. ANATEL is required to report on its activities to the Brazilian Ministry of Communications. ANATEL has authority to propose and to issue regulations that are legally binding on telecommunication service providers. ANATEL also has the authority to grant concessions and licenses for all telecommunication services, other than broadcasting services. Any regulation or action proposed by ANATEL is subject to a period of public comment, which may include public hearings, and ANATEL's decisions may be challenged administratively before the agency itself or through the Brazilian judicial system.

### ***Concessions and Authorizations***

Under the General Telecommunications Law and ANATEL regulations, the right to provide telecommunication services is granted either through a concession under the public regime (as discussed below) or an authorization under the private regime (as discussed below). A concession is granted for a fixed period of time following a public auction and is generally renewable only once. An authorization is granted for an indeterminate period of time and public auctions are held for some authorizations. These concessions and authorizations allow service providers to provide specific services in designated geographic areas, set forth certain obligations with which the service providers must comply and require equal treatment of customers by the service providers.

The three principal providers of fixed-line telecommunication services in Brazil, Telesp, Embratel and our company, provide these services under the public regime. In addition, CTBC and Sercomtel, which are secondary local fixed-line telecommunication service providers, operate under the public regime. All of the other providers of fixed-line telecommunication services and all providers of personal mobile services and data transmission services in Brazil operate under the private regime.

Providers of public regime services are subject to more obligations and restrictions than providers of private regime services. Under Brazilian law, providers of public regime services are subject to certain requirements with respect to services such as quality of service, continuity and universality of service, network expansion and network modernization. Additionally, the rates that public regime service providers may charge customers are subject to ANATEL supervision.

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Providers of private regime services, although not generally subject to the requirements concerning continuity and universality of service and network modernization, are subject to certain network expansion and quality of service obligations set forth in their respective authorizations.

### ***Regulation of Fixed-Line Services***

#### *General Policies for the Regulation of the Fixed-Line Telecommunications Sector*

In June 2003, Brazil's president issued Decree No. 4,733, outlining a number of new rules and guidelines which were intended to consolidate several changes in the regulation of Brazil's fixed-line telecommunications sector. This decree sets forth general declarations of policy regarding, among other things:

universal access to telecommunication services;

stimulation of employment and development of the Brazilian telecommunications sector;

promotion of competition and adoption of rate readjustment policies that take into account Brazilian socioeconomic considerations; and

the financial equilibrium of existing concession agreements.

This decree also defined certain changes that are reflected in the concession agreements entered into by providers of public regime services that became effective on January 1, 2006.

A number of bills affecting telecommunications policy have been submitted to the Brazilian Congress with an aim to make telecommunication services more accessible to Brazil's low-income population. These bills have proposed to eliminate the monthly subscription fee (*assinatura mensal*) that compensates telecommunication companies for extending and maintaining fixed-line telecommunication services for their customers. If approved, we expect that this proposal will adversely affect the overall margin of telecommunications providers, including us. For a discussion of the legal and regulatory risks associated with our business, see Item 3. Key Information Risk Factors Risks Relating to Our Company and the Brazilian Telecommunications Industry Our industry is highly regulated. Changes in laws and regulations may adversely impact our business.

#### *Private Regime Authorizations*

With the goal of introducing competition in fixed-line telephone services in Brazil, the federal government granted four private-regime authorizations in 1999 to permit fixed-line service providers to compete with the incumbent fixed-line concessionaires. Since 2002, the number of authorizations to provide fixed-line services that the federal government may issue is unlimited.

#### *Public Regime Concessions*

Each of the public regime service providers operates under concession agreements that expire in December 2025. Under these concession agreements, each of the public regime service providers is required to comply with the



provisions of (1) the General Plan on Universal Service that was adopted by ANATEL in June 2003, (2) the General Plan on Quality Goals that was adopted by ANATEL in June 2003, and (3) the General Plan on Competition Targets (*Plano Geral de Metas de Competição*) that was adopted by ANATEL in November 2012.

The concession agreements provide that ANATEL may modify their terms in 2015 and 2020 and may revoke them prior to expiration under the circumstances described below under Termination of a Concession. The modification right permits ANATEL to impose new terms and conditions in response to changes in technology, competition in the marketplace and domestic and international economic conditions. ANATEL is obligated to engage in public consultation in connection with each of these potential modifications.

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### *Rate Regulation*

Public regime service providers must offer a basic service plan comprised of the following basic services: (1) installation; (2) monthly subscription; and (3) switched local minutes. Modifications of the rates charged for these basic services are determined by reference to a local rate basket that represents the weighted average of the rates for monthly subscriptions and switched local minutes. Rates for long-distance services originated and terminated on fixed lines vary in accordance with three basic criteria: (1) physical distance separating callers; (2) time of the day; and (3) day of the week on which the call is placed. Modifications of the rates charged for these long-distance services are determined by reference to a long-distance rate basket that represents the weighted average of the rates for long-distance calls. The rates for the provision of services through payphones and installation rates are treated separately. The rates for international long-distance services provided by Embratel, the incumbent international long-distance concessionaire, are regulated by ANATEL. However, the rates for international long-distance services charged by other long-distance service providers, all of whom provide these services under authorizations rather than concessions, are not subject to ANATEL regulation.

The concession agreements establish a price-cap mechanism for annual rate adjustments for basic service plans and domestic long-distance rates based on formulas set forth in each provider's concession agreement. The formula provides for two adjustments to the price cap based on the local rate basket, the long-distance rate basket and the use of a price index. The price cap is first revised upward to reflect increases in inflation, as measured by an index, then ANATEL applies a productivity discount factor, or Factor X, which reduces the impact of the rate readjustment provided by the index.

Prior to 2008, Factor X, which was discounted from the IST, was equal to 50% of the increase in a public regime provider's productivity. Beginning in 2008, ANATEL has calculated the sector's weighted average productivity rate. As of the date of this annual report, Factor X is equal to (1) 50% of the increase in the weighted average productivity rate of public regime providers, plus (2) 75% of a factor calculated by ANATEL that is designed to reflect cost optimization targets for the telecommunications industry as a whole. If the weighted average productivity rate is negative, ANATEL will not allow an annual adjustment in excess of the IST.

ANATEL has proposed new regulations under which it would modify the Factor X applicable to the determination of rate increases available to public concessionaires providing fixed-line services. These regulations were submitted for public consultation in July 2011 and the public consultation period ended on September 1, 2011. We expect these new regulations, as they may be modified as a result of ANATEL's further analysis, to be adopted in 2013.

A provider may increase rates for individual services within the local rate basket or the long-distance rate basket by up to 5% more than the IST so long as the rates for other services in that rate basket are reduced to the extent necessary to ensure that the weighted average increase for the entire rate basket does not exceed the permitted annual rate adjustment.

A provider may also offer alternative plans in addition to the basic service plan. Alternative plans must be submitted for ANATEL's approval. The rates offered under the alternative plans may be adjusted annually based on the IST.

For information on our rates and service plans, see [Rates](#).

### *General Plan on Universal Service*

The General Plan on Universal Service was approved by ANATEL in June 2003 and became effective in January 2006. The General Plan on Universal Service sets forth the principal network expansion and modernization

obligations of the public regime providers, such as providing public telephones in localities with a population in excess of 100, and installing residential fixed lines within seven days of a request in localities with a population in excess of 300. In addition, public regime providers must comply with the Special Individual Access Class (*Acesso Individual Classe Especial*) rules, which are designed to require service for economically disadvantaged people. Under the Special Individual Access Class rules, a qualifying customer may subscribe to a service plan, limited to one fixed-line per household, and pay a lower monthly fee for service than under the basic service plans.

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Public regime providers are also subject to network expansion requirements under the General Plan on Universal Service, which are revised by ANATEL from time to time. No subsidies or other supplemental financings are anticipated to finance our network expansion obligations. Our failure to meet the network expansion and modernization obligations established by the General Plan on Universal Service or in our concession agreements may result in fines and penalties of up to R\$50 million, as well as potential revocation of our concessions.

On June 30, 2011, the General Plan on Universal Service was amended. Among other things, these amendments:

expanded the obligations of local fixed-line service providers to provide individual access to fixed-line voice services to economically disadvantaged segments of the Brazilian population within their service areas, through programs to be established and regulated by ANATEL;

reduced the density requirements applicable to the obligations of local fixed-line service providers to provide public telephones in urban areas within their service areas; and

expanded the obligations to provide universal service in rural and remote areas of local and long-distance fixed-line providers that obtain authorizations to use radio spectrum in the 450 Mhz band, including increased obligations to provide individual and group access to fixed-line voice services.

*Service Restrictions*

Pursuant to regulations in effect as of the date of this annual report, public regime providers are subject to certain restrictions on alliances, joint ventures and mergers and acquisitions with other public regime providers, including:

a prohibition on holding more than 20% of the voting shares of more than one other provider of public regime services; and

a restriction on mergers between regional fixed-line service providers.

In December 2010, ANATEL adopted new regulations eliminating the limitation on the number of authorizations to provide subscription television services. In September 2011, the Brazilian congress passed Law No. 12,485, which was signed into law by the President of Brazil in September 2011. Law No. 12,485 creates a new legal framework for subscription television services in Brazil, replacing and unifying the previously existing regulatory provisions that governed various forms of subscription television services, such as cable television, Multichannel Multipoint Distribution Service, or MMDS, and DTH. The principal provisions of Law No. 12,485:

allow fixed-line telephone concessionaires, such as us, who previously were allowed to provide subscription television services using only MMDS and DTH technologies, to enter the cable television market in Brazil;

remove existing restrictions on foreign capital investments in cable television providers;

establish minimum quotas for domestic content programming on every television channel;

limit the total and voting capital held by broadcast concessionaires and authorized providers, and in television programmers and producers, with headquarters in Brazil to 30%; and

prohibit telecommunications service providers with collective interests from acquiring rights to disseminate images of events of national interest and from hiring domestic artistic talent.

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The framework established by Law No. 12,485 is expected to increase the availability and lower the price of subscription television services in Brazil, through increased competition among providers, and improve the quality, speed and availability of broadband internet services as a result of the expected proliferation of fiber optic cables used to transmit cable television.

In March 2012, ANATEL adopted new regulations under which the authorizations to provide various existing subscription television services have been consolidated into authorizations to provide a newly-defined service called Conditional Access Service. Under these regulations, authorizations to provide Conditional Access Service apply to private telecommunications services, the receipt of which are conditioned on payment by subscribers, for the distribution of audiovisual contents in the form of packages, individual channels and channels with required programming, by means of any communications technology, processes, electronic means or protocols. An authorization granted by ANATEL to provide Conditional Access Service will be valid for the entire Brazilian territory, however, the provider must indicate in its application for an authorization the localities that it will service. In December 2012, ANATEL granted our request to convert our DTH authorization agreement into a Conditional Access Service authorization. Although we have not yet signed the Conditional Access Service authorization agreement, the act by which ANATEL granted our request authorized us to begin offering the services to be governed by such agreement, including IP TV.

*Termination of a Concession*

ANATEL may terminate the concession of any public regime telecommunication service provider upon the occurrence of any of the following:

an extraordinary situation jeopardizing the public interest, in which case the Brazilian government is authorized to start rendering the services set forth under the concession in lieu of the concessionaire, subject to congressional authorization and payment of adequate indemnification to the owner of the terminated concession;

termination by the provider (through an agreement with ANATEL or pursuant to legal proceedings) as a consequence of an act or omission of the Brazilian government that makes the rendering of the services excessively burdensome to the provider;

annulment of the concession due to a contractual term, which is deemed by subsequent law to be illegal;

material failure to comply with the provider's universalization targets;

failure to meet insurance requirements set forth in the concession agreement;

a split-up, spin-off, amalgamation, merger, capital reduction or transfer of the provider's control without ANATEL's authorization;

the transfer of the concession without ANATEL's authorization;

the dissolution or bankruptcy of the provider; or

an extraordinary situation in which Brazilian government intervention, although legally permissible, is not undertaken, as such intervention would prove to be inconvenient, unnecessary or would result in an unfair benefit to the provider.

In the event a concession is terminated, ANATEL is authorized to administer the provider's properties and its employees in order to continue rendering services.

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*General Plan on Quality Goals*

The General Plan on Quality Goals was approved by ANATEL in June 2003 and became effective in January 2006. Each fixed-line service provider operating under the public regime or the private regime must comply with the provisions of the General Plan on Quality Goals. All costs related to compliance with the quality goals established by the General Plan on Quality Goals must be borne exclusively by the service provider. The General Plan on Quality Goals establishes minimum quality standards with regard to:

modernization of the network;

responses to repair requests;

responses to change of address requests;

rate of call completion;

operator availability;

availability of services to customers;

personal services to customers;

issuance of bills;

responses to mail received from customers; and

quality of public telephones.

These quality standards are measured according to the definitions and quality indicators established by ANATEL. Every month, fixed-line service providers are required to report their compliance with quality goals to ANATEL. Additionally, they are obligated to provide ANATEL with an in-depth report and analysis on each quality goal that is not satisfied. ANATEL may also collect such data from fixed-line service providers at any time without prior notice. Fixed-line service providers that fail to meet quality goals established by ANATEL may be subject to warnings, fines, intervention by ANATEL, temporary suspensions of service or cancellation of their concessions and authorizations.

ANATEL measures the performance of fixed-line service providers in each individual state in which they operate. As a result, the performance of fixed-line service providers in any particular state may not meet one or more quality performance targets even if such service provider's overall performance is satisfactory. Therefore, fixed-line service



providers, including us, could be subject to fines or penalties as a result of the failure to meet the quality performance targets in one or more particular states.

Our failure to meet the quality of service obligations established by the General Plan on Quality Goals or in our concession agreements may result in fines and penalties of up to R\$40 million.

*General Plan on Competition Targets*

The General Plan on Competition Targets, which was approved by ANATEL and became effective in November 2012, contemplates the creation of one entity to manage information about telecommunications networks, act as an intermediary in contracts between telecommunications providers and supervise the offering of wholesale data traffic services. The General Plan on Competition Targets also addresses a variety of other matters relating to both fixed-line and mobile service providers, including criteria for the evaluation of telecommunications providers to determine which providers have significant market power, regulations applicable to the wholesale markets for trunk lines, backhaul, access to internet backbone and interconnection services, and regulations related to partial unbundling and/or full unbundling of the local fixed-line networks of the public regime service providers.

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The General Plan on Competition Targets imposes stricter restrictions on providers that are deemed to have significant market power in a particular geographic area, ranging from a neighborhood within a municipality to the entire national territory. In order to determine whether a provider has significant market power, ANATEL established criteria that consider:

that provider's market share in particular mobile interconnection markets and personal mobile services market;

the economies of scope and scale available to that provider;

that provider's dominance over infrastructure that is not economically viable to duplicate; and

that provider's concurrent operations in the wholesale and retail markets.

*Infrastructure Sharing*

Prior to the adoption of the General Plan on Competition Targets, ANATEL had established rules for partial unbundling of the local fixed-line networks of the public regime service providers, which we refer to as line sharing, and which (1) limited the rates service providers can charge for line sharing, and (2) addressed related matters such as co-location space requirements. Co-location means that a service provider requesting unbundling may place its switching equipment in or near the local exchange of the service provider whose network the requesting service provider wishes to use and may connect to the network at this local exchange.

The General Plan on Competition Targets requires public regime service providers that have significant market power to share their fixed-line network infrastructure with other providers, including their local fixed-line access networks. Providers that are deemed to have significant market power must offer (1) full unbundling of their copper wire or coaxial cable access networks, and (2) partial unbundling of their broadband networks to accommodate bitstreams of up to 10 Mbps. The methodology by which the wholesale prices for these services will be determined will be established by ANATEL.

Providers with significant market power must also share their passive infrastructure, such as telecommunication towers, with other service providers at prices determined by bilateral negotiations between the providers.

*Interconnection Regulations Applicable to Personal Mobile Services Providers*

The General Plan on Competition Targets established regulations for the rates charged by mobile service providers to terminate calls on their mobile networks (the VU-M rate). The General Plan on Competition Targets established a reference value for VU-M rates of providers that are deemed to hold significant market power and determined that beginning in 2016, VU-M rates will be determined on the basis of costs. Under the General Plan on Competition Targets:

until February 2015, mobile service providers with significant market power will be able to charge service providers without significant market power for calls originating from or terminating on their network only if the outgoing traffic in a given direction of transmission is higher than 80% of the total traffic between such providers;

between February 2015 and February 2016, mobile service providers with significant market power will be able to charge service providers without significant market power for calls originating from or terminating on their network only if the outgoing traffic in a given direction of transmission is higher than 60% of the total traffic between such providers; and

beginning in February 2016, mobile service providers with significant market power will be able to charge service providers without significant market power for calls originating from or terminating on their network at all times.

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### *Roaming*

Under the General Plan on Competition Targets, a mobile service provider with significant market power must offer roaming services to other mobile providers without significant market power at the maximum rate that the mobile service provider with significant market offers such services to its retail customers.

### *Regulation of Mobile Services*

In September 2000, ANATEL adopted regulations that established operating rules for providers under the personal mobile service (*Serviço Móvel Pessoal*) regime. The regulations permitted ANATEL to grant authorizations to provide mobile telecommunication services under the personal mobile service regime. For purposes of the personal mobile service regulations, Brazil is divided into three service regions covering the same geographic areas as the concessions for fixed-line telecommunication services.

Under the personal mobile service regulations:

Band A and Band B service providers can apply for an additional frequency range;

each service provider may apply to provide domestic and international long-distance services originating from its service region;

existing service providers, as well as new entrants into the Brazilian telecommunications market, may bid for new licenses in all frequency bands, other than Band A and Band B;

personal mobile services providers are required to offer a basic service plan to their customers containing certain prescribed features;

personal mobile services providers are required to establish interconnection rates for the use of one provider's network by another provider;

the number of regions in which a personal mobile services provider may offer services is not limited; and

a personal mobile services provider, or its controlling shareholders, may not hold more than one personal mobile services authorization covering any specific region.

### *Auction of Personal Mobile Services Spectrum*

Prior to the establishment of the personal mobile services regime, ANATEL had granted licenses to mobile services providers to operate in each region of Brazil using Bands A and B. In 2001 and 2002, ANATEL successfully auctioned authorizations and licenses to operators in Band D and Band E in each region. TNL PCS was granted its initial authorization to provide personal mobile services in Region I and a license to operate in Band D in March 2001.

We were granted our initial authorization to provide personal mobile services in Region II and a license to operate in Band E in December 2002.

ANATEL conducted additional auctions of radio frequency licenses in 2004 and 2006. In April 2004, we acquired an additional license to operate in Region II.

In December 2007, ANATEL auctioned the remaining spectrum of Bands A, B, C, D and E to existing service providers as extension blocks and auctioned additional spectrum in Band M (1.8 GHz) and Band L (1.9 GHz). In these auctions, TNL PCS acquired (1) an authorization to provide personal mobile services in the State of São Paulo and licenses to operate using Band M throughout the State of São Paulo and Band E outside of the city of São Paulo and (2) licenses to use additional spectrum in 12 states in Region I.

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**Table of Contents***Auction of 3G Spectrum*

In preparation for auctions of spectrum in Bands F, G, I and J (2.1 GHz), the use of which allows personal mobile services providers to offer 3G services to their customers, ANATEL issued regulations that divide the Brazilian territory into nine regions for purposes of operations using these frequency bands. In December 2007, ANATEL auctioned radio frequency licenses to operate on each of these frequency bands in each of the nine regions and the related licenses to use these frequency bands. In this auction, we acquired the radio frequency licenses necessary to offer 3G services in two of the nine regions delineated by ANATEL for 3G services (corresponding to Regions II under the personal mobile services regime) and TNL PCS acquired radio frequency licenses necessary to offer 3G services in six of the nine regions delineated by ANATEL for 3G services (corresponding to Regions I and III under the personal mobile services regime, other than an area that consists of 23 municipalities in the interior of the State of São Paulo that includes the city of Franca and surrounding areas).

*Authorizations to Use 450MHz Band and 2.5 GHz Band*

Under Executive Decree 7,512, dated June 30, 2011, or Executive Decree 7,512, ANATEL granted authorizations to telecommunications providers to use radio spectrum in the 450 Mhz band radio spectrum and the 2.5 GHz radio spectrum, the latter of which allows telecommunications providers to offer 4G services to their customers. Among other obligations, licensees of radio frequencies in the 450 Mhz band radio spectrum must agree to provide individual and collective voice and data services in rural and remote areas, in accordance with the provisions of Executive Decree 7,512 and the General Plan on Universal Service. In June 2012, we acquired radio frequency licenses necessary to offer 4G services in 5,564 municipalities in Regions I, II and III.

*Personal Mobile Services Rate Regulation*

Rates for personal mobile services are regulated by ANATEL. Personal mobile services providers are required to offer a basic service plan that consists of a monthly subscription, local calls and roaming. Basic service plans were approved by ANATEL for each of the personal mobile services providers following the grant of personal mobile services authorizations to each of these providers.

Following the effectiveness of the basic service plans, annual adjustments of the rates under these plans have been subject to a price cap mechanism. Through 2005, rates were adjusted annually by no more than the rate of inflation, as measured by the IGP-DI. In 2006, ANATEL replaced the IGP-DI with the IST to calculate annual rate adjustments.

Personal mobile services providers are permitted to offer non-discriminatory alternative plans to the basic service plan. The rates charged under these plans (e.g., monthly subscription rates, charges for local calls and roaming charges) are subject to ANATEL approval prior to the time that these plans are first offered to mobile customers. Following the approval of these plans, the rates under these plans may be increased up to an annual adjustment that is approved by ANATEL and is no more than the rate of inflation, as measured by the IST.

Although subscribers of a plan cannot be forced to migrate to new plans, existing plans may be discontinued as long as all subscribers receive a notice to that effect and are allowed to migrate to new plans within six months of such notice. Discounts from the rates set in basic service plans and alternative service plans may be granted to customers without ANATEL approval.

In November 2012, ANATEL adopted revisions to the personal mobile services regulations that became effective in February 2013. Under these revised regulations, successive telephone calls originating from one telephone number to the same prior destination are considered one single call if the time elapsed between calls is equal to or less than 120

seconds, regardless of the duration of each individual call.

*Obligations of Personal Mobile Services Providers*

As a telecommunication service provider, we are subject to requirements concerning network expansion and quality of service, as established in applicable regulations and in our personal mobile services authorizations. If we

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fail to meet these obligations, we may be fined, subject to a maximum penalty of R\$50 million, until we are in full compliance with our obligations. While it is possible for an authorization to be revoked for non-compliance with these obligations, there are no precedents for such a revocation.

### *Network Expansion Obligations*

The personal mobile services authorizations set forth certain obligations and targets that must be met by a personal mobile services provider. For a description of the obligations and targets that must be met by our company, see

Concessions, Authorizations and Licenses Personal Mobile Services Authorization Agreements and Radio Frequency Spectrum Licenses and Concessions, Authorizations and Licenses 3G Radio Frequency Licenses.

### *Quality of Service Obligations*

Our personal mobile services authorizations impose obligations on us to meet quality of service standards relating to our network's ability to make and receive calls, call failure rates, capacity to handle peak periods, failed interconnection of calls and customer complaints. ANATEL defines these quality of service standards, and we must report information in connection with such standards to ANATEL.

### *Additional Obligations*

In August 2007, ANATEL adopted revisions to the personal mobile services regulations that became effective in February 2008. These revised regulations imposed additional obligations on personal mobile services providers, particularly in connection with customers' rights. These obligations require personal mobile services providers to:

establish at least one customer service center in each registration area served that has more than 100,000 inhabitants;

upgrade customer service centers to improve access by people with hearing disabilities;

increase the term applicable to pre-paid cards from 90 days to 180 days or more;

deliver to pre-paid customers a detailed report of service use upon request;

reimburse unused pre-paid credits;

limit the duration of contracts with pre-paid customers to 12 months;

permit customers to change service plans without penalties; and



unlock mobile handsets, allowing a customer who purchased a mobile handset from any personal mobile services provider to use it on the network of another personal mobile services provider.

***Interconnection Regulations***

Under the General Telecommunications Law, all telecommunication service providers are required, if technically feasible, to make their networks available for interconnection on a non-discriminatory basis whenever a request is made by another telecommunication service provider. Interconnection permits a call originated on the network of a requesting fixed-line or personal mobile services provider's network to be terminated on the fixed-line or personal mobile services network of the other provider. ANATEL initially adopted General Rules on Interconnection (*Regulamento Geral de Interconexão*) in 1998, which were amended and restated in July 2005.

***Interconnection Regulations Applicable to Fixed-Line Providers***

Interconnection fees are charged at a rate per minute of use of a fixed-line provider's network. Interconnection rates charged by a fixed-line provider to terminate a call on its local network (the TU-RL rate) or intercity network (the TU-RIU rate) are subject to a price cap established by ANATEL. The price cap for interconnection rates varies from service provider to service provider based on the retail prices of each service provider.

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Fixed-line service providers must offer the same TU-RL and TU-RIU rates to all requesting providers on a nondiscriminatory basis. The price caps on interconnection rates are adjusted annually by ANATEL at the same time that rates for local and long-distance rates are adjusted.

Fixed-line service providers are only required to pay interconnection fees to another fixed-line service provider for traffic in the same local area in the event that the ratio of the outbound traffic generated by that provider (measured in minutes) to the inbound traffic terminated by that provider (measured in minutes) exceeds 75% or was less than 25%. This system is designated the partial bill-and-keep system.

In 2006, ANATEL established that (1) the TU-RL rates that fixed-line service providers could charge each other to terminate a call on their respective networks was 50% of the rate included in their Basic Plan per Minute for a local fixed-line call, and (2) the TU-RIU rates that fixed-line service providers could charge each other to use a portion of their long-distance networks to complete long-distance calls was 30% of the applicable domestic fixed line-to-fixed line long-distance rates for calls of more than 300 km. In 2007, the TU-RL rates of the fixed-line service providers were reduced to 40% of the rate included in their Basic Plan per Minute for a local fixed-line call.

ANATEL announced that beginning in 2008, the method used to determine the TU-RL rates would be based on a cost methodology, known as long-run incremental costs. However, in October 2007, ANATEL published an official letter delaying this change until the end of 2010. In September 2010, ANATEL commenced the bidding process to engage an international consultant to assist with the development of the long-run incremental cost methodology. ANATEL has indicated that it will provide a definitive timetable for the completion of the project in September 2013. Therefore, we cannot predict when this new methodology will be adopted.

In May 2012, ANATEL adopted revisions to the regulations relating to TU-RL rates and TU-RIU rates that became effective in August 2012. Under the revised regulations (1) between August of 2012 and December of 2013, fixed-line service providers will be able to charge other fixed-line service providers for local fixed-line calls originating on their local fixed-line networks and terminating on the other provider's local fixed-line networks only if the outgoing traffic in a given direction of transmission is higher than 75% of the total traffic between such providers, and (2) beginning in January 2014, fixed-line service providers will no longer be able to charge other fixed-line service providers for local fixed-line calls originating on their local fixed-line networks and terminating on the other provider's local fixed-line networks.

In August 2012, the TU-RIU rates were reduced to 25% of the applicable domestic fixed line rates for calls with more than 300 km, and in January 2013, TU-RIU rates were reduced to 20% of the applicable domestic fixed line rates for such calls.

*Interconnection Regulations Applicable to Personal Mobile Services Providers*

Interconnection fees are charged at a flat rate per minute of use of a personal mobile services provider's network. The terms and conditions of interconnection agreements of all personal mobile services providers, including the rates charged by the operator of the network to terminate a call on its mobile network (the VU-M rate), commercial conditions and technical issues, are freely negotiated between mobile and fixed-line telecommunication service providers, subject to compliance with regulations established by ANATEL relating to traffic capacity and interconnection infrastructure that must be made available to requesting providers, among other things.

Personal mobile services providers must offer the same VU-M rate to all requesting providers on a nondiscriminatory basis. Interconnection agreements must be approved by ANATEL before they become effective and they may be rejected if they are contrary to the principles of free competition and the applicable regulations. If the providers cannot

agree upon the terms and conditions of interconnection agreements, ANATEL may determine terms and conditions by arbitration. Since no agreement with fixed-line service providers could be reached regarding VU-M rates when we began offering personal mobile services, ANATEL set the initial VU-M rates.

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Personal mobile services providers negotiate annual rate increases for their VU-M charges with the fixed-line telecommunications providers. If the providers cannot agree upon the terms and conditions of annual rate increases, ANATEL may determine the annual rate increases by arbitration.

In November 2011, ANATEL adopted new regulations under which ANATEL was authorized to reduce the then-current VC-1, VC-2 and VC-3 rates by as much as 18% in 2011, 12% in 2012 and 10% in 2013, after giving effect to an inflation adjustment based on the IST measured from June 2009. In February 2012, ANATEL ordered us to reduce our VC-1, VC-2 and VC-3 rates by approximately 10%, although we are appealing the timing of the application of this rate decrease to our company as our VC-1 rate was increased in Region I by 1.54% in accordance with our application for this increase in February 2012. In March 2013, ANATEL reduced our VC-1 rates in Region I and Region II by approximately 18.6% and 8%, respectively; we will similarly appeal the timing of the application of the rate decrease to our company in Region II. These regulations also provided procedures under which ANATEL adopted a maximum VU-M rate that is applicable in the event that providers cannot agree upon the VU-M applicable in their interconnection agreements.

***Number Portability Regulations***

Number portability is the ability of a customer to move to a new home or office or switch service providers while retaining the same fixed-line or mobile telephone number. In March 2007, ANATEL adopted the General Regulation of Portability (*Regulamento Geral de Portabilidade*), establishing general rules regarding portability of fixed-line and mobile telephone numbers. These regulations permit fixed-line customers to retain their telephone numbers if they become customers of a different fixed-line service provider in the same municipality or if they move to a new home or office in the same municipality. Personal mobile services customers are permitted to retain their telephone numbers if they change their service plan or if they become customers of a different personal mobile services provider within the same registration area. Each telecommunications provider has been required to contract a third-party management entity to manage all procedures relating to number portability. Service providers are permitted to charge a migrating customer that elects to retain its telephone number a one-time fee of no more than R\$4.00. This amount is intended to compensate the customer's current provider for the costs associated with managing the portability process. The new provider may elect to absorb this fee on behalf of the customer.

***Regulation of Data Transmission and Internet Services***

Under Brazilian regulation, ISPs are deemed to be suppliers of value-added services and not telecommunication service providers. Value-added services are considered an activity that adds features to a telecommunication service supported by such value-added services. Telecommunication service providers are permitted to render value-added services through their own networks. In addition, ANATEL regulations require all telecommunication service providers and cable television operators to grant network access to any party interested in providing value-added services, including internet access, on a non-discriminatory basis, unless not technically feasible.

ANATEL has adopted regulations applicable to fixed-line service providers with significant market power. Under these regulations, these providers are required to make the forms of agreements that they use for EILD and SLD services publicly available, including the applicable rates, and are only permitted to offer these services under these forms of agreement. Following publication of these forms of agreement, the rates under these agreements may be increased on an annual basis by no more than the rate of inflation, as measured by the IST. ANATEL also publishes reference rates for these services, and if a customer of one of these providers objects to the rates which that provider charges for these services, the customer is entitled to seek to reduce the applicable rate through arbitration before ANATEL.

*Multimedia Communications Service Quality Management Regulations*

In June 2011, the President of Brazil issued Executive Decree No. 7,512/11, which mandated ANATEL to take the necessary regulatory measures to establish quality standards for broadband internet services. In compliance with such decree, on October 31, 2011, ANATEL published a resolution approving the Multimedia Communications Service Quality Management Regulations (*Regulamentação de Gestão da Qualidade do Serviço de Comunicação Multimídia*), or the Regulations, which identify network quality indicators and establish performance goals for multimedia communications service providers, including broadband internet service providers, with more than

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50,000 subscribers. Such providers will be required to collect representative data using dedicated equipment installed at the site of each network connection and be subject to periodic measurements to ensure their compliance with the Regulations, including:

individual upload and download speeds of at least 20%, 30% and 40% of contracted speeds per measurement for at least 95% of all measurements, during the first year, second year and thereafter, respectively, following implementation of the Regulations;

average upload and download speeds of at least 60%, 70% and 80% of contracted speeds for all measurements during the first year, second year and thereafter, respectively, following implementation of the Regulations; and

individual round-trip latencies for fixed-line connections of up to 80 milliseconds per measurement for at least 95% of the measurements.

To increase transparency, customers must be provided with specialized software at no cost to measure their own network quality, although such customer-generated measurements will not be included in official calculations. In addition to ensuring network quality standards, service providers must hire specialized companies to measure customer service and customer satisfaction indicators, including complaint resolution, customer service personnel competence, customer perceptions relating to billing and quality of technical support staff. Service providers must comply with the above-mentioned quality standards beginning on the thirteenth month following implementation of the Regulations. Failure to meet such standards will subject non-compliant service providers to sanctions.

*National Broadband Plan*

On June 30, 2011, we entered into a Term of Commitment (*Termo de Compromisso*) with ANATEL and the Ministry of Communications to formalize our voluntary commitment to adhere to the terms of the National Broadband Plan, created in May 2010 by Executive Decree No. 7,175/10 with the goal to make broadband access available at low cost, regardless of technology, throughout Brazil. Pursuant to the Term of Commitment, we are required to offer (1) broadband services with minimum upload and download capabilities to retail customers in certain sectors of Region I and II for a maximum price of R\$35 per month (or R\$29.90 in ICMS-exempt states), plus fees, and (2) access to our broadband infrastructure to certain wholesale customers, including small businesses and municipalities, in certain sectors of Region I and II for a maximum price of R\$1,253 per 2 Mbps per month and a one-time installation fee, while observing all quality standards under ANATEL regulations. Both retail and wholesale services are subject to certain network capacity limits and need only be provided at the demand of the customer. The services provided under the Term of Commitment may be implemented gradually, beginning in November 2011, although we are obligated to make services available to 100% of eligible retail and wholesale customers by December 31, 2014 and June 30, 2013, respectively. The Term of Commitment also requires that we:

provide one public internet access point for the first 20,000 inhabitants and one additional access point for each subsequent 10,000 inhabitants, with a limit of six access points, at a speed of 2 Mbps, in each municipality that has only satellite service, free of charge and upon demand of such municipality;

adequately advertise the services contemplated by the Term of Commitment and present to the Ministry of Communications semi-annual reports detailing our marketing efforts; and

make our best efforts to offer broadband services to retail customers at speeds of up to 5 Mbps, reaching the largest possible number of municipalities by 2015.

The Term of Commitment will expire on December 31, 2016.

**Environmental and Other Regulatory Matters**

As part of our day-to-day operations, we regularly install ducts for wires and cables and erect towers for transmission antennae. We may be subject to federal, state and/or municipal environmental licensing requirements

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due to the installation of cables along highways and railroads, over bridges, rivers and marshes and through farms, conservation units and environmental preservation areas, among other places. As of the date of this annual report, we have been required to obtain environmental licenses for the installation of transmission towers and antennae in several municipalities with no material impact on our operations. However, there can be no assurances that other state and municipal environmental agencies will not require us to obtain environmental licenses for the installation of transmission towers and antennae in the future and that such a requirement would not have a material adverse effect on the installation costs of our network or on the speed with which we can expand and modernize our network.

We must also comply with environmental legislation regarding the management of solid waste. According to resolutions adopted by the National Environmental Council (*Conselho Nacional do Meio Ambiente*), companies responsible for the treatment and final disposal of solid industrial waste, special waste and solid urban waste are subject to environmental licensing. Should the waste not be disposed of in accordance with standards established by environmental legislation, the company generating such waste may be held jointly and severally liable with the company responsible for waste treatment for any damage caused. Also, in all states where we operate, we have implemented management procedures promoting the recycling of batteries, transformers and fluorescent lamps.

In addition, we are subject to ANATEL regulations that impose limits on the levels and frequency of the electromagnetic fields originating from our telecommunications transmissions stations.

We believe that we are in compliance with ANATEL standards as well as with all applicable environmental legislation and regulations. We are currently not involved in any administrative or judicial proceeding involving material liability for environmental damage.

## **Disclosure Pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act**

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 added Section 13(r) to the Exchange Act. Section 13(r) requires an issuer to disclose in its annual or quarterly reports filed with the SEC whether the issuer or any of its affiliates has knowingly engaged in certain activities, transactions or dealings with the Government of Iran, relating to Iran or with designated natural persons or entities involved in terrorism or the proliferation of weapons of mass destruction during the period covered by the annual or quarterly report. Disclosure is required even when the activities were conducted outside the United States by non-U.S. entities and even when such activities were conducted in compliance with applicable law.

In December 2011, we entered into a roaming agreement with MTN Irancell. Pursuant to such roaming agreement, our customers are able to roam in MTN Irancell's network (outbound roaming) and customers of MTN Irancell are able to roam in our network (inbound roaming). For outbound roaming, we pay MTN Irancell roaming fees for use of their network by our customers, and for inbound roaming MTN Irancell pays us roaming fees for use of our network by its customers.

Our inbound and outbound roaming services with MTN Irancell were launched commercially in October and November 2012, respectively. During 2012, we recorded revenues of US\$43 and expenses of US\$831 in connection with this roaming agreement. We do not maintain any bank accounts in Iran. All payments in connection with our international roaming agreements are effected through our bank account in London.

The purpose of this roaming agreement is to provide our customers with coverage in areas where we do not own networks. For that purpose, we intend to continue maintaining this agreement.



We own a 10.0% interest in Portugal Telecom, and Portugal Telecom indirectly through its subsidiary Bratel Brasil, S.A. owns 7.6% of our voting common shares and 12.1% of the voting shares of our controlling shareholder Tmar Part, and owns 19.4% of our non-voting preferred shares. Portugal Telecom has reported to us the following:

Through its subsidiary TMN Telecomunicações Móveis Nacionais, S.A., or TMN, Portugal Telecom has entered into roaming agreements with MTN Irancell. Pursuant to such roaming agreement, Portugal Telecom's customers are able to roam on the Iranian network (outbound roaming), and customers of such Iranian operators are able to roam on TMN's network (inbound roaming). For outbound roaming, Portugal Telecom pays the Iranian operator roaming fees for use of its network by Portugal Telecom's customers, and for inbound roaming the Iranian operator pays Portugal Telecom roaming fees for use of its network by the Iranian operator's customers.

In 2012, in connection with the above mentioned roaming agreements entered into with MTN Irancell, TMN recorded gross revenues of 1,200 and operating costs of 2,306, corresponding to a net loss after tax of 758. In addition to these transactions, TMN also incurred expenses amounting to 537 in 2012 with the Mobile Company of Iran, corresponding to a net loss after tax of 368.

The purpose of these agreements is to provide Portugal Telecom's customers with coverage in areas where it does not own networks. For that purpose, Portugal Telecom intends to continue maintaining these agreements.

Portugal Telecom also provides telecommunications services in the ordinary course of business to the Embassy of Iran in Lisbon, Portugal. Portugal Telecom recorded gross revenues and net profits of less than 10,000 from these services in 2012. As one of the primary providers of telecommunications services in Lisbon, Portugal, Portugal Telecom intends to continue providing such services, as it does to the embassies of many other nations.

#### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

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**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

*The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements as of December 31, 2012 and 2011 and for the three years ended December 31, 2012, which are included in this annual report, as well as with the information presented under the sections entitled Presentation of Financial and Other Information and Item 3. Key Information Selected Financial Information.*

*The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth in Forward-Looking Statements and Item 3. Key Information Risk Factors.*

**Overview**

We are one of the largest integrated telecommunication service provider in Brazil, based on information available from ANATEL regarding the total number of fixed-lines in service and mobile subscribers of our company as of December 31, 2012, and one of the principal telecommunication services provider offering quadruple play services in Brazil. We offer a range of integrated telecommunication services that includes fixed-line and mobile telecommunications services, data transmission services (including broadband access services), ISP services and other services, for residential customers, small, medium and large companies, and governmental agencies. In 2012, we recorded net operating revenue of R\$25,169 million and net income of R\$1,785 million.

Our results of operations and financial condition have been and will be significantly influenced in future periods by the corporate reorganization of our company, TNL, Telemar and Coari described under Corporate Reorganization. In addition, our results of operations for the years ended December 31, 2012, 2011 and 2010 have been influenced, and our future results of operations will continue to be influenced, by a variety of factors, including:

the rate of growth of Brazilian GDP, which grew by an estimated 0.9% in 2012, and grew by 2.7% in 2011 and 7.5% in 2010, which we believe affects demand for our services and, consequently, our net operating revenue;

the number of our fixed lines in service, which increased to 17.8 million as of December 31, 2012 as a result of the corporate reorganization from 6.8 million as of December 31, 2011, and the percentage of our fixed-line customers that subscribe to our alternative plans which increased to 82.1% as of December 31, 2012 from 75.8% as of December 31, 2011;

the number of our mobile customers, which increased to 49.3 million as of December 31, 2012 as a result of the corporate reorganization from 8.6 million as of December 31, 2011;

the number of our fixed-line customers that subscribe to our broadband services, which increased to 5.7 million as of December 31, 2012 as a result of the corporate reorganization from 2.0 million as of December 31, 2011;

the increased competition in the Brazilian market for telecommunications services, which affects the amount of the discounts that we offer on our service rates and the quantity of services that we offer at promotional rates;

inflation rates in Brazil, which were 4.77% in 2012 and 4.90% in 2011, as measured by the IST, and the resulting adjustments to our regulated rates, as well as the effects of inflation on our *real*-denominated debt that is indexed to take into account the effects of inflation or bears interest at rates that are partially adjusted for inflation;

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our compliance with our quality of service obligations under the General Plan on Quality Goals and our network expansion and modernization obligations under the General Plan on Universal Service and our concession agreements, the amount of the fines assessed against us by ANATEL for alleged failures to meet these obligations and our success in challenging fines that we believe are assessed in error;

changes in the *real*/U.S. dollar exchange rate, including the 8.9% depreciation of the *real* against the U.S. dollar in 2012 and the 12.2% depreciation of the *real* against the U.S. dollar in 2011, which has affected the cost in *reais* of a substantial portion of the network equipment that we purchase for our capital expenditure projects, the prices of which are denominated in U.S. dollars or are U.S. dollar-linked; and

the level of our outstanding indebtedness, fluctuations in benchmark interest rates in Brazil, principally the CDI rate and the TJLP rate, which affects our interest expenses on our *real*-denominated floating rate debt. Our financial condition and liquidity is influenced by a variety of factors, including:

our ability to generate cash flows from our operations;

prevailing Brazilian and international interest rates, which affect our debt service requirements;

our ability to borrow funds from Brazilian and international financial institutions and to sell our debt securities in the Brazilian securities markets, which is influenced by a number of factors discussed below;

our capital expenditure requirements, primarily relating to a variety of projects designed to expand and upgrade our data transmission networks, our mobile services networks, our voice transmission networks, our information technology equipment and our telecommunications services infrastructure;

the dividend distribution policy that we have announced, under which we have stated that we intend to approve the distribution of R\$1,000 million at each of our annual general shareholders meetings in 2013 and 2014, and R\$1,000 million in each of August 2013 and August 2014; and

the requirement under Brazilian corporate law and our by-laws that we pay dividends on an annual basis in an amount equal to at least 25% of our adjusted net income, unless our board of directors deems it inconsistent with our financial position.

**Corporate Reorganization**

On February 27, 2012, the shareholders of TNL, Telemar, Coari and Brasil Telecom approved a series of transactions including:

a split-off (*cisão*) and merger of shares (*incorporação de ações*) under Brazilian law in which:

Telemar transferred its shares of Coari to Coari;

Coari assumed a portion of the liabilities of Telemar, which became joint and several liabilities of Telemar and Coari or obligations of Coari guaranteed by Telemar;

Coari issued one common share and/or one preferred share to the holders of Telemar common and preferred shares (other than the shares of holders who exercised their withdrawal rights with respect to such shares) in exchange for each of their common and preferred shares of Telemar, respectively; and

Coari retained the Telemar shares exchanged for Coari shares and as a result, Telemar became a wholly-owned subsidiary of Coari;

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a merger (*incorporação*) under Brazilian law of Coari with and into our company, with our company as the surviving company, which we refer to as the Coari merger, in which:

each issued and then outstanding share of Brasil Telecom held by Coari and all Coari shares held in treasury were cancelled;

each issued and then outstanding common share of Coari was converted automatically into 5.1149 common shares of Brasil Telecom;

each issued and then outstanding preferred share of Coari was converted automatically into 0.3904 common shares of Brasil Telecom and 4.0034 preferred shares of Brasil Telecom;

Coari ceased to exist; and

Telemar became a wholly-owned subsidiary of Brasil Telecom; and

a merger (*incorporação*) under Brazilian law of TNL with and into our company, with our company as the surviving company, which we refer to as the TNL merger, in which:

each TNL share held in treasury prior to the TNL merger was cancelled, and each issued and then outstanding share of Brasil Telecom held by TNL was cancelled, other than 24,647,867 common shares of Brasil Telecom, which were transferred to the treasury of Brasil Telecom;

each issued and then outstanding common share of TNL (other than common shares held by shareholders who exercised their withdrawal rights with respect to such common shares) was converted automatically into 2.3122 common shares of Brasil Telecom;

each issued and then outstanding preferred share of TNL was converted automatically into 0.1879 common shares of Brasil Telecom and 1.9262 preferred shares of Brasil Telecom; and

TNL ceased to exist.

In addition, on February 27, 2012, our shareholders approved:

the issuance and distribution of (1) one Class B redeemable preferred share of our company to the holder of each of our common shares, and (2) one Class C redeemable preferred share of our company to the holder of each of our preferred shares; and

the redemption of each Class B redeemable preferred share and Class C redeemable preferred share at a redemption price equal to R\$2.543282 per share, or an aggregate of R\$1,502 million.

We have accounted for the Coari merger and the TNL merger using the carry-over basis of our own assets and liabilities and of the assets and liabilities assumed of TNL, Telemar, and Coari as from the date of the reorganization. The carry-over basis of the assets and liabilities were determined at the lowest level entity in the group (i.e., the effects of the purchase accounting relating to Coari's acquisition of Brasil Telecom (now Oi S.A.) will not be reflected in the assets and liabilities of Oi S.A. in its consolidated financial statements as a result of the TNL merger). Additionally, our historical financial statements have not been restated to reflect the impacts of the corporate reorganization on a retrospective basis. Due to the limited guidance in IFRS as issued by the IASB and Brazilian GAAP regarding restructurings of entities under common control, we made a formal request for consultation with the CVM regarding the accounting policy to be applied to these common-control mergers. On April 24, 2013, the Board of Directors of the CVM unanimously decided that the accounting policy to use our carry-over basis of our own assets and liabilities is the most adequate policy given the fact pattern, and would provide more relevant and reliable information for the investor. As part of their decision, the CVM also required that our parent company, Telemar Participações S.A., file their quarterly and annual financial statements with the CVM on the same date that we file our financial statements. Our non-current intangible assets and property, plant and equipment are recorded on a different basis in our parent company's consolidated financial statements, reflecting the amortized purchase price allocated to these assets resulting from Coari's acquisition of our company on January 8, 2009.

Holders of Telemar common shares, class A preferred shares and class B preferred shares and holders of TNL preferred shares as of the close of trading on May 23, 2011, the date prior to the publication of the Relevant Fact that first announced the split-off and share exchange and the TNL merger were entitled to withdrawal rights in connection with the split-off and share exchange and the TNL merger. Shareholders who exercised these withdrawal

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rights with respect to the Telemar shares were entitled to receive R\$74.37 per share and shareholders who exercised these withdrawal rights with respect to the TNL preferred shares were entitled to receive R\$28.93 per share. As of March 29, 2012, the expiration of the period for the exercise of these withdrawal rights, holders of 1,020,215 Telemar common shares, 17,856,585 Telemar class A preferred shares, 47,714 Telemar class B preferred shares and 20,446,097 TNL preferred shares had validly exercised their withdrawal rights for an aggregate cost to our company of R\$1,999 million.

## **Financial Presentation and Accounting Policies**

### ***Presentation of Financial Statements***

We have prepared our consolidated financial statements as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010 in accordance with IFRS as issued by the IASB.

### ***Business Segments and Presentation of Segment Financial Data***

We have implemented an organizational structure that we believe reflects our business activities and corresponds to the principal services that we provide. We report our results in three segments to reflect this organizational structure:

*Fixed-Line and Data Transmission Services* This segment includes our local fixed-line services (including public telephones), our long-distance services, our fixed-line data transmission services and interconnections to our fixed-line network.

*Mobile Services* This segment includes our mobile services, including voice, mobile data communications and other value added services, and interconnections to our mobile network.

*Other Services* This segment includes the operations of our internet portal, ISP services and call center. We evaluate and manage business segment performance based on information prepared in accordance with IFRS, and, accordingly, the segment data included in this annual report is presented under IFRS. We have included a reconciliation of the operating results of our segments to our consolidated results under **Results of Operations** below.

### ***Critical Accounting Policies and Estimates***

Our critical accounting policies and estimates described in note 2(c) to our consolidated financial statements. In preparing our consolidated financial statements, we relied on estimates and assumptions derived from historical experience and various other factors that we deemed reasonable and relevant. Critical accounting policies are those that are important to the portrayal of our consolidated financial position and results of operations and require management's subjective and complex judgments, estimates and assumptions. The application of these critical accounting policies often requires judgments made by management regarding the effects of matters that are inherently uncertain with respect to our results of operations and the carrying value of our assets and liabilities. Our results of operations and financial position may differ from those set forth in our consolidated financial statements, if our actual experience differs from management's assumptions and estimates. In order to provide an understanding of our critical accounting policies, including some of the variables and assumptions underlying the estimates, and the sensitivity of those assumptions and estimates to different parameters and conditions, we set forth below a discussion of our critical



accounting policies relating to:

revenue recognition and trade receivables;

provision for doubtful accounts;

depreciation of property, plant and equipment;

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impairment of long-lived assets;

provisions;

derivative instruments;

deferred income taxes and social contribution;

employee benefits; and

amortization of intangible assets.

*Revenue Recognition and Trade Receivables*

Our revenue recognition policy is significant because our revenue is a material component of our results of operations. Management's determination of price, collectability and the rights to receive certain revenues for the use of our network are based on judgments regarding the nature of the fee charged for services rendered, the price for certain services delivered and the collectability of those revenues. Should changes in conditions cause management to conclude that these criteria are not met for certain transactions, the amount of accounts receivable could be adversely affected. In addition, for certain categories of revenue we rely upon revenue recognition measurement guidelines set by ANATEL.

Revenues are generally recognized on an accrual basis. Revenues from local fixed-line, long-distance and post-paid mobile calls and data transmission services are recognized when services are provided. Services provided and not billed at the end of each month are estimated and recorded on an accrual basis. Late-payment interest is recognized upon the issuance of the first bill following the payment of the overdue bill.

Revenues from pre-paid mobile cards are recognized based on the use of the respective credits. Revenue from the sale of public telephone cards is recognized when the credits are effectively consumed by customers. Revenues related to the sale of mobile handsets and accessories are accounted for when the goods are delivered and accepted by the customer.

Revenues from the usage of our network by other telecommunications service providers are recorded based on a formal document of declared traffic and services rendered, the Traffic Exchange Declaration (*Documento de Declaração de Tráfego e Prestação de Serviço*), or DETRAF, issued by an independent, outsourced clearinghouse.

We consider revenue recognition to be a critical accounting policy, because of the uncertainties caused by different factors such as the complex information technology required, high volume of transactions, fraud and piracy, accounting regulations, management's determination of collectability and uncertainties regarding our right to receive certain revenues (mainly revenues for use of our network). Significant changes in these factors could cause us to fail to recognize revenues or to recognize revenues that we may not be able to realize in the future, despite our internal controls and procedures. We have not identified any significant need to change our revenue recognition policy.

*Provision for Doubtful Accounts*

Our provision for doubtful accounts is established in order to recognize probable losses on accounts receivable and takes into account limitations we impose to restrict the provision of services to customers with past-due accounts and actions we take to collect delinquent accounts. We include government entities, corporate customers and other telecommunications service providers in the basis for our calculation of the provision for doubtful accounts. For additional information regarding our provision for doubtful accounts, see note 10 to our consolidated financial statements.

We have entered into agreements with certain customers to collect past-due accounts receivable, including agreements allowing customers to settle their delinquent accounts in installments. The amounts that we actually fail to collect in respect of these accounts may differ from the amount of the allowance established, and additional allowances may be required.

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### *Depreciation of Property, Plant and Equipment*

We depreciate property, plant and equipment using the straight-line method at rates we judge compatible with the useful lives of the underlying assets. The depreciation rates of our most significant assets are presented in note 16 to our consolidated financial statements. The useful lives of assets in certain categories may vary based on whether they are used primarily to provide fixed-line or mobile services. We review the estimated useful lives of the assets taking into consideration technical obsolescence and a valuation by outside experts.

Given the complex nature of our property, plant and equipment, the estimates of useful lives require considerable judgment and are inherently uncertain, due to rapidly changing technology and industry practices, which could cause early obsolescence of our property, plant and equipment. If we materially change our assumptions of useful lives and if external market conditions require us to determine the possible obsolescence of our property, plant and equipment, our depreciation expense, obsolescence write-off and consequently net book value of our property, plant and equipment could be materially different.

### *Impairment of Long-Lived Assets*

We test property, plant and equipment items and intangible assets for impairment whenever (1) we decide to discontinue activities in which such assets are used, or (2) there is evidence that future operating results will not be sufficient to ensure their realization.

Assets with finite useful lives are tested for impairment whenever events or changes in circumstances indicate that the asset might be impaired. We test asset with indefinite useful lives (goodwill) for impairment at least annually.

Impairment losses, if any, are recognized in an amount by which the carrying amount of an asset exceeds its recoverable value. Recoverable value is the higher of fair value less cost to sell and the value in use. These calculations require the use of judgments and assumptions. The determination of fair values and discounted future operating cash flows requires that we make certain assumptions and estimates with respect to projected cash inflows and cash outflows related to future revenue, costs and expenses. These assumptions and estimates may be influenced by different external and internal factors, such as economic trends, industry trends and interest rates, changes in business strategies, and changes in the type of services and products sold by our company. The use of different assumptions and estimates could significantly change our consolidated financial statements.

We have not recorded any impairment of our long-lived assets during the three years ended December 31, 2012.

### *Provisions*

We recognize provisions for losses in labor, tax and civil proceedings, as well as administrative proceedings. The recognition of a provision is based on the assessment of the risk of loss made for each proceeding, which includes assessing available evidence and recent decisions.

We classify our risk of loss in legal proceedings as remote, possible or probable. Provisions recorded in our consolidated financial statements in connection with these proceedings reflect reasonably estimated losses at the relevant date as determined by our management after consultation with our general counsel and the outside legal counsel. As discussed in note 23 to our consolidated financial statements, we record as a liability our estimate of the costs of resolution of such claims, when we consider our losses probable. We continually evaluate the provisions based on changes in relevant facts, circumstances and events, such as judicial decisions, that may impact the estimates, which could have a material impact on our results of operations and shareholders' equity. While

management believes that the current provision is adequate, it is possible that our assumptions used to estimate the provision and, therefore, our estimates of loss in respect of any given contingency will change in the future based on changes in the relevant situation. This may therefore result in changes in future provisioning for legal claims. For more information regarding material pending claims against our company, see Item 8. Financial Information Legal Proceedings and note 23 to our consolidated financial statements.

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**Table of Contents***Derivative Instruments*

We recognize derivative financial instruments at fair value based on future cash flow estimates associated with each instrument contracted. Our estimates of future cash flows may not necessarily be indicative of the amounts that could be obtained in the current market. The use of different assumptions to measure the fair value could have a material effect on the amounts obtained and not necessarily be indicative of the cash amounts that we would receive or pay to settle such transactions.

*Deferred Income Taxes and Social Contribution*

Income taxes in Brazil are calculated and paid on a legal entity basis, and there are no consolidated tax returns. Accordingly, we only recognize deferred tax assets, related to tax loss carryforwards and temporary differences, if it is likely that they will be realized on a legal entity basis.

We recognize and settle taxes on income based on the results of operations determined in accordance with the Brazilian Corporation Law, taking into consideration the provisions of Brazilian tax law, which are materially different from the amounts calculated for IFRS purposes. Under IFRS, we recognize deferred tax assets and liabilities based on the differences between the carrying amounts and the taxable bases of the assets and liabilities.

We regularly test deferred tax assets for impairment and recognize a provision for impairment losses when it is probable that these assets may not be realized, based on the history of taxable income, the projection of future taxable income, and the time estimated for the reversal of existing temporary differences. These projections require the use of estimates and assumptions. In order to project future taxable income, we need to estimate future taxable revenues and deductible expenses, which are subject to a variety of external and internal factors, such as economic trends, industry trends and interest rates, changes in business strategies, and changes in the type of services and products sold by our company. The use of different estimates and assumptions could result in the recognition of a provision for impairment losses for the entire or a significant portion of the deferred tax assets.

*Employee Benefits*

We record liabilities for employee benefits based on actuarial valuations which are calculated based on assumptions and estimates regarding discount rates, investment returns, inflation rates for future periods, mortality indices and projected employment levels relating to pension fund benefit liabilities. The accuracy of these assumptions and estimates will determine whether we have created sufficient reserves for the costs of accumulated pensions and healthcare plans, and the amount we are required to disburse each year to fund pension benefits. These assumptions and estimates are subject to significant fluctuations due to different external and internal factors, such as economic trends, social indicators, our capacity to create new jobs and our ability to retain our employees. All of these assumptions are reviewed at the end of each reporting period. If these assumptions and estimates are not accurate, we may be required to revise our reserves for pension benefits, which could materially impact our results of operations.

The IASB has adopted amendments to IAS 19, *Employee Benefits*, that were not effective as of December 31, 2012. These amendments will change the accounting for defined benefit plans and termination benefits. This amendment will eliminate the use of the corridor approach to recognizing actuarial gains and losses of defined benefit plans and require that actuarial gains and losses be recognized directly in the other comprehensive income component of shareholders' equity. This amendment will become effective for periods ending on or after January 1, 2013. We estimate that revision to our accounting for defined benefit plans and termination benefits in compliance with this amendment will have a negative impact on our shareholders' equity of R\$314 million on December 31, 2012.



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*Amortization of Intangible Assets*

Intangible assets consist primarily of authorizations to provide personal mobile services and radio frequency licenses, licenses to use software and goodwill on the acquisition of investments, which is calculated based on expected future economic benefits.

Amortization of intangible assets, other than goodwill, is calculated under the straight-line method over (1) the effective term of the authorization to provide personal mobile services or of the radio frequency license, or (2) over a maximum period of five years in the case of software licenses.

We do not amortize goodwill in our consolidated statements of income and we are required to test goodwill for impairment at least on an annual basis.

**Principal Factors Affecting Our Financial Condition and Results of Operations**

*Rate of Growth of Brazil's Gross Domestic Product and Demand for Telecommunications Services*

As a Brazilian company with substantially all of our operations in Brazil, we are affected by economic conditions in Brazil. Brazilian GDP grew by an estimated 0.9% in 2012, and grew by 2.7% in 2011 and 7.5% in 2010. While we believe that growth in Brazil's GDP stimulates demand for telecommunications services, we believe that demand for telecommunications services is relatively inelastic in periods of economic stagnation and that the effect on our revenues of low growth or a recession in Brazil would not be material under foreseeable scenarios. However, a substantial and prolonged deterioration of economic conditions in Brazil could have a material adverse effect on the number of subscribers to our services and the volume of usage of our services by our subscribers and, as a result, our net operating revenue.

Based on information available from ANATEL, the number of fixed lines in service in Brazil increased from 34.7 million as of December 31, 2000 to 43.7 million as of May 31, 2012, the latest date for which such information has been made available by ANATEL, and the number of mobile subscribers in Brazil increased from 28.8 million as of December 31, 2000 to 261.8 million as of December 31, 2012. Although the demand for telecommunications services has increased substantially during the past ten years, the tastes and preferences of Brazilian consumers of these services have shifted.

During the three years ended December 31, 2012, the number of mobile subscribers in Brazil has grown at an average rate of 14.6% per year while the number of fixed lines in service in Brazil has increased by an average rate of 1.6% per year. As the incumbent provider of fixed-line services and a provider of mobile services in Region I and Region II, we are both a principal target and a beneficiary of this trend. During the three years ended December 31, 2012, the number of our mobile subscribers in Region II has grown at an average rate of 13.4% per year from 7.1 million at December 31, 2009 to 10.0 million at December 31, 2012 and the number of mobile subscribers in Region I of our subsidiary TNL PCS has grown at an average rate of 9.9% per year from 23.7 million as of December 31, 2009 to 30.4 million at December 31, 2012, while the number of our fixed lines in service in Region II has declined by an average rate of 4.5% per year from 7.7 million at December 31, 2009 to 6.7 million at December 31, 2012 and the number of fixed lines in service in Region I of our subsidiary Telemar has declined by an average rate of 4.1% per year from 13.5 million at December 31, 2009 to 11.8 million at December 31, 2012.

*Demand for Our Telecommunications Services*

*Demand for Our Local Fixed-Line Services*



Brazil's fixed-line penetration level is now similar to that of other countries with similar per capita income, and, as has happened in such other countries, the fixed-line telecommunications customer base has remained stable. Demand for local fixed-line services of our company has reached a plateau in recent years. Because the number of customers our company terminating their fixed-line services has exceeded new activations during this period, the number of our fixed lines in service in Region II declined by 1.0 million between December 31, 2009 and December 31, 2012 and the number of fixed lines in service in Region I of Telemar declined by 1.7 million. In addition, the

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new fixed lines that we have activated between December 31, 2009 and December 31, 2012 generally represent customers that have changed addresses or low-income customers from whom we generate revenues at a rate below our average revenue per customer.

We have sought to combat the general trend in the Brazilian telecommunications industry of substitution of mobile services in place of local fixed-line services by offering a variety of bundled plans that include mobile services, broadband services and *Oi TV* subscriptions to our fixed-line customers. As a result of these service offerings, we expect that the rate of decline in number of our fixed lines in service will be reduced. As of December 31, 2012, 31.0% of our fixed lines in service also subscribed for ADSL service. As of December 31, 2012, 12.0% of our local fixed-line customers subscribed for bundled service packages, which account for 30.0% of our post-paid mobile subscribers as each fixed-line subscriber may include multiple mobile devices in a bundled plan.

We are required under ANATEL regulations and our concession contracts to offer a basic service plan to our fixed-line residential customers that permits 200 minutes of usage of our fixed-line network to make local calls. A basic plan customer pays a monthly fee for this service, and when the customer makes local calls in excess of this limit, we charge the customer for the excess minutes on a per-minute basis. We offer alternative local fixed-line plans that include significantly larger numbers of minutes and charge higher monthly fees for these plans, although these monthly fees represent a discount from the amount that the customer would be charged under our basic plan if the customer used the number of minutes included in the alternative plan. As the number of our customers selecting these alternative plans has grown in response to our marketing and promotional efforts, we have recorded increased revenues for monthly subscription fees, offset by corresponding declines in revenues for the use of excess minutes. Subscribers to our alternative fixed-line plans represented 82.1% of our fixed lines in service as of December 31, 2012 as compared to 67.0% of the fixed lines in service of our company and Telemar as of December 31, 2009. We believe that our alternative local fixed-line plans contribute to a net increase in our local fixed-line revenue as many subscribers of our alternative fixed-line plans do not use their full monthly allocations of local minutes.

The substantial increase in the number of mobile service users in Brazil has also negatively impacted the use of our public telephones. As the incumbent local fixed-line service provider in Region I and Region II, we are required under ANATEL regulations and our concession contracts to meet specified targets with respect to the availability of public telephones throughout our concession area. However, as a larger portion of the population of Region I and Region II uses mobile handsets to make calls when not in proximity to a fixed-line telephone, use of public telephones of our company and Telemar declined by 14.6% from 2009 to 2012.

*Demand for Our Mobile Services*

Our customer base for mobile services has grown from 7.1 million at December 31, 2009 to 49.3 million at December 31, 2012 primarily as a result of the corporate reorganization which increased the number of our mobile customers by 39.2 million as of the completion of this transaction on February 27, 2012. In addition, we believe that the primary reason that our customer base for mobile services in Region II has grown from 7.1 million at December 31, 2009 to 10.0 million at December 31, 2012 and that we have recorded growth in the number of mobile customers in Regions I and III since the completion of the corporate reorganization has been the success of our marketing and promotion campaigns.

The market for mobile services is extremely competitive in each of the regions that we serve. During 2012, the average monthly churn rate of our mobile services segment was 3.8% per month. As a result, (1) we incur selling expenses in connection with marketing and sales efforts designed to retain existing mobile customers and attract new mobile customers, and (2) from time to time the discounts that we offer in connection with our promotional activities lead to charges against our gross operating revenue from mobile services. In addition, competitive pressures have in

the past required us to introduce service plans under which the monthly and per-minute rates that we charge our mobile customers are lowered, reducing our average revenue per customer.

We expect our overall mobile services business to continue to grow in terms of its customer base, traffic volumes and revenues from value-added services. However, due to market saturation, we expect future growth in our mobile services business to occur at lower rates than we have historically achieved.

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*Demand for Our Data Transmission Services*

Our broadband services customer base has grown from 1.9 million at December 31, 2009 to 5.7 million at December 31, 2012 primarily as a result of the corporate reorganization which increased the number of our broadband services customers by 1.4 million as of the completion of this transaction on February 27, 2012.

In addition, our customer base for broadband services in Region II has grown from 1.9 million at December 31, 2009 to 2.2 million at December 31, 2012. We believe that this growth has resulted from (1) our marketing and promotional campaigns, (2) the growth in the number of households in Region I and Region II that own personal computers, and (3) a shift in consumer preferences that has led an increasing number of our fixed-line customers to value the data transmission speeds available through our broadband services. We expect the number of our fixed-line customers that subscribe to our broadband services to continue to increase in the near term.

*Effects of Expansion of Mobile Data Transmission Services*

In December 2007, we acquired the authorizations and radio frequency licenses necessary for us to commence the offering of 3G services throughout Region II and TNL PCS acquired the authorizations and radio frequency licenses necessary for us to commence the offering of 2G services in the State of São Paulo and 3G services throughout Region I and Region III. In June 2012, we acquired the authorizations and radio frequency licenses necessary for us to commence the offering of 4G services throughout Brazil. During 2010, 2011 and 2012, we undertook extensive capital expenditure projects to install the network equipment necessary to expand our offerings of these services.

In 2012, our mobile data transmission services, consisting of 2G and 3G services to mobile handsets and mini-modems, captured net additions (calculated based on the number of subscribers at the end of a period less the number of subscribers at the beginning of that period) of approximately 490,000. We increased the number of municipalities in which we offered 3G services to 692, covering 64% of the population of Brazil, as of December 31, 2012 from 272 as of December 31, 2011. In April 2012, we launched our Oi Conta Total Smartphone plan and in November 2012, we launched our pre-paid mobile internet service as part of our efforts to expand our base of mobile data transmission customers. We expect that these services, together with our 4G services when commenced, will generate significant additions to our mobile customer base and lead to long-term increases in our revenues and operating income before financial income (expenses) and taxes.

The aggregate cost of our 3G authorizations and radio frequency licenses and our 2G authorizations and radio frequency licenses in Region III was R\$3,766 million, which we will pay to ANATEL in installments through 2023. The cost of our 4G authorizations and radio frequency licenses was R\$368 million, which we will pay to ANATEL in installments through 2020.

During 2010, 2011 and 2012, Brasil Telecom Mobile and TNL PCS invested R\$746 million, R\$851 million and R\$971 million, respectively, in the network equipment necessary to offer these services, which has increased in our depreciation expenses. We financed the purchase and installation of our network equipment through loans and vendor financing.

Under our 3G radio frequency licenses, we are required to meet certain service expansion obligations that will require capital expenditures through 2016. Under our 4G radio frequency licenses, we are required to meet certain service expansion obligations that will require capital expenditures through 2019. If we are unable to fund these capital expenditures through our operating cash flows, we may incur additional indebtedness or vendor financing obligations, which would increase our outstanding indebtedness and financial expenses.

***Effects of Competition on the Rates that We Realize and the Discounts We Record***

The Brazilian telecommunications industry is highly competitive. The competitive environment is significantly affected by key trends, including the convergence of technology and services enables telecommunications service providers that were previously limited to providing a single service to provide services in other industry segments, such as in the case of broadband services provided by cable television service providers and by mobile service providers (using 3G technology) and in the case of traditional fixed-voice services transmitted by mobile telecommunications service providers.

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In response to these competitive pressures, (1) we may offer our services at rates below the rate caps established by ANATEL, and (2) from time to time we offer our services with promotional discounts or offer additional complimentary services with the purchase of some of our services. We record the services sold at the rates established under our service plans or at rates approved by ANATEL and record the amount of these services represented by the promotional discounts or delivered on a complimentary basis as discounts and returns in our income statement.

***Effects of Adjustments to Our Regulated Rates and Inflation***

Telecommunications services rates are subject to comprehensive regulation by ANATEL. Our rates for local fixed-line services, domestic long-distance services, mobile services, interconnection to our fixed-line network, and EILD and SLD services are subject to regulation by ANATEL. We are required to obtain ANATEL approval prior to offering new alternative fixed-line or mobile plans. The rates established or approved by ANATEL for our services act as caps on the prices that we charge for these services, and we are permitted to offer these services at a discount from the rates approved by ANATEL. After ANATEL establishes or approves rate caps for these services, these rate caps are subject to annual adjustment based on the rate of inflation, as measured by the IST. Rate caps for local fixed-line plans are adjusted by inflation, as measured by the IST, less an amount that serves as a proxy for productivity gains achieved by our company and the local fixed-line services industry as a whole.

Because substantially all of our cost of services and operating expenses are incurred in *reais* in Brazil, these rate increases act as a natural hedge against inflation and, as a result, our operating margins have not been materially affected by inflation. However, because these rate adjustments are only made on an annual basis, in periods of severe inflation, we may not be able to pass our increased costs through to our customers as incurred.

A significant portion of our *real*-denominated debt bears interest at the TJLP or the CDI rate, which are partially adjusted for inflation, and the ICPA rate, an inflation index, and, as a result, inflation results in increases in our interest expenses and debt service obligations.

***Effects of Claims by ANATEL that Our Company Has Not Fully Complied with Our Quality of Service and Other Obligations***

As a fixed-line service provider, we must comply with the provisions of the General Plan on Quality Goals. As a public regime service provider, we must comply with the network expansion and modernization obligations under the General Plan on Universal Service and our concession agreements. Our personal mobile services authorizations set forth certain network expansion obligations and targets and impose obligations on us to meet quality of service standards. In addition, we must comply with regulations of general applicability promulgated by ANATEL, which generally relate to quality of service measures.

If we fail to meet quality goals established by ANATEL under the General Plan on Quality Goals, fail to meet the network expansion and modernization targets established by ANATEL under the General Plan on Universal Service and our concession agreements, fail to comply with our obligations under our personal mobile services authorizations or fail to comply with our obligations under other ANATEL regulations, we may be subject to warnings, fines, intervention by ANATEL, temporary suspensions of service or cancellation of our concessions and authorizations.

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On an almost weekly basis, we receive inquiries from ANATEL requiring information from us on our compliance with the various service obligations imposed on us by our concession agreements. If we are unable to respond satisfactorily to those inquiries or comply with our service obligations under our concession agreements, ANATEL may commence administrative proceedings in connection with such noncompliance. We have received numerous notices of commencement of administrative proceedings from ANATEL, mostly due to our inability to achieve certain targets established in the General Plan on Quality Goals and the General Plan on Universal Service.

At the time that ANATEL notifies us it believes that we have failed to comply with our obligations, we evaluate the claim and, based on our assessment of the probability of loss relating to that claim, may establish a provision. We vigorously contest a substantial number of the assessments made against us. As of December 31, 2012, the total estimated contingency in connection with all pending administrative proceedings brought by ANATEL against us in which we deemed the risk of loss as probable totaled R\$987 million and we had recorded an aggregate provision related to these proceedings in the same amount.

During 2012, we recorded provisions related to administrative proceedings brought by ANATEL in the amount of R\$54 million. Our provisions related to administrative proceedings brought by ANATEL generally have been sufficient to pay all amounts that we were ultimately required to pay with respect to claims brought by ANATEL.

***Effects of Fluctuations in Exchange Rates between the Real and the U.S. Dollar***

Substantially all of our cost of services and operating expenses are incurred in *reais* in Brazil. As a result, the appreciation or depreciation of the *real* against the U.S. dollar does not have a material effect on our operating margins. However, the costs of a substantial portion of the network equipment that we purchase for our capital expenditure projects are denominated in U.S. dollars or are U.S. dollar-linked. This network equipment is recorded on our balance sheet at its cost in *reais* based on the applicable exchange rate on the date the transfer of ownership, risks and rewards related to the purchased equipment occurs. As a result, depreciation of the *real* against the U.S. dollar results in this network equipment being more costly in *reais* and leads to increased depreciation expenses. Conversely, appreciation of the *real* against the U.S. dollar results in this network equipment being less costly in *reais* and leads to reduced depreciation expenses.

Our consolidated indebtedness denominated in U.S. dollars and euros represented 33.1% and 6.0%, respectively, of our consolidated outstanding indebtedness at December 31, 2012. As a result, when the *real* appreciates against the U.S. dollar or the euro:

the interest costs on our indebtedness denominated in U.S. dollars or euros declines in *reais*, which positively affects our results of operations in *reais*;

the amount of our indebtedness denominated in U.S. dollars or euros declines in *reais*, and our total liabilities and debt service obligations in *reais* decline; and

our net interest expenses tend to decline as a result of foreign exchange gains that we record. A depreciation of the *real* against the U.S. dollar has the converse effects.

In order to mitigate the effects of foreign exchange variations, we have established a hedging policy under which our exposure to foreign exchange variations is subject to limits set by our board of directors. In compliance with this policy, we typically enter into derivative transactions to swap the foreign exchange rate variation for variations of the CDI. At December 31, 2012, we had entered into hedging transactions in respect of 97.0% of our consolidated indebtedness affected by exchange rate variations. The purpose of these hedging transactions is to seek to match the currency of our debt with that of our revenues to mitigate foreign exchange risk.



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**Table of Contents*****Effect of Level of Indebtedness and Interest Rates***

At December 31, 2012, our total outstanding indebtedness on a consolidated basis was R\$33,346 million. The level of our indebtedness results in significant interest expenses that are reflected in our income statement. Financial expenses consist of interest expense, exchange variations of U.S. dollar- and other foreign currency-denominated debt, foreign exchange losses or gains, and other items as set forth in note 7 to our consolidated financial statements. In 2012, we recorded total financial expenses of R\$4,491 million on a consolidated basis, of which R\$2,066 million consisted primarily of interest expenses on loans and debentures payable to third parties and R\$2,077 million consisted of losses from monetary correction and exchange differences on third-party loans and financing. The interest rates that we pay depend on a variety of factors, including prevailing Brazilian and international interest rates and risk assessments of our company, our industry and the Brazilian economy made by potential lenders to our company, potential purchasers of our debt securities and the rating agencies that assess our company and its debt securities.

Standard & Poor's, Moody's and Fitch maintain ratings of our company and our debt securities. Any ratings downgrades in the future would likely result in increased interest and other financial expenses relating to loans and financings, including debt securities, and could adversely affect our ability to obtain such financing on satisfactory terms or in amounts required by us.

***Seasonality***

We do not have material seasonal operations.

**Recent Developments**

In February 2013, Export Development Canada disbursed US\$90 million under an export credit facility entered into with Telemar under which Export Development Canada agreed to disburse loans in the aggregate principal amount of up to US\$200 million. Loans under this facility will bear interest at the rate of 2.25%, payable semi-annually in arrears through maturity. The principal amount of these loans will be payable in semi-annual installments commencing in May 2014.

In March 2013, we entered into an export credit facility agreement with the Office National Du Dueroire/Nationale Delcrededienst, or ONDD, the Belgium national export credit agency, under which ONDD agreed to disburse loans in two tranches in the aggregate principal amount of US\$257 million. The proceeds of this export credit facility will be used to fund equipment purchases from Alcatel-Lucent. Loans under this export credit facility will bear interest at a rate of six-month LIBOR plus 1.50% per annum. As of the date of this annual report, no disbursements have been made under this export credit facility.

In March 2013, we issued non-convertible debentures in the Brazilian market in the aggregate principal amount of R\$1,500 million. These debentures bear interest at the CDI rate plus 0.75% per annum, which will be payable annually through maturity in March 2019. The principal amount of these debentures will be payable at maturity. We have used and will use the net proceeds of this offering for our working capital requirements, to amortize our existing indebtedness and to fund our capital expenditures.

***Assignment of Rights to Use Communications Towers***

In April 2013, we entered into agreements to assign the right to use approximately 4,000 fixed-line communications towers that form part of our infrastructure for commercial operations by companies whose core operations consist of providing transmission tower and radiofrequency management and maintenance services. The completion of these

assignment agreements is subject to certain conditions precedent. Upon the completion of these assignments, we will receive proceeds of approximately R\$1.09 billion. We also entered into an arrangement with the assignees, which will become effective upon completion of the assignment agreements.

## **Results of Operations**

The following discussion of our results of operations is based on our consolidated financial statements prepared in accordance with IFRS. The discussion of the results of our business segments is based upon financial information reported for each of the segments of our business, as presented in the table below.

The following tables set forth the operating results of each of our segments and the reconciliation of these results of our segments to our consolidated income statement. This segment information was prepared on the same basis as the information that our senior management uses to allocate resources among segments and evaluate their performance. We evaluate and manage the performance of our segments based on information prepared in accordance with IFRS and reflected in our consolidated financial statements.

**Table of Contents****Year Ended December 31, 2012**

|  | <b>Fixed-Line<br/>and Data<br/>Transmission<br/>Services</b> | <b>Mobile<br/>Services</b> | <b>Other</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|--|----------------------------|--------------|---------------------|---------------------|
|  | <b>(in millions of reais)</b>                                |                            |              |                     |                     |
| Net operating revenue  | R\$ 18,117   | R\$ 10,983                 | R\$ 1,066    | R\$ (4,998)         | R\$ 25,169          |
| Cost of sales and services                                       | (11,295)   | (5,628)                    | (469)        | 4,719               | (12,673)            |
| Gross profit   | 6,822  | 5,355                      | 597          | (279)               | 12,495              |
| Selling expenses   | (2,948)  | (2,078)                    | (450)        | 629                 | (4,847)             |
| General and administrative expenses                              | (2,175)  | (666)                      | (166)        | 9                   | (2,998)             |
| Other operating income (expenses), net                           | 171  | (108)                      | 135          | (88)                | 110                 |
| Operating income before financial<br>income (expenses) and taxes | R\$ 1,870  | R\$ 2,503                  | R\$ 116      | R\$ 271             | R\$ 4,760           |

**Year Ended December 31, 2011**

|  | <b>Fixed-Line<br/>and Data<br/>Transmission<br/>Services</b> | <b>Mobile<br/>Services</b> | <b>Other</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|--|----------------------------|--------------|---------------------|---------------------|
|  | <b>(in millions of reais)</b>                                |                            |              |                     |                     |
| Net operating revenue  | R\$ 8,048  | R\$ 2,006                  | R\$ 607      | R\$ (1,415)         | R\$ 9,246           |
| Cost of sales and services                                       | (4,087)  | (1,309)                    | (351)        | 1,161               | (4,587)             |
| Gross profit   | 3,960  | 697                        | 256          | (254)               | 4,659               |
| Selling expenses   | (992)  | (436)                      | (135)        | 402                 | (1,161)             |
| General and administrative expenses                              | (1,193)  | (169)                      | (101)        | 19                  | (1,445)             |
| Other operating income (expenses), net                           | (256)  | (44)                       | (20)         | (166)               | (486)               |
| Operating income before financial<br>income (expenses) and taxes | R\$ 1,519  | R\$ 48                     | R\$          | R\$ 1               | R\$ 1,567           |

**Year Ended December 31, 2010**

|                            | <b>Fixed-Line<br/>and Data<br/>Transmission<br/>Services</b> | <b>Mobile<br/>Services</b> | <b>Other</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|----------------------------|--|----------------------------|--------------|---------------------|---------------------|
|                            | <b>(in millions of reais)</b>                                |                            |              |                     |                     |
| Net operating revenue      | R\$ 8,893  | R\$ 1,937                  | R\$ 629      | R\$ (1,196)         | R\$ 10,263          |
| Cost of sales and services | (4,015)  | (1,379)                    | (323)        | 985                 | (4,732)             |
| Gross profit               | 4,878  | 558                        | 306          | (211)               | 5,531               |

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|   |           |          |       |       |           |
|---|-----------|----------|-------|-------|-----------|
| Selling expenses  | (859)     | (403)    | (125) | 361   | (1,025)   |
| General and administrative expenses                                     | (1,270)   | (173)    | (163) | 66    | (1,539)   |
| Other operating income (expenses), net                                  | (268)     | (17)     | (10)  | (213) | (508)     |
| Operating income (loss) before<br>financial income (expenses) and taxes | R\$ 2,481 | R\$ (34) | R\$ 9 | R\$ 4 | R\$ 2,460 |

In the following discussion, references to increases or decreases in any period are made by comparison with the corresponding prior period, except as the context otherwise indicates.

**Table of Contents****Year Ended December 31, 2012 Compared with Year Ended December 31, 2011**

The following table sets forth the components of our consolidated income statement, as well as the percentage change from the prior year, for the years ended December 31, 2012 and 2011.

|   | <b>Year ended December 31,</b>                    |             |                 |
|---|---|-------------|-----------------|
|   | <b>2012</b>                                       | <b>2011</b> | <b>% Change</b> |
|   | <b>(in millions of reais, except percentages)</b> |             |                 |
| Net operating revenue   | R\$ 25,169  | R\$ 9,245   | 172.2           |
| Cost of sales and services                                    | (12,673)  | (4,587)     | 176.3           |
| Gross profit  | 12,496  | 4,659       | 168.2           |
| Operating income (expenses)                                   |   |             |                 |
| Selling expenses  | (4,847)   | (1,161)     | 317.6           |
| General and administrative expenses                           | (2,998)   | (1,445)     | 107.6           |
| Other operating income (expenses), net                        | 110   | (486)       | n.m.            |
| Operating income before financial income (expenses) and taxes | 4,760   | 1,567       | 203.7           |
| Financial income  | 2,275   | 1,406       | 61.8            |
| Financial expenses  | (4,491)   | (1,478)     | 203.9           |
| Financial expenses, net                                       | (2,216)   | (72)        | 2,980.9         |
| Income before taxes   | 2,544   | 1,495       | 70.2            |
| Income tax and social contribution                            | (760)   | (490)       | 55.2            |
| Net income  | R\$ 1,785   | R\$ 1,006   | 77.5            |

n.m.: Not meaningful.

**Net Operating Revenue**

The composition of gross operating revenue by category of service before deduction of value-added and other indirect taxes and discounts is discussed below. We do not determine net operating revenue for each category of service as we do not believe such information to be useful to investors.

Gross operating revenue increased by 141.7% in 2012, principally due to (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased the gross operating revenue by R\$23,293 million, (2) a 15.7% increase in gross operating revenue of our mobile services segment generated by our legacy operations, the effects of which were partially offset by a 2.3% decline in gross operating revenue of our fixed-line and data transmission services segment generated by our legacy operations.

Net operating revenue increased by 172.2% in 2012, principally due to (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased the net operating revenue by R\$16,204 million, and (2) a 16.2% increase in net operating revenue of our mobile services segment generated by our legacy operations, the effects of which were partially offset by a 5.8% decline in net operating revenue of our fixed-line and data transmission services segment generated by our legacy operations. Net operating revenue generated by intersegment sales, which are eliminated in the consolidation of our financial statements, increased by 253.2% in 2012.

**Table of Contents****Net Operating Revenue of Our Fixed-Line and Data Transmission Services Segment**

The following table sets forth the components of the gross operating revenue and net operating revenue of our fixed-line and data transmission services segment, as well as the percentage change from the prior year, for the years ended December 31, 2012 and 2011.

|   | <b>Year Ended December 31,</b>                    |                  |                 |
|---|---|------------------|-----------------|
|   | <b>2012</b>                                       | <b>2011</b>      | <b>% Change</b> |
|   | <b>(in millions of reais, except percentages)</b> |                  |                 |
| Local fixed-line services                           | R\$ 9,586   | R\$ 4,310        | 122.4           |
| Local fixed-to-mobile calls (VC-1)                  | 2,750   | 1,373            | 100.3           |
| Long-distance fixed-line services                   | 2,883   | 1,392            | 107.1           |
| Long-distance fixed-to-mobile calls (VC-2 and VC-3) | 739   | 344              | 114.9           |
| Remuneration for the use of the fixed-line network  | 1,228   | 484              | 153.7           |
| Data transmission services                          | 9,614   | 5,681            | 69.2            |
| Public phones                                       | 132   | 156              | (15.4)          |
| Other fixed-line services                           | 1,300   | 638              | 103.8           |
| <b>Total gross operating revenue</b>                | <b>28,232</b>                                     | <b>14,377</b>    | <b>96.4</b>     |
| Value-added and other indirect taxes                | (6,313)   | (2,877)          | 119.5           |
| Discounts and returns                               | (3,801)   | (3,452)          | 10.1            |
| <b>Net operating revenue</b>                        | <b>R\$ 18,117</b>                                 | <b>R\$ 8,048</b> | <b>125.1</b>    |

Gross operating revenue of our fixed-line and data transmission services segment increased by 96.4% in 2012, principally due to our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased the gross operating revenue of this segment by R\$14,190 million, the effects of which were partially offset by the 2.3% decline in gross operating revenue of the legacy operations of this segment.

**Gross Operating Revenue from Local Services**

Gross operating revenue from local fixed-line services increased by 122.4% in 2012, primarily due to (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased gross operating revenue from local fixed-line services by R\$5,205 million, and (2) a 1.6% increase in gross operating revenue from local fixed-line services of our legacy operations.

Gross operating revenue from monthly subscription fees of our legacy operations increased by 7.0%, primarily as a result of the increase in the percentage of our fixed line customers that subscribe to alternative plans which include local and long-distance fixed line minutes as part of the monthly subscription fee, the effects of which were partially offset by a 3.4% decline in the average number of lines in service to 6.8 million in 2012 from 7.0 million during 2011, which occurred primarily as a result of the general trend in the Brazilian telecommunications industry to substitute mobile services in place of local fixed-line services.

Gross operating revenue from metered services charges of our legacy operations declined by 44.9%, principally due to the 45.5% decline in total billed minutes, which are the number of local minutes that exceed the monthly allowance under a customer's service plan, primarily as a result of (1) the decline in the average number of lines in service of our legacy operations, (2) the migration of fixed-line customers of our legacy operations from our basic service plans to our alternative plans that have higher monthly allowances of minutes, and (3) the migration of local traffic origination to mobile handsets.

*Gross Operating Revenue from Local Fixed-to-Mobile Calls*

Gross operating revenue from local fixed-to-mobile calls, which are charged at the VC-1 rate, increased by 100.3% in 2012 due to our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased gross operating revenue from local fixed-to-mobile calls by



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R\$1,567 million, the effects of which were partially offset by a 13.8% decline in gross operating revenue from local fixed-to-mobile calls of our legacy operations, principally as a result of a 12.8% decline in the total number of revenue-generating local fixed-to-mobile minutes in 2012 as a result of (1) the 3.4% decline in the number of fixed-line customers of our legacy operations, (2) the migration of local traffic origination to mobile handsets, and (3) the increase in the proportion of our fixed line customers that subscribe to alternative plans which include fixed-to-mobile minutes as part of the monthly subscription fee, resulting in a reduction in the number of minutes that we record as local fixed-to-mobile calls.

*Gross Operating Revenue from Long-Distance Fixed-Line Services*

We account for revenue from long-distance calls that (1) originate and terminate on a fixed-line, (2) originate and terminate on a mobile device, or (3) originate on a mobile device and terminate on a fixed-line as revenue from long-distance fixed-line services.

Gross operating revenue from long-distance fixed line services increased by 107.1% in 2012 due to our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased gross operating revenue from long-distance fixed line services by R\$1,902 million, the effects of which were partially offset by a 29.5% decline in gross operating revenue from long-distance fixed line services of our legacy operations, principally due to a 28.8% decline in the total number of long-distance minutes, primarily as a result of (1) aggressive discounting campaigns undertaken by our competitors, which resulted in a decline in the total number of long-distance minutes of our legacy operations, (2) the effects of the 3.4% decline in the number of fixed-line customers of our legacy operations, who are more likely to choose our long-distance fixed-line services than customers of other fixed-line providers, and (3) the increase in the proportion of our fixed line customers that subscribe to alternative plans which include long-distance fixed line minutes as part of the monthly subscription fee, resulting in a reduction in the number of minutes that we record as long-distance fixed line services.

*Gross Operating Revenue from Long-Distance Fixed-to-Mobile Services*

We account for revenue from long-distance calls that originate on a fixed-line and terminate on a mobile device as revenue from long-distance fixed-to-mobile calls.

Gross operating revenue from long-distance fixed-to-mobile services, which are charged at the VC-2 or VC-3 rate, increased by 114.8% in 2012 due to our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased gross operating revenue from long-distance fixed-to-mobile services by R\$443 million, the effects of which were partially offset by a 14.0% decline in gross operating revenue from long-distance fixed-to-mobile services of our legacy operations, principally as a result of an 18.6% decline of in the total number of fixed-to-mobile minutes charged at VC-2 rates and VC-3 rates, primarily as a result of (1) aggressive discounting campaigns undertaken in 2012 by our competitors, and (2) the effects of the 3.4% decline in the number of fixed-line customers of our legacy operations, who are more likely to choose our long-distance services for mobile-to-mobile long-distance calls than customers of other fixed-line providers.

*Gross Operating Revenue from Remuneration for the Use of the Fixed-Line Network*

Gross operating revenue from remuneration for the use of the fixed-line network increased by 153.7% in 2012 due to our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased gross operating revenue from remuneration for the use of the fixed-line network by R\$763 million, the effects of which were partially offset by a 3.9% decline in gross operating revenue from remuneration for the use of the fixed-line network of our legacy operations.

Of our gross operating revenue from remuneration for the use of the fixed-line network, 38.8% in 2012 and 21.2% in 2011 represented interconnection fees paid by our mobile services subsidiaries for the use of our fixed-line network to complete mobile-to-fixed calls and was eliminated in the consolidation of our financial statements.

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*Gross Operating Revenue from Data Transmission Services*

Gross operating revenue from data transmission services increased by 69.2% in 2012, primarily due to (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased gross operating revenue from data transmission services by R\$3,700 million, and (2) a 4.1% increase in gross operating revenue from data transmission services of our legacy operations.

Gross operating revenue of our legacy operations from commercial data transmission services increased by 10.2%, primarily as a result of (1) a 24.5% increase in gross operating revenue from IP services, principally as a result of the increased demand for these services, particularly from public entities, banks and card payment companies, and (2) a 14.8% increase in gross operating revenue from SLD services, principally as a result of an increased demand for these services, including requests for increased capacity by our customers, particularly from public entities and financial institutions.

Of our gross operating revenue from commercial data transmission services, 13.8% during 2012 and 16.0% during 2011 represented fees paid by our mobile services subsidiaries and was eliminated in the consolidation of our financial statements.

Gross operating revenue of our legacy operations from ADSL subscriptions declined by 0.8%, primarily due to a 2.0% decline in our average gross operating revenue per subscriber as a result of promotions that we launched during 2012 in an effort to expand our base of broadband customers, the effects of which were partially offset by an 8.3% increase in the average number of ADSL subscriptions in Region II to approximately 2,240,000 during 2012 from approximately 2,032,000 during 2011.

As of December 31, 2012, our ADSL customer base represented 33.4% of our total fixed lines in service as compared to 29.8% of our total fixed lines in service in Region II as of December 31, 2011.

*Gross Operating Revenue from the Sale of Pre-paid Calling Cards for Use in Public Telephones*

Gross operating revenue from the sale of pre-paid calling cards for use in public telephones declined by 15.4% in 2012, primarily as a result of a 57.1% decline in gross operating revenue from the sale of pre-paid calling cards for use in public telephones of our legacy operations, principally due to (1) the reduction in the number of public telephones that we operate, and (2) the decline in the number of public phone credits used as a result of a general trend to reduce usage of pre-paid calling cards for use in public telephones as customers substitute usage of mobile handsets in place of usage of public phones, the effects of which were partially offset by our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased gross operating revenue from the sale of pre-paid calling cards for use in public telephones by R\$65 million.

*Charges Against Gross Operating Revenue*

*Value-Added and Other Indirect Taxes*

Value-added and other indirect taxes on our fixed-line and data transmission services increased by 119.5% in 2012 due to our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased these taxes by R\$3,763 million, the effects of which were partially offset by an 11.4% decline in these taxes on our legacy operations, primarily reflecting the decline in the gross operating revenue of the principal fixed-line services provided by our legacy operations with respect to which these taxes are assessed.

We are required to contribute to the Universal Telecommunications Service Fund (*Fundo de Universalização dos Serviços de Telecomunicações*), which we refer to as the FUST, and the FUNTTEL. We are required to contribute 1.0% of our gross operating revenue from the rendering of telecommunications services, net of (1) the Social Integration Program (*Programa de Integração Social*), or PIS, taxes, (2) the federal Contribution for Social Security Financing (*Contribuição para Financiamento da Seguridade Social COFINS*), or COFINS, and (3) ICMS, to the FUST. We are required to contribute 0.5% of our gross operating revenue from the rendering of telecommunications services, net of PIS, COFINS and ICMS taxes, to the FUNTTEL.

**Table of Contents***Discounts*

Discounts offered on our fixed-line services generally applied to data transmission services, monthly subscription fees and intelligent network services (such as caller ID, call forwarding and conference calling).

Discounts on our fixed-line and data transmission services increased by 10.1% in 2012 due to a 13.3% increase in discounts recorded by our legacy operations, primarily as a result of an increase in discounts offered for our broadband services as a result of increased competition for other providers and as part of our efforts to promote the migration of our broadband customers to higher bandwidth subscriptions.

*Net Operating Revenue*

Net operating revenue of our fixed-line and data transmission services segment increased by 125.1% to R\$18,117 million in 2012 from R\$8,048 million in 2011 due to our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased net operating income of this segment by R\$10,536 million, the effects of which were partially offset by a 5.8% decline net operating income of our legacy operations in this segment.

*Net Operating Revenue of Our Mobile Services Segment*

The following table sets forth the components of the gross operating revenue and net operating revenue of our mobile services segment, as well as the percentage change from the prior year, for the years ended December 31, 2012 and 2011.

|  | <b>Year Ended December 31,</b>                    |                  |                 |
|--|---|------------------|-----------------|
|  | <b>2012</b>                                       | <b>2011</b>      | <b>% Change</b> |
|  | <b>(in millions of reais, except percentages)</b> |                  |                 |
| Mobile telephone services                      | R\$ 9,055   | R\$ 1,658        | 446.1           |
| Remuneration for the use of the mobile network | 5,745   | 1,203            | 377.5           |
| Sales of handsets and accessories              | 579   | 16               | 3,518.8         |
| <b>Total gross operating revenue</b>           | <b>15,379</b>                                     | <b>2,877</b>     | 434.5           |
| Value-added and other indirect taxes           | (2,672)   | (492)            | 443.1           |
| Discounts and returns                          | (1,723)   | (379)            | 354.7           |
| <b>Net operating revenue</b>                   | <b>R\$ 10,983</b>                                 | <b>R\$ 2,006</b> | 447.5           |

Gross operating revenue of our mobile services segment increased by 434.5% in 2012, principally due to (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased the gross operating revenue of this segment by R\$12,049 million, and (2) a 15.7% increase in gross operating revenue of the legacy operations of this segment.

*Gross Operating Revenue from Mobile Services*

Gross operating revenue from mobile services increased by 446.0% in 2012, primarily due to (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which

increased gross operating revenue from mobile services by R\$7,090 million, and (2) an 18.5% increase in gross operating revenue from mobile services of our legacy operations.

The average number of our pre-paid mobile customers increased by 472.1% to 40.7 million during 2012 from 7.1 million during 2011, primarily as a result of our consolidation of Telemar and its subsidiaries as part of the corporate reorganization. The average number of our pre-paid mobile customers in Region II increased by 10.7% to 7.9 million during 2012 from 7.1 million during 2011, primarily as a result of our launch of new promotions that

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include bonus minutes for long distance calls, packages of data services and credits for use for our text messaging services. The average number of our post-paid mobile customers, including customer that subscribe to our *Oi Controle* plans, increased by 558.4% to approximately 6.9 million during 2012 from approximately 1.1 million during 2011, primarily as a result of our acquisition of Telemar and its subsidiaries as part of the corporate reorganization. The average number of our post-paid mobile customers in Region II, including customer that subscribe to our *Oi Controle* plans, increased by 40.6% to approximately 1,477,000 during 2012 from approximately 1,050,000 during 2011, primarily as a result of the success of commercial and operational initiatives focused on increasing sales of our premium services, such as data services and value added services markets, that are available to subscribers of our *Oi Conta*, *Oi Smartphone* and *Oi Conta Total* plans. As of December 31, 2012, pre-paid customers represented 83.6% of our mobile customer base and post-paid customers represented 16.4% of our mobile customer base. Our average monthly net revenue per user (calculated based on the total revenue for the year divided by the monthly average customer base for the year divided by 12) increased by 2.9% to R\$21.6 during 2012 from R\$21.0 during 2011.

Gross operating revenue of our legacy operations from monthly subscription fees, which includes gross operating revenue from our mobile data transmission services, increased by 25.0%, primarily as a result of a 40.6% increase in the number of post-paid customers of our legacy operations. The effects of this increase were partially offset by a 13.4% decline in our average monthly subscription fee.

Gross operating revenue of our legacy operations from billed minutes, which are the number of local minutes used by pre-paid customers plus the number of local minutes used by post-paid customers in excess of the monthly allowance under the customer's service plan, increased by 11.4%, primarily as a result of a 10.7% increase in the average number of our pre-paid mobile customers.

Gross operating revenue of our legacy operations from value-added services increased by 22.5%, primarily as a result of (1) a 14.6% increase in the average number of our mobile subscribers, and (2) an increase in average number of text messages sent by our mobile customers as a result of our strategy of offering text messaging packages as part of the purchases of additional credits by our pre-paid customers.

*Gross Operating Revenue from Remuneration for the Use of the Mobile Network*

Gross operating revenue from remuneration for the use of the mobile network increased by 377.2% in 2012, primarily due to (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased gross operating revenue from remuneration for the use of the mobile network by R\$4,393 million, and (2) a 12.3% increase in gross operating revenue from remuneration for the use of the mobile network of our legacy operations, primarily as a result of a 14.6% increase in the number of mobile customers of our legacy operations, the effects of which were partially offset by customers of others mobile providers taking advantage of promotions offered by those providers that include packages of minutes and text messaging services for on net traffic.

Of the gross operating revenue from remuneration for the use of the mobile network, 59.4% in 2012 and 45.2% in 2011 represented interconnection fees paid by Oi and our fixed-line subsidiaries for the use of our mobile subsidiaries network to complete fixed-to-mobile calls and was eliminated in the consolidation of our financial statements.

*Sales of Handsets and Accessories*

Gross operating revenue from sales of handsets and accessories increased to R\$579 million in 2012 from R\$16 million in 2011, primarily as a result of the introduction in 2012 of our strategy of selling premium mobile devices, such as smart phones, at a discount as part of our efforts to acquire new high value customers and retain existing ones.





**Table of Contents***Charges Against Gross Operating Revenue**Value-Added and Other Indirect Taxes*

Value-added and other indirect taxes on our mobile services increased by 443.1% in 2012 due to (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased these taxes by R\$2,111 million, and (2) a 13.9% increase in these taxes on our legacy operations, primarily reflecting the increase in the gross operating revenue of our mobile services segment in 2012.

*Discounts*

Discounts offered on our mobile services generally consist of rebates on pre-paid telephone cards (typically having commissions of approximately 10.0% over the face amount sold), local fixed-line calls, long-distance calls, and intelligent network services (such as caller ID, call forwarding and conference calling).

Discounts on our mobile services increased by 354.7% in 2012 due to (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased these discounts by R\$1,286 million, and (2) a 15.4% increase in discounts recorded by our legacy operations, primarily as a result of our strategy to increase discounts to maintain and increase our market share.

*Net Operating Revenue*

Net operating revenue of our mobile services segment increased by 447.5% to R\$10,983 million in 2012 from R\$2,006 million in 2011 due to (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased net operating income of this segment by R\$8,651 million, and (2) a 16.3% increase in net operating income of our legacy operations in this segment.

*Cost of Sales and Services*

Cost of sales and services increased by 176.3% in 2012, principally due to (1) a 176.3% increase in cost of sales and services of our fixed-line and data transmission services segment and (2) a 330.0% increase in cost of sales and services of our mobile services segment.

Of the cost of sales and services of our fixed-line and data transmission services segment, 16.9% in 2012 and 13.4% in 2011 represented interconnection fees paid by Oi for the use of Brasil Telecom Mobile's mobile network to complete fixed-to-mobile calls. These fees were eliminated in the consolidation of our financial statements.

Of the cost of sales and services of our mobile services segment, 26.5% in 2012 and 21.9% in 2011 represented (1) interconnection fees paid by Brasil Telecom Mobile for the use of Oi's fixed-line network to complete mobile-to-fixed calls, and (2) fees paid by Brasil Telecom Mobile for EILD services. These fees were eliminated in the consolidation of our financial statements.

The following table sets forth the components of our cost of sales and services, as well as the percentage change from the prior year, for the years ended December 31, 2012 and 2011.

**Year Ended December 31,**

|                               | <b>2012</b>                                       | <b>2011</b> | <b>% Change</b> |
|-------------------------------|---|-------------|-----------------|
|                               | <b>(in millions of reais, except percentages)</b> |             |                 |
| Interconnection               | R\$ 3,915   | R\$ 1,711   | 128.8           |
| Depreciation and amortization | 2,641   | 843         | 213.3           |
| Grid maintenance service      | 2,031   | 687         | 195.6           |
| Rental and insurance          | 1,292   | 504         | 156.3           |
| Personnel                     | 577   | 375         | 53.9            |

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|                                      | <b>Year Ended December 31,</b>                    |               |                 |
|--------------------------------------|---|---------------|-----------------|
|                                      | <b>2012</b>                                       | <b>2011</b>   | <b>% Change</b> |
|                                      | <b>(in millions of reais, except percentages)</b> |               |                 |
| Costs of handsets and accessories    | 508   | 24            | 2,016.7         |
| Concession contract renewal fee      | 121   | 49            | 146.9           |
| Other costs of sales and services    | 1,589   | 394           | 303.3           |
| <br>Total cost of sales and services | <br>R\$ 12,673                                    | <br>R\$ 4,587 | <br>176.3       |

*Cost of Sales and Services of Our Fixed-Line and Data Transmission Services Segment*

Cost of sales and services of our fixed-line and data transmission services segment increased by 176.3% in 2012, principally due to our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased the cost of sales and services of this segment by R\$7,565 million, the effects of which were partially offset by a 8.7% decline in cost of sales and services of the legacy operations of this segment. The decline in cost of sales and services of the legacy operations of this segment was principally due to:

a 10.0% decline in interconnection costs of our legacy operations to R\$1,650 million in 2012 from R\$1,834 million in 2011, primarily as a result of (1) a decline in fixed-to-mobile traffic and long-distance fixed-line traffic and (2) a 3.4% decline in the average number of lines in service; and

a 19.7% decline in rental and insurance costs to R\$525 million in 2012 from R\$654 million in 2011, primarily as a result of our program to reduce costs by maximizing synergies mainly with our related party companies; and

a 42.4% decline in third party services other than network maintenance services to R\$94 million in 2012 from R\$163 million in 2011, primarily as a result of our continuing program to reduce costs.

The gross profit of our fixed-line and data transmission services segment increased by 72.3 to R\$6,822 million in 2012 from R\$3,960 million in 2011. As a percentage of net operating revenue of this segment, gross profit declined to 37.7% in 2012 from 49.2% in 2011.

*Cost of Sales and Services of Our Mobile Services Segment*

Cost of sales and services of our mobile services segment increased by 330.0% in 2012, principally due to (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased the cost of sales and services of this segment by R\$4,257 million, and (2) a 4.6% increase in cost of sales and services of the legacy operations of this segment.

The increase in cost of sales and services of the legacy operations of this segment was principally due to a 6.7% increase in interconnection expenses to R\$561 million in 2012 from R\$526 million in 2011, primarily as a result of an increase in the total number of minutes used by our mobile customers to make calls to customers of mobile providers for which we pay interconnection fees at the VU-M rate, as a result of 14.6% increase in the average number of our mobile subscribers. The effects of these increases were partially offset by (1) a 64.6% decline in third party services other than network maintenance services to R\$12 million in 2012 from R\$34 million in 2011, primarily as a result of

our continuing program to reduce costs, and (2) a 7.8% decline in depreciation and amortization expenses to R\$214 million in 2012 from R\$232 million in 2011.

The gross profit of our mobile services segment increased by 668.2% to R\$5,355 million in 2012 from R\$697 million in 2011. As a percentage of net operating revenue of this segment, gross profit increased to 48.8% in 2012 from 34.7% in 2011.

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**Table of Contents*****Gross Profit***

As a result of the foregoing, our consolidated gross profit increased by 168.2% to R\$12,496 million in 2012 from R\$4,659 million in 2011. As a percentage of net operating revenue, gross profit declined to 49.6% in 2012 from 50.4% in 2011.

***Operating Expenses******Selling Expenses***

Selling expenses increased by 317.6% during 2012, principally due to (1) a 197.1% increase in selling expenses of our fixed-line and data transmission services segment, and (2) a 376.9% increase in selling expenses of our mobile services segment.

***Fixed-Line and Data Transmission Services Segment***

Selling expenses of our fixed-line and data transmission services segment increased by 197.1% in 2012, principally due to (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased selling expenses of this segment by R\$1,748 million, and (2) a 20.9% increase in selling expenses of the legacy operations of this segment. The increase in selling expenses of the legacy operations of this segment was principally due to:

a R\$175 million increase in sales commissions to R\$176 million in 2012 from R\$1 million in 2011, primarily as a result of (1) the repositioning of our sales support primarily relating to our creation of regional distribution channel structures, and (2) an increase in commissions paid relating to sales of our *Oi Velox* service as a result of the 8.3% increase in the average number of ADSL subscriptions;

a 72.4% increase in personnel expenses of our legacy operations to R\$205 million in 2012 from R\$119 million in 2011, primarily as a result of increased headcount to support sales the regional distribution channel structures that we have created and the increase in the size of the door-to-door sales force composed of our employees; and

an 18.3% increase in call center expenses of our legacy operations to R\$402 million in 2012 from R\$340 million in 2011, primarily as a result of the renegotiation of some collective bargaining agreements by our contact center and expenditures related to service quality campaigns conducted to support our broadband service.

The effects of these increases were partially offset by a 61.9% decline in provision for doubtful accounts of our legacy operations to R\$99 million in 2012 from R\$260 million in 2011, primarily as a result of our program to improve our billing and collection practices and the lower the rate of customer defaults, especially among our corporate customers.

As a percentage of net operating revenue of this segment, selling expenses increased to 16.3% in 2012 from 12.3% in 2011.

***Mobile Services Segment***

Selling expenses of our mobile services segment increased by 376.9% in 2012, principally due to (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased selling expenses of this segment by R\$1,512 million, and (2) a 29.7% increase in selling expenses of the legacy operations of this segment. The increase in selling expenses of the legacy operations of this segment was principally due to a R\$100 million increase in third-party services, including sales commissions, call center, postage and collection expenses, to R\$373 million in 2012 from R\$273 million in 2011, primarily as a result of (1) and increase in commissions paid relating to our sales of mobile services as a result of the 14.6% increase in the average number of mobile subscribers, and (2) a R\$23 million increase in publicity and advertising expenses to R\$83 million in 2012 from R\$60 million in 2011, primarily as a result of an increase in expenditures on our advertising campaigns to support our principal mobile services.

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As a percentage of net operating revenue of this segment, selling expenses increased to 18.9% in 2012 from 21.7% in 2011.

*General and Administrative Expenses*

General and administrative expenses increased by 107.6% during 2012, principally due to an 82.4% increase in general and administrative expenses of our fixed-line segment and a 294.8% increase in general and administrative expenses of our mobile services segment.

*Fixed-Line and Data Transmission Services Segment*

General and administrative expenses of our fixed-line and data transmission services segment increased by 82.4% in 2012, principally due to our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased general and administrative expenses of this segment by R\$1,138 million, the effects of which were partially offset by a 13.0% decline in general and administrative expenses of the legacy operations of this segment, principally due to a 25.9% decline in third-party services to R\$557 million in 2012 from R\$752 million in 2011, primarily as a result of the repositioning of our sales support primarily relating to our creation of regional distribution channel structures.

As a percentage of net operating revenue of this segment, general and administrative expenses declined to 12.0% in 2012 from 14.8% in 2011.

*Mobile Services Segment*

General and administrative expenses of our mobile services segment increased by 294.8% in 2012, principally due to our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased general and administrative expenses of this segment by R\$521 million, the effects of which were partially offset by a 14.3% decline in general and administrative expenses of the legacy operations of this segment. The decline in general and administrative expenses of the legacy operations of this segment was principally due to a 53.3% decline in third-party services to R\$55 million in 2012 from R\$118 million in 2011, primarily as a result of our continuing program to reduce costs, the effects of which were partially offset by a 189.1% increase in depreciation and amortization expenses of the legacy operations of this segment to R\$67 million in 2012 from R\$23 million in 2011.

As a percentage of net operating revenue of this segment, general and administrative expenses declined to 6.1% in 2012 from 8.4% in 2011.

*Other Operating Expenses, Net*

*Other Operating Income*

Other operating income increased by 256.2% to R\$1,996 million in 2012 from R\$560 million in 2011, primarily as a result of:

a 342.4% increase in recovered expenses to R\$693 million in 2012 from R\$157 million in 2011, primarily as a result of our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to

the corporate reorganization, which increased our recovered expenses by R\$407 million;

a 1,718.6% increase in income from the disposal of property, plant and equipment to R\$390 million in 2012 from R\$21 million in 2011, primarily as a result of our strategy of monetizing non-strategic assets;



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a 230.8% increase in rental of infrastructure to R\$398 million in 2012 from R\$120 million in 2011, primarily as a result of our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased our rental of infrastructure related to physical space and tower rentals by R\$261 million; and

a 164.7% increase in income from late payment charges to R\$240 million in 2012 from R\$91 million in 2011, primarily as a result of our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased our income from late payment charges by R\$144 million.

*Other Operating Expense*

Other operating expenses increased by 80.3% to R\$1,886 million in 2012 from R\$1,046 million in 2011, primarily as a result of:

a 189.7% increase in taxes to R\$894 million in 2012 from R\$309 million in 2011, primarily as a result of (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased our taxes by R\$558 million, and (2) PIS and COFINS taxes recorded on the increased distributions of interest on shareholders equity received from some of our subsidiaries; and

a 1,311.3% increase in employee and management profit sharing to R\$387 million in 2012 from R\$28 million in 2011, primarily as a result of (1) our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased our employee and management profit sharing by R\$215 million, and (2) the increase in the performance of indicators used to estimate this provision.

The effects of these factors were partially offset by a 29.8% decline in provisions for contingencies to R\$401 million in 2012 from R\$571 million in 2011, primarily as a result of (1) a R\$53 million decline related to the effects of the completion of the standardization of the calculation methodology we utilize for the provisions for labor contingencies to be consistent with the procedures adopted by Telemar in 2011, and (2) the reduction in provision for contingencies as part of our efficiency in the reviewing and controlling of the labor, taxes and civil claims.

***Operating Income before Financial Income (Expenses) and Taxes***

As a result of the foregoing, our consolidated operating income before financial income (expenses) and taxes increased by 203.7% to R\$4,760 million in 2012 from R\$1,567 million in 2011. As a percentage of net operating revenue, operating income before financial income (expenses) and taxes increased to 18.9% in 2012 from 17.0% in 2011.

*Fixed-Line and Data Transmission Services Segment*

The operating income before financial income (expenses) and taxes of our fixed-line and data transmission services segment increased by 23.2% to R\$1,870 million in 2012 from R\$1,519 million in 2011. As a percentage of the net operating revenue of this segment, operating income before financial income (expenses) and taxes declined to 10.3% in 2012 from 18.9% in 2011.

*Mobile Services Segment*

The operating income before financial income (expenses) and taxes of our mobile services segment increased by 5,074.9% to R\$2,503 million in 2012 from R\$48 million in 2011. As a percentage of the net operating revenue of this segment, operating income before financial income (expenses) and taxes increased to 22.8% in 2012 from 2.4% in 2011.

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***Financial Expenses, Net***

*Financial Income*

Financial income increased by 61.8% to R\$2,275 million in 2012 from R\$1,406 million in 2011, primarily due to:

exchange gains on foreign transactions of R\$650 million in 2012 from R\$0 in 2011, primarily as a result of an increase in our balances invested in foreign currencies following our consolidation of the Telemar and its subsidiaries as a result of the corporate reorganization, the 8.9% depreciation of the *real* against the dollar during 2012;

a 539.5% increase in other financial income to R\$243 million in 2012 from R\$38 million in 2011, primarily as a result of our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization, which increased our other financial income by R\$252 million;

a 34.2% increase in income from short-term investments to R\$515 million in 2012 from R\$384 million in 2011, primarily as a result of an increase in the average amount of our financial investments, primarily due to our consolidation of the results of Telemar and its subsidiaries as from February 27, 2012 due to the corporate reorganization; and

income from dividends received of R\$99 million in 2012 primarily as a result of our investment in Portugal Telecom.

The effects of these factors were partially offset by an 84.3% decline in interest and inflation adjustment on amounts due from related parties to R\$48 million in 2012 from R\$307 million in 2011, primarily as a result of the settlement of intercompany debts as part of the corporate reorganization.

*Financial Expenses*

Financial expenses increased by 203.9% to R\$4,490 million in 2012 from R\$1,478 million in 2011, primarily due to:

exchange losses on third-party borrowings of R\$2,076 million in 2012, primarily as a result of our consolidation of the foreign currency-denominated debt of Telemar and its subsidiaries as a result of the corporate reorganization, the 8.9% depreciation of the *real* against the dollar during 2012 and the 10.7% depreciation of the *real* against the euro during 2012; and

a 313.5% increase in interest on debentures to R\$753 million in 2012 from R\$182 million in 2011, primarily as a result of our consolidation of the debentures issued by Telemar and its subsidiaries as a result of the corporate reorganization.

The effects of these factors was partially offset by our results from derivatives transactions to income of R\$942 million in 2012 from an expense of R\$49 million in 2011, primarily as a result of the increase in derivative

transactions used by our company to mitigate foreign exchange risk as a result of our consolidation of the foreign currency-denominated debt of Telemar and its subsidiaries due to the corporate reorganization.

***Income Tax and Social Contribution***

The composite corporate statutory income tax and social contribution rate was 34% in each of 2012 and 2011. Income tax and social contribution expense increased by 55.2% to R\$759 million in 2012 from R\$490 million in 2011. Our effective tax rate was 30.0% in 2012 and 33.0% in 2011. The table below sets forth a reconciliation of the composite corporate statutory income tax and social contribution rate to our effective tax rate for each of the periods presented.

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|   | <b>Year Ended December 31,</b> |              |
|---|--------------------------------|--------------|
|   | <b>2012</b>                    | <b>2011</b>  |
| Composite corporate statutory income tax and social contribution rate | 34.0%                          | 34.0%        |
| Tax effects of interest on shareholders' equity                       | 0.2                            |              |
| Tax effects of permanent exclusions (additions)                       | 0.6                            | (1.0)        |
| Tax incentives (SUDENE)   | (6.1)                          |              |
| Tax effects of unrecognized deferred tax assets                       | 1.6                            |              |
| Tax effects of recognized deferred tax assets                         | (0.3)                          | 0.0          |
| <b>Effective rate</b>   | <b>30.0%</b>                   | <b>33.0%</b> |

Our effective tax rate was 30.0% in 2012, primarily as a result of tax incentives provided by the Superintendency for the Development of the Northeast Region of Brazil (*Superintendência de Desenvolvimento do Nordeste*), or SUDENE, resulting from a reduction in the basis of calculation of profit in the regions promoted by SUDENE, which lowered our effective tax rate by 6.1%. These effects of this incentive were partially offset by (1) the tax effect of unrecognized deferred tax assets regarding legal entities that are not eligible to recognize tax credits on tax loss carryforwards, which increased our effective tax rate by 1.6%, and (2) the tax effect of permanent additions, primarily as a result of the net effects of permanent exclusion (additions) of prescribed dividends, nondeductible fines, tax incentives and sponsorships, which increased our effective tax rate by 0.6%. Our effective tax rate was 33.0% in 2011, primarily as a result of the tax effects of non-taxable income and non-deductible expenses, which lowered our effective tax rate by 1.0%.

**Net Income**

Our consolidated net income increased by 77.5% to R\$1,785 million in 2012 from R\$1,006 million in 2011. As a percentage of net operating revenue, net income declined to 7.1% in 2012 from 10.9% in 2011.

**Year Ended December 31, 2011 Compared with Year Ended December 31, 2010**

The following table sets forth the components of our consolidated income statement, as well as the percentage change from the prior year, for the years ended December 31, 2011 and 2010.

|  | <b>Year ended December 31,</b>                    |             |                 |
|--|---|-------------|-----------------|
|  | <b>2011</b>                                       | <b>2010</b> | <b>% Change</b> |
|  | <b>(in millions of reais, except percentages)</b> |             |                 |
| Net operating revenue                  | R\$ 9,245   | R\$ 10,263  | (9.9)           |
| Cost of sales and services             | (4,587)   | (4,732)     | (3.1)           |
| Gross profit                           | 4,659   | 5,531       | (15.8)          |
| Operating income (expenses)            |   |             |                 |
| Selling expenses                       | (1,161)   | (1,025)     | 13.2            |
| General and administrative expenses    | (1,445)   | (1,539)     | (6.1)           |
| Other operating income (expenses), net | (486)   | (508)       | (4.3)           |
|  | 1,567   | 2,460       | (36.3)          |

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|  |           |           |        |
|--|-----------|-----------|--------|
| Operating income before financial income<br>(expenses) and taxes |           |           |        |
| Financial income   | 1,406     | 979       | 43.5   |
| Financial expenses   | (1,478)   | (1,060)   | 39.5   |
| Financial expenses, net  | (72)      | (80)      | (10.4) |
| Income before taxes  | 1,495     | 2,379     | (37.1) |
| Income tax and social contribution                               | (490)     | (408)     | 19.9   |
| Net income   | R\$ 1,006 | R\$ 1,971 | (49.0) |

**Table of Contents*****Net Operating Revenue***

The composition of gross operating revenue by category of service before deduction of value-added and other indirect taxes and discounts is discussed below. We do not determine net operating revenue for each category of service as we do not believe such information to be useful to investors.

Gross operating revenue declined by 6.9% in 2011, principally due to a 7.5% decline in gross operating revenue of our fixed-line and data transmission services segment. The effects of this decline were partially offset by a 7.4% increase in gross operating revenue of our mobile services segment.

Net operating revenue declined by 9.9% in 2011, principally due to a 9.5% decline in net operating revenue of our fixed-line and data transmission services segment, the effects of which were partially offset by a 3.5% increase in net operating revenue of our mobile services segment. Net operating revenue generated by intersegment sales, which are eliminated in the consolidation of our financial statements, increased by 18.4% in 2011.

***Net Operating Revenue of Our Fixed-Line and Data Transmission Services Segment***

The following table sets forth the components of the gross operating revenue and net operating revenue of our fixed-line and data transmission services segment, as well as the percentage change from the prior year, for the years ended December 31, 2011 and 2010.

|   | <b>Year Ended December 31,</b>                    |                  |                 |
|---|---|------------------|-----------------|
|   | <b>2011</b>                                       | <b>2010</b>      | <b>% Change</b> |
|   | <b>(in millions of reais, except percentages)</b> |                  |                 |
| Local fixed-line services                           | R\$ 4,310   | R\$ 4,735        | (9.0)           |
| Local fixed-to-mobile calls (VC-1)                  | 1,373   | 1,569            | (12.5)          |
| Long-distance fixed-line services                   | 1,392   | 1,732            | (19.6)          |
| Long-distance fixed-to-mobile calls (VC-2 and VC-3) | 344   | 424              | (18.9)          |
| Remuneration for the use of the fixed-line network  | 484   | 501              | (3.5)           |
| Data transmission services                          | 5,681   | 5,781            | (1.7)           |
| Public phones                                       | 156   | 194              | (19.9)          |
| Other fixed-line services                           | 638   | 610              | 4.7             |
| <b>Total gross operating revenue</b>                | <b>14,377</b>                                     | <b>15,546</b>    | <b>(7.5)</b>    |
| Value-added and other indirect taxes                | (2,877)   | (3,254)          | (11.3)          |
| Discounts and returns                               | (3,452)   | (3,399)          | 1.2             |
| <b>Net operating revenue</b>                        | <b>R\$ 8,048</b>                                  | <b>R\$ 8,893</b> | <b>(9.5)</b>    |

Gross operating revenue of our fixed-line and data transmission services segment declined by 7.5% in 2011, principally due to:

a 9.0% decline in gross operating revenue from local fixed-line services;

a 19.6% decline in gross operating revenue from long-distance fixed-line calls;

a 12.5% decline in gross operating revenue from local fixed-to-mobile calls;

a 1.7% decline in gross operating revenue from data transmission services; and

an 18.9% decline in gross operating revenue from long-distance fixed-to-mobile calls.



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**Table of Contents***Gross Operating Revenue from Local Services*

Gross operating revenue from local fixed-line services declined by 9.0% in 2011, primarily due to a 6.4% decline in gross operating revenue from monthly subscription fees, and a 26.2% decline in gross operating revenue from metered services.

Gross operating revenue from monthly subscription fees declined primarily as a result of a 6.3% decline in the average number of lines in service to 7.0 million during 2011 from 7.5 million during 2010, which occurred primarily as a result of the general trend in the Brazilian telecommunications industry to substitute mobile services in place of local fixed-line services.

Gross operating revenue from metered services charges declined principally due to the 29.0% decline in total billed minutes, primarily as a result of (1) the decline in the average number of our lines in service, (2) the migration of our fixed-line customers from our basic service plans to our alternative plans that have higher monthly allowances of minutes, including our *Oi Fixo Ilimitado* plans which we introduced in 2011 under which we offer an unlimited number of local fixed-to-fixed minutes and a larger number of fixed-to-fixed long distance minutes than under our other alternative plans at similar prices, and (3) the migration of local traffic origination to mobile handsets.

*Gross Operating Revenue from Local Fixed-to-Mobile Calls*

Gross operating revenue from local fixed-to-mobile calls declined by 12.5% in 2011, principally as a result of a 13.4% decline in the total number of local fixed-to-mobile minutes in 2011 as a result of (1) the 5.2% decline in the number of our fixed-line customers, (2) the migration of local traffic origination to mobile handsets as callers take advantage of mobile plans and promotions under which mobile service providers offer bonus mobile-to-mobile minutes within their networks at rates that are lower than a fixed-to-mobile minute, and (3) the introduction of our *Oi Fixo Ilimitado* plans in 2011 under which we offer a larger number of fixed-to-mobile minutes for use to call the mobile customers of our company than under our other alternative plans.

*Gross Operating Revenue from Long-Distance Fixed-Line Services*

Gross operating revenue from long-distance fixed-line services declined by 19.6% during 2011, primarily due to an 18.6% decline in the total number of long-distance minutes, primarily as a result of (1) an aggressive discounting campaign undertaken by our competitors, which resulted in a decline in the total number of long-distance minutes, (2) the effects of the 5.2% decline in the number of our fixed-line customers, who are more likely to choose our long-distance fixed-line services than customers of other fixed-line providers, and (3) the introduction of our *Oi Fixo Ilimitado* plans in 2011 under which we offer a larger number of fixed-to-fixed long distance minutes than under our other alternative plans and has led to a decline in the number of minutes that we record as long-distance fixed-line services.

*Gross Operating Revenue from Long-Distance Fixed-to-Mobile Calls*

Gross operating revenue from long-distance fixed-to-mobile calls, which are charged at the VC-2 or VC-3 rate, declined by 18.9% in 2011, principally as a result of a decline of 18.2% in the total number of fixed-to-mobile minutes charged at VC-2 rates and VC-3 rates, primarily as a result of (1) an aggressive discounting campaign undertaken in 2011 by one of our competitors, and (2) the effects of the 5.2% decline in the number of our fixed-line customers, who are more likely to choose our long-distance services for mobile-to-mobile long-distance calls than customers of other fixed-line providers.

*Gross Operating Revenue from Remuneration for the Use of the Fixed-Line Network*

Gross operating revenue from remuneration for the use of the fixed-line network declined by 3.5% in 2011, primarily as a result of a decline in gross operating revenue from interconnection fees paid to us for completing calls on our fixed-line network that were originated on the networks of other fixed-line service providers, and (2) a decline in gross operating revenue from interconnection fees paid to us for completing calls on our fixed-line network that were originated on the networks of mobile service providers, both primarily as a result of the 5.2% decline in the number of our fixed-line customers.

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Of our gross operating revenue from remuneration for the use of the fixed-line network, 21.2% in 2011 and 23.5% in 2010 represented interconnection fees paid by Brasil Telecom Mobile for the use of our fixed-line network to complete mobile-to-fixed calls and was eliminated in the consolidation of our financial statements.

*Gross Operating Revenue from Data Transmission Services*

Gross operating revenue from data transmission services declined by 1.7% in 2011, principally due to (1) a 9.1% decline in gross operating revenue from ADSL subscriptions, the effects of which were partially offset by a 9.4% increase in gross operating revenue from commercial data transmission services.

Gross operating revenue from ADSL subscriptions declined primarily due to a 7.8% decline in our average gross operating revenue per subscriber as a result of aggressive promotions that we launched during 2011 in an effort to expand our base of broadband customers, the effects of which were partially offset by a 5.3% increase in the average number of ADSL subscriptions to approximately 2,032,000 during 2011 from approximately 1,953,000 during 2010. As of December 31, 2011, our ADSL customer base represented 29.8% of our total fixed lines in service as compared to 26.8% as of December 31, 2010.

Gross operating revenue from commercial data transmission services increased primarily as a result of a 23.3% increase in gross operating revenue from IP services principally as a result of the increased demand for these services, particularly from public entities, banks and card payment companies, the effects of which were partially offset by a 37.0% decline in gross operating revenue from switching packs and frame relay services. Of our gross operating revenue from commercial data transmission services, 16.0% during 2011 and 8.5% during 2010 represented fees paid by Brasil Telecom Mobile and was eliminated in the consolidation of our financial statements.

*Gross Operating Revenue from the Sale of Pre-paid Calling Cards for Use in Public Telephones*

Gross operating revenue from the sale of pre-paid calling cards for use in public telephones declined by 19.9% in 2011, principally due to the decline in the number of public phone credits used as a result of a general trend to reduce usage of pre-paid calling cards for use in public telephones as customers substitute usage of mobile handsets in place of usage of public phones in response to promotions by mobile service providers to the pre-paid segment, including bonus calls and pre-paid card recharges at promotional reduced rates.

*Charges Against Gross Operating Revenue*

*Value-Added and Other Indirect Taxes*

Value-added and other indirect taxes on our fixed-line and data transmission services declined by 11.3% in 2011, primarily reflecting the decline in the gross operating revenue of the principal fixed-line services with respect to which these taxes are assessed.

*Discounts*

Discounts on our fixed-line and data transmission services increased by 1.2% in 2011, primarily as a result of an increase in discounts offered for our broadband services as a result of increased competition for other providers and as part of our efforts to promote the migration of our broadband customers to higher bandwidth subscriptions.

*Net Operating Revenue*

As a result of the foregoing, net operating revenue of our fixed-line and data transmission services segment declined by 9.5% to R\$8,048 million in 2011 from R\$8,893 million in 2010.

**Table of Contents****Net Operating Revenue of Our Mobile Services Segment**

The following table sets forth the components of the gross operating revenue and net operating revenue of our mobile services segment, as well as the percentage change from the prior year, for the years ended December 31, 2011 and 2010.

|  | <b>Year Ended December 31,</b>                    |                  |                 |
|--|---|------------------|-----------------|
|  | <b>2011</b>                                       | <b>2010</b>      | <b>% Change</b> |
|  | <b>(in millions of reais, except percentages)</b> |                  |                 |
| Mobile telephone services                      | R\$ 1,658   | R\$ 1,490        | 12.2            |
| Remuneration for the use of the mobile network | 1,204   | 1,134            | 6.1             |
| Sales of handsets and accessories              | 16  | 53               | (70.2)          |
| <b>Total gross operating revenue</b>           | <b>2,877</b>                                      | <b>2,677</b>     | <b>7.5</b>      |
| Value-added and other indirect taxes           | (492)   | (445)            | 10.5            |
| Discounts and returns                          | (379)   | (295)            | 28.6            |
| <b>Net operating revenue</b>                   | <b>R\$ 2,006</b>                                  | <b>R\$ 1,937</b> | <b>3.5</b>      |

Gross operating revenue of our mobile services segment increased by 7.5% in 2011, due to (1) a 12.2% increase in gross operating revenue from mobile telephone services, and (2) a 6.1% increase in gross operating revenue from remuneration for the use of our mobile network.

**Gross Operating Revenue from Mobile Services**

Gross operating revenue from mobile services increased by 12.2% in 2011, principally due to (1) a 5.9% increase in gross operating revenue from monthly subscription fees, and (2) a 21.0% increase in gross operating revenue from billed minutes (originating calls).

The average number of our pre-paid mobile customers increased by 11.5% to 7.1 million during 2011 from 6.3 million during 2010, primarily as a result of our launch of new promotions that include bonus minutes for long distance calls, packages of data services and credits for use for our text messaging services. The average number of our post-paid mobile customers, including customer that subscribe to our *Oi Controle* plans, increased by 2.4% to approximately 1,050,000 during 2011 from approximately 1,025,100 during 2010, primarily as a result of the success of our advertising campaigns to promote our principal mobile services, such as *Oi a Vontade*. As of December 31, 2011, pre-paid customers represented 86.5% of our mobile customer base and post-paid customers represented 13.5% of our mobile customer base. Our average monthly net revenue per user (calculated based on the total revenue for the year divided by the monthly average customer base for the year divided by 12) declined by 1.9% to R\$21.0 during 2011 from R\$21.4 during 2010.

Gross operating revenue from monthly subscription fees increased primarily as a result of (1) an increase in the number of our post-paid customers, and (2) the migration of our post-paid customer base to plans offering a greater number of minutes and with higher subscription fees.

Gross operating revenue from billed minutes increased primarily as a result of (1) the 11.5% increase in the average number of our pre-paid mobile customers, and (2) the increase in sales of promotional pre-paid service packages

which permit our customers to make calls to mobile customers within our networks and send text messages to mobile subscribers of any Brazilian mobile service provider.

*Gross Operating Revenue from Remuneration for the Use of the Mobile Network*

Gross operating revenue from remuneration for the use of the mobile network increased by 6.1% in 2011, primarily due to a 10.4% increase in the number of our mobile customers, the effects of which were partially offset by customers of others mobile providers taking advantage of promotions offered by those providers that include packages of minutes and text messaging services for on net traffic.

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Of the gross operating revenue from remuneration for the use of the mobile network, 45.2% in 2011 and 40.8% in 2010 represented interconnection fees paid by Oi for the use of Brasil Telecom Mobile's network to complete fixed-to-mobile calls and was eliminated in the consolidation of our financial statements.

*Charges Against Gross Operating Revenue**Value-Added and Other Indirect Taxes*

Value-added and other indirect taxes on our mobile services increased by 10.5% in 2011, primarily reflecting the increase in the gross operating revenue of our mobile services segment in 2011.

*Discounts*

Discounts offered on our mobile services generally consist of rebates on pre-paid telephone cards (typically having commissions of approximately 10.0% over the face amount sold), local fixed-line calls, long-distance calls, and intelligent network services (such as caller ID, call forwarding and conference calling). Discounts on our mobile services increased by 28.6% in 2011, primarily as a result of our strategy to increase discounts to maintain and increase our market share.

*Net Operating Revenue*

As a result of the foregoing, revenue from sales and services of the mobile services segment increased by 3.5% to R\$2,006 million in 2011 from R\$1,937 million in 2010.

*Cost of Sales and Services*

Cost of sales and services declined by 3.1% in 2011, principally due to a 5.1% decline in cost of sales and services of our mobile services segment, the effects of which were partially offset by a 1.8% increase in cost of sales and services of our fixed-line and data transmission services segment.

Of the cost of sales and services of our fixed-line and data transmission services segment, 13.4% in 2011 and 4.7% in 2010 represented interconnection fees paid by Oi for the use of Brasil Telecom Mobile's mobile network to complete fixed-to-mobile calls. These fees were eliminated in the consolidation of our financial statements.

Of the cost of sales and services of our mobile services segment, 21.9% in 2011 and 23.4% in 2010 represented (1) interconnection fees paid by Brasil Telecom Mobile for the use of Oi's fixed-line network to complete mobile-to-fixed calls, and (2) fees paid by Brasil Telecom Mobile for EILD services. These fees were eliminated in the consolidation of our financial statements.

The following table sets forth the components of our cost of sales and services, as well as the percentage change from the prior year, for the years ended December 31, 2011 and 2010.

|                 | <b>Year Ended December 31,</b>                    |             |                 |
|-----------------|---|-------------|-----------------|
|                 | <b>2011</b>                                       | <b>2010</b> | <b>% Change</b> |
|                 | <b>(in millions of reais, except percentages)</b> |             |                 |
| Interconnection | R\$ 1,711   | R\$ 1,982   | (13.7)          |

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|   |                  |                  |              |
|---|------------------|------------------|--------------|
| Depreciation and amortization           | 843              | 807              | 4.4          |
| Grid maintenance service                | 687              | 616              | 11.4         |
| Rental and insurance                    | 504              | 471              | 7.0          |
| Personnel                               | 375              | 335              | 12.0         |
| Costs of handsets and accessories       | 24               | 48               | (50.1)       |
| Concession contract renewal fee         | 49               | 57               | (13.6)       |
| Other costs of sales and services       | 394              | 416              | (5.2)        |
| <b>Total cost of sales and services</b> | <b>R\$ 4,587</b> | <b>R\$ 4,732</b> | <b>(3.1)</b> |



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### *Cost of Sales and Services of Our Fixed-Line and Data Transmission Services Segment*

Cost of sales and services of our fixed-line and data transmission services segment increased by 1.8% in 2011, principally due to:

a 27.2% increase in rental and insurance costs to R\$654 million in 2011 from R\$514 million in 2010, primarily as a result of increases in rental expenses incurred for leases of physical space, increases in right-of-way costs and increases in tower rental costs; and

an 11.7% increase in network maintenance costs to R\$627 million in 2011 from R\$562 million in 2010, primarily as a result of our implementation of a plan to improve network quality.

The effects of these increases was partially offset by an 8.0% decline in interconnection costs to R\$1,834 million in 2011 from R\$1,993 million in 2010, primarily as a result of the reduction in fixed-to-mobile traffic and long distance fixed-line traffic.

The gross profit of our fixed-line and data transmission services segment declined by 18.8% to R\$3,960 million in 2011 from R\$4,878 million in 2010. As a percentage of net operating revenue of this segment, gross profit declined to 49.2% in 2011 from 54.9% in 2010.

### *Cost of Sales and Services of Our Mobile Services Segment*

Cost of sales and services of our mobile services segment declined by 5.1% in 2011, principally due to:

an 8.6% decline in interconnection costs to R\$526 million in 2011 from R\$575 million in 2010, primarily as a result of the reduction in fixed-to-mobile traffic and long distance fixed-line traffic;

a 50.1% decline in the cost of handsets and accessories to R\$24 million in 2011 from R\$48 million in 2010, primarily as a result of the reduction of our sales of premium mobile devices, such as smart phones; and

a 24.8% decline in third-party service costs to R\$34 million in 2011 from R\$45 million in 2010, primarily as a result of our program to reduce costs by consolidating our third-party services in a smaller number of suppliers.

The gross profit of our mobile services segment increased by 24.9% to R\$697 million in 2011 from R\$558 million in 2010. As a percentage of net operating revenue of this segment, gross profit increased to 34.7% in 2011 from 28.8% in 2010.

### ***Gross Profit***

As a result of the foregoing, our consolidated gross profit declined by 15.8% to R\$4,659 million in 2011 from R\$5,531 million in 2010. As a percentage of net operating revenue, gross profit declined to 50.4% in 2011 from 53.9% in 2010.

***Operating Expenses***

*Selling Expenses*

Selling expenses increased by 13.2% during 2011, principally due to (1) a 15.5% increase in selling expenses of our fixed-line and data transmission services segment, and (2) an 8.2% increase in selling expenses of our mobile services segment.

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*Fixed-Line and Data Transmission Services Segment*

Selling expenses of our fixed-line and data transmission services segment increased by 15.5% in 2011, principally due to:

a 17.2% increase in contact center expenses to R\$340 million in 2011 from R\$290 million in 2010, primarily due to the renegotiation of some collective bargaining agreements by our contact center, which is included in our other segment, and expenditures related to service quality campaigns conducted to support our broadband service;

a 54.6% increase in personnel expenses to R\$119 million in 2011 from R\$77 million in 2010, primarily as a result of an increase in the number of employees and increases in the compensation of some of our employees as a result of the renegotiation of some of our collective bargaining agreements at the end of 2010;

a 24.9% increase in third-party service expenses to R\$156 million in 2011 from R\$125 million in 2010, primarily due to increased commissions paid in relation to sales of our *Oi Velox* internet service; and

an 766.7% increase in materials expenses to R\$26 million in 2011 from R\$3 million in 2010, primarily due to an increase in purchases of modems as a result of the introduction of our campaign to deliver free modems to mobile subscribers of *Oi Velox* beginning in April 2011.

As a percentage of net operating revenue of this segment, selling expenses increased to 12.3% in 2011 from 9.7% in 2010.

*Mobile Services Segment*

Selling expenses of our mobile services segment increased by 8.2% in 2011, principally due to:

a 60.2% increase in third-party service expenses to R\$235 million in 2011 from R\$147 million in 2010, primarily as a result of (1) an increase in the number of promotional bonus credits we distributed to our pre-paid costumers upon their purchase of additional paid credits for use to make pre-paid calls, and (2) an increase in sales commission expenses in the post-paid segment, and increased commission expenses relating to our *Oi Conta Total* plans, part of which are allocated to this segment; and

a 36.8% increase in publicity and advertising expenses to R\$60 million in 2011 from R\$44 million in 2010, primarily as a result of an increase in expenditures on our advertising campaigns to support our principal mobile services, such as our *Oi a Vontade* and *Oi Cartão* services and our use of sponsorship of concerts and other events and alternative media to raise brand awareness of our services.

The effects of these increases were partially offset by (1) a 56.8% decline in contact center expenses to R\$27 million in 2011 from R\$61 million in 2010, and (2) an 82.1% decline in materials expenses to R\$7 million in 2011 from R\$37

million in 2010, primarily as a result of our decision in 2010 to end our subsidies for mini-modems used by our mobile data transmission customers.

As a percentage of net operating revenue of this segment, selling expenses increased to 21.7% in 2011 from 20.8% in 2010.

*General and Administrative Expenses*

General and administrative expenses declined by 6.1% during 2011, principally due to a 6.0% decline in general and administrative expenses of our fixed-line segment and a 37.7% decline in general and administrative expenses of our other segment.

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*Fixed-Line and Data Transmission Services Segment*

General and administrative expenses of our fixed-line and data transmission services segment declined by 6.0% in 2011, principally due to:

a 16.8% decline in third-party service expenses to R\$351 million in 2011 from R\$422 million in 2010, primarily as a result of reduced postage expenses due to a change in our billing and collection procedures as part of which we no longer rely on mailing invoices to collect accounts due from customers that are in arrears by more than two months; and

a 17.1% decline in depreciation and amortization expenses to R\$158 million in 2011 from R\$195 million in 2010, primarily as a result of the increase in the amount of the property, plant and equipment of this segment that has been fully depreciated.

The effects of these declines were partially offset by (1) a 25.1% increase in personnel expenses to R\$259 million in 2011 from R\$207 million in 2010, primarily as a result of an increase in the number of employees and increases in the compensation of some of our employees as a result of the renegotiation of some of our collective bargaining agreements at the end of 2010, and (2) an 8.2% increase in consulting expenses to R\$218 million in 2011 from R\$202 million in 2010, primarily as a result of an increase in expenses for consulting and legal advice related to the corporate reorganization.

As a percentage of net operating revenue of this segment, general and administrative expenses increased to 14.8% in 2011 from 14.3% in 2010.

*Mobile Services Segment*

General and administrative expenses of our mobile services segment declined by 2.3% in 2011, primarily due to (1) a 44.5% decline in third-party service expenses to R\$39 million in 2011 from R\$70 million in 2010, primarily as a result of our program to reduce costs and expenses in this segment, and (2) a 35.8% decline in depreciation and amortization expenses to R\$23 million in 2011 from R\$36 million in 2010, primarily as a result of the increase in the amount of the property, plant and equipment of this segment that has been fully depreciated.

As a percentage of net operating revenue of this segment, general and administrative expenses declined to 8.4% from 8.9% in 2010.

*Other Segment*

General and administrative expenses of our other segment declined by 37.7% in 2011, primarily due to a (1) a 50.1% decline in personnel expenses to R\$33 million in 2011 from R\$66 million in 2010, primarily as a result of a reduction in the number of employees of our internet portal companies, and (2) a 35.4% decline in third-party service expenses to R\$32 million in 2011 from R\$49 million in 2010, primarily as a result of reduction in our costs relating to data processing.

*Other Operating Expenses, Net*

*Other Operating Income*

Other operating income increased by 6.9% to R\$560 million in 2011 from R\$524 million in 2010, primarily as a result of (1) our recognition of R\$50 million in prescribed dividends during 2011, and (2) a 33.7% increase in rental of infrastructure to R\$120 million in 2011 from R\$90 million in 2010, primarily as a result of increased demand for these services from other service providers as a result of the growth of their customer bases. The effects of these factors was partially offset by a 60.3% decline in income on disposal of property, plant and equipment to R\$21 million in 2011 from R\$54 million in 2010.

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*Other Operating Expense*

Other operating expenses increased by 1.4% to R\$1,046 million in 2011 from R\$1,032 million in 2010, primarily as a result of:

a 40.9% increase in provisions for contingencies to R\$571 million in 2011 from R\$405 million in 2010, primarily as a result of (1) the effects on our other operating expenses during 2010 of a R\$140 million reversal of our provisions relating to ICMS tax credits as a result of a favorable court decision in 2010, and (2) the constitution of additional provisions of R\$26 million during 2011 relating to new labor and civil matters and changes in the estimate of some of our provision; and

an 11.7% increase in taxes to R\$309 million in 2011 from R\$276 million in 2010, primarily as a result of PIS and COFINS taxes recorded on the increased distributions of interest on shareholders equity received from some of our subsidiaries.

The effects of these factors was partially offset by (1) a 72.7% decline in employee and management profit sharing to R\$28 million in 2011 from R\$103 million in 2010, primarily as a result of the decline of the performance of indicators used to estimate this provision, and (2) a 66.3% decline in write-offs of property, plant and equipment to R\$28 million in 2011 from R\$83 million in 2010.

***Operating Income before Financial Income (Expenses) and Taxes***

As a result of the foregoing, our consolidated operating income before financial income (expenses) and taxes declined by 36.3% to R\$1,567 million in 2011 from R\$2,460 million in 2010. As a percentage of net operating revenue, operating income before financial income (expenses) and taxes declined to 17.0% in 2011 from 24.0% in 2010.

***Fixed-Line and Data Transmission Services Segment***

The operating income before financial income (expenses) and taxes of our fixed-line and data transmission services segment declined by 38.8% to R\$ 1,519 million in 2011 from R\$2,481 million in 2010. As a percentage of the net operating revenue of this segment, operating income before financial income (expenses) and taxes declined to 18.9% in 2011 from 27.9% in 2010.

***Mobile Services Segment***

The operating income before financial income (expenses) and taxes of our mobile services segment was R\$48 million in 2011 compared to operating loss before financial income (expenses) and taxes of R\$34 million in 2010. As a percentage of the net operating revenue of this segment, operating income before financial income (expenses) and taxes was 2.4% in 2011 compared to operating loss before financial income (expenses) and taxes of 1.7% in 2010.

***Financial Expenses, Net***

***Financial Income***

Financial income increased by 43.5% to R\$1,406 million in 2011 from R\$979 million in 2010, primarily due to:

a 359.1% increase in interest and inflation adjustment on other assets to R\$345 million in 2011 from R\$75 million in 2010, primarily as a result of an exchange gain on the foreign currency time deposits in which the proceeds of our issuance of 9.75% Senior Notes due 2016 were held prior to the use of these proceeds;

a 33.9% increase in income from short-term investments to R\$384 million in 2011 from R\$287 million in 2010, primarily as a result of an increase in the average amount of our financial investments; and



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a 29.70% increase in interest and inflation adjustment on amounts due from related parties to R\$307 million in 2011 from R\$236 million in 2010, primarily as a result of accrued interest and inflation adjustments on the debentures of Telemar that we hold.

**Financial Expenses**

Financial expenses increased by 39.5% to R\$1,478 million in 2011 from R\$1,060 million in 2010, primarily due to (1) a 56.9% increase in interest and inflation adjustments on other liabilities to R\$428 million in 2011 from R\$273 million in 2010, primarily as a result of a R\$122 million exchange loss on foreign currency time deposits of a portion of the proceeds of our 9.75% Senior Notes due 2016, and a R\$42 million increase in inflation adjustment to our tax financing program debt as a result of an increase in the Selic interest rate, and (2) inflation adjustment estimates of judicial deposits of R\$199 million during 2011. The effects of these factors was partially offset by a 34.2% decline in inflation adjustments of provisions to R\$167 million in 2011 from R\$254 million in 2010, primarily as a result of an inflation adjustment estimate on labor contingencies in 2011.

**Income Tax and Social Contribution**

The composite corporate statutory income tax and social contribution rate was 34% in each of 2011 and 2010. Income tax and social contribution expense increased by 19.9% to R\$490 million in 2011 from R\$408 million in 2010. Our effective tax rate was 33.0% in 2011 and 17.1% in 2010. The table below sets forth a reconciliation of the composite corporate statutory income tax and social contribution rate to our effective tax rate for each of the periods presented.

|   | <b>Year Ended December 31,</b> |              |
|---|--------------------------------|--------------|
|   | <b>2011</b>                    | <b>2010</b>  |
| Composite corporate statutory income tax and social contribution rate | 34.0%                          | 34.0%        |
| Tax effects of interest on shareholders' equity                       |                                | (5.2)        |
| Tax effects of permanent exclusions (additions)                       | (1.0)                          | (5.2)        |
| Tax effects of compensation of tax loss carryforwards                 |                                | (1.0)        |
| Tax effects of unrecognized deferred tax assets                       |                                | 0.2          |
| Tax effects of recognized deferred tax assets                         | 0.0                            | (5.7)        |
| <b>Effective rate</b>   | <b>33.0%</b>                   | <b>17.1%</b> |

Our effective tax rate was 33.0% in 2011, primarily as a result of the tax effects of non-taxable income and non-deductible expenses, which lowered our effective tax rate by 1.0%.

Our effective tax rate was 17.2% in 2010, primarily as a result of (1) the tax effect of our recognition of deferred tax assets accrued during prior years, but not previously recognized due to uncertainty regarding their eventual realization, which lowered our effective tax rate by 5.7%, (2) the tax effect of our payment of interest on shareholders' equity, which lowered our effective tax rate by 5.2%, and (3) the tax effects of non-deductible expenses of prior years, primarily amortization expenses of Copart 1, Copart 2 and Brasil Telecom Holding and adjustments made to the income tax and social contribution calculation of prior year, which lowered our effective tax rate by 5.2%.

**Net Income**

Our consolidated net income declined by 49.0% to R\$1,006 million in 2011 from R\$1,971 million in 2010. As a percentage of net operating revenue, net income declined to 10.9% in 2011 from 19.2% in 2010.

### **Liquidity and Capital Resources**

Our principal cash requirements consist of the following:

working capital requirements;

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servicing of our indebtedness;

capital expenditures related to investments in operations, expansion of our networks and enhancements of the technical capabilities and capacity of our networks; and

dividends on our shares, including in the form of interest attributable to shareholders' equity.

Unless our board of directors deems it inconsistent with our financial position, payment of dividends is mandatory under our by-laws and, consequently, may give rise to significant cash requirements in future periods.

Our principal sources of liquidity have traditionally consisted of the following:

cash flows from operating activities;

short-term and long-term loans; and

sales of debt securities in domestic and international capital markets.

During 2012, cash flow generated by operations was used primarily for investing activities, for working capital requirements and to service our outstanding debt obligations. As of December 31, 2012, our consolidated cash and cash equivalents and cash investments amounted to R\$6,839 million. As of December 31, 2012, we had working capital of R\$4,048 million. We believe that our working capital is sufficient for our requirements during 2013.

**Cash Flow**

***Cash Flows from Operating Activities***

Our primary source of operating funds is cash flow generated from our operations. Net cash provided by operating activities was R\$3,859 million in 2012, R\$1,839 million in 2011 and R\$3,416 million in 2010. We consider cash flows provided by our operating activities to be sufficient for our expected cash requirements related to operations. However, we generally finance our investments in property, plant and equipment through the use of bank loans, vendor financing, capital markets and other forms of financing.

***Cash Flows Used in Investing Activities***

Investing activities used net cash of R\$6,439 million in 2012, R\$2,089 million in 2011 and R\$1,560 million in 2010.

During 2012, investing activities for which we used cash primarily consisted of (1) investments of R\$5,330 million in purchases of property, plant and equipment and intangible assets, primarily related to the expansion of our data communications network, the acquisition of our 4G authorization and the implementation of projects to meet ANATEL's regulatory requirements, and (2) net judicial deposits (consisting of deposits less redemptions) of R\$1,662 million, primarily related to provisions for labor, taxes and civil contingencies.

During 2011, investing activities for which we used cash primarily consisted of (1) net judicial deposits (consisting of deposits less redemptions) of R\$1,224 million, primarily related to provisions for labor, taxes and civil contingencies, and (2) investments of R\$884 million in additions to property, plant and equipment, primarily related to the expansion of our data communications network and the implementation of regulatory projects to meet ANATEL's requirements.

During 2010, investing activities for which we used cash primarily consisted of (1) net judicial deposits (consisting of deposits less redemptions) of R\$808 million, primarily related to provisions for labor, taxes and civil contingencies, and (2) investments of R\$755 million in additions to property, plant and equipment, primarily related to the expansion of our data communications network and the implementation of regulatory projects to meet ANATEL's requirements.

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**Table of Contents*****Cash Flows from Financing Activities***

Financing activities provided net cash of R\$975 million in 2012 and R\$2,920 million in 2011, and used net cash of R\$356 million in 2010.

During 2012, our principal sources of borrowed funds consisted of (1) the issuance of US\$1,500 million aggregate principal amount of 5.75% Senior Notes due 2022, (2) the issuance of R\$2,000 million aggregate principal amount of non-convertible debentures due 2020, and (3) R\$2,000 million aggregate principal amount borrowed under a R\$5.4 billion credit facility with BNDES that we entered into in December 2012. In addition, we consolidated cash and cash equivalents of R\$4,930 million as a result of the corporate reorganization.

During 2012, we used cash to (1) repay R\$4,980 million principal amount of our outstanding loans and financing and derivatives, (2) to pay dividends and interest on shareholders' equity in the aggregate amount of R\$2,405 million, (3) to pay R\$2,008 million to shareholders of TNL and Telemar who exercised their withdrawal rights in connection with the corporate reorganization, and (4) to pay R\$1,156 million for the redemption of class B and class C preferred shares issued as a bonus and distributed to shareholders of our common and preferred shares.

During 2011, our principal sources of borrowed funds consisted of (1) the issuance of R\$2,350 million aggregate principal amount of non-convertible debentures due 2018, (2) the issuance of R\$1,100 million aggregate principal amount of 9.75% Senior Notes due 2016, and (3) the issuance of R\$1,000 million aggregate principal amount of non-convertible debentures due 2017.

During 2011, we used cash to (1) to repay R\$1,096 million principal amount of our outstanding loans and financing, derivatives and leases, (2) to pay dividends and interest on shareholders' equity in the aggregate amount of R\$462 million, and (3) to pay R\$79 million of fees related to our licenses and concessions.

During 2010, our principal sources of borrowed funds consisted of (1) R\$531 million aggregate principal amount borrowed under a credit facility with BNDES that we entered into in December 2009, and (2) R\$511 million aggregate net proceeds of a real estate securitization transaction that we entered into in August 2010.

During 2010, we used cash to (1) to repay R\$1,279 million principal amount of our outstanding loans and financing, derivatives and leases, and (2) to pay R\$115 million of fees related to our licenses and concessions.

**Projected Sources and Uses of Cash**

We anticipate that we will be required to spend approximately R\$15.6 billion to meet our short-term contractual obligations and commitments and budgeted capital expenditures during 2013, and an additional approximately R\$24.4 billion to meet our long-term contractual obligations and commitments and budgeted capital expenditures in 2014 and 2015. We expect that we will meet these cash requirements for (1) our operating and maintenance activities through sales of our services, and (2) our debt service and capital expenditure commitments through a combination of cash generated from operating activities and cash generated by financing activities, including new debt financings and the refinancing of our existing indebtedness as it becomes due.

We have commitments from several financial institutions to provide us with financing in the future, including commitments from under two revolving credit facilities that we entered into in November 2011 and December 2012, an export credit facility that we entered into in July 2012 and unused commitments under various other credit facilities described under **Indebtedness**. We pay commitment fees to these financial institutions in connection with their commitments.

In November 2011, Oi, Brasil Telecom Mobile, Telemar and TNL PCS entered together into a revolving credit facility with a syndicate of international institutions. Under this facility, up to US\$1 billion aggregate principal amount will be available for disbursement to the borrowers during the five-year term of this facility. As of December 31, 2012, there were no outstanding loans under this facility.

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In December 2012, Oi entered into a revolving credit facility with a syndicate of financial institutions. Under this facility, up to R\$1.5 billion aggregate principal amount will be available for disbursement to the borrowers during the three-year term of this facility. As of December 31, 2012, there were no outstanding loans under this facility.

**Contractual Commitments**

The following table summarizes our significant contractual obligations and commitments as of December 31, 2012:

|  | <b>Payments Due by Period</b> |                           |                            |                             | <b>Total</b>      |
|--|-------------------------------|---------------------------|----------------------------|-----------------------------|-------------------|
|  | <b>Less than One Year</b>     | <b>One to Three Years</b> | <b>Three to Five Years</b> | <b>More than Five Years</b> |                   |
|  | <b>(in millions of reais)</b> |                           |                            |                             |                   |
| Loans and financing (1)                              | R\$ 3,585                     | R\$ 12,658                | R\$ 8,467                  | R\$ 10,473                  | R\$ 35,183        |
| Debentures (2)                                       | 1,417                         | 4,080                     | 4,365                      | 3,345                       | 13,207            |
| Purchase obligations (3)                             | 2,794                         | 564                       | 440                        | 360                         | 4,158             |
| Concession fees (4)                                  | 199                           | 217                       | 233                        | 1,138                       | 1,787             |
| Usage rights (5)                                     | 1,059                         | 1,093                     | 6                          |                             | 2,158             |
| Pension plan contributions(6)                        | 117                           | 350                       | 234                        | 234                         | 935               |
| <b>Total contractual obligations and commitments</b> | <b>R\$ 9,171</b>              | <b>R\$ 18,962</b>         | <b>R\$ 13,745</b>          | <b>R\$ 15,550</b>           | <b>R\$ 57,428</b> |

- (1) Includes (1) estimated future payments of interest on our loans and financings, calculated based on interest rates and foreign exchange rates applicable at December 31, 2012 and assuming that all amortization payments and payments at maturity on our loans and financings will be made on their scheduled payment dates, and (2) estimated future cash flows on our derivative obligations, calculated based on interest rates and foreign exchange rates applicable as of December 31, 2012 and assuming that all payments on our derivative obligations will be made on their scheduled payment dates.
- (2) Includes estimated future payments of interest on our debentures, calculated based on interest rates applicable as of December 31, 2012 and assuming that all amortization payments and payments at maturity on our debentures will be made on their scheduled payment dates.
- (3) Consists of (1) obligations in connection with a business process outsourcing agreement, and (2) purchase obligations for network equipment pursuant to binding obligations which include all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.
- (4) Consists of estimated bi-annual fees due to ANATEL under our concession agreements expiring in 2025. These estimated amounts are calculated based on our results for the year ended December 31, 2012.
- (5) Consists of payments due to ANATEL for radio frequency licenses. Includes accrued and unpaid interest as of December 31, 2012.
- (6) Consists of expected contributions to amortize the actuarial deficit of the BrTPREV plan.

We are also subject to contingencies with respect to tax, civil, labor and other claims and have made provisions for accrued liability for legal proceedings related to certain tax, civil, labor and other claims of R\$6,421 million as of

December 31, 2012. See Item 8. Financial Information Legal Proceedings and note 23 to our consolidated financial statements.

**Indebtedness**

As of December 31, 2012, our total outstanding indebtedness on a consolidated basis was R\$33,346 million, consisting of R\$3,114 million of short-term indebtedness, all of which represented current portion of long-term indebtedness (or 9.3% of our total indebtedness), and R\$30,232 million of long-term indebtedness (or 90.7% of our total indebtedness).



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On a consolidated basis, our *real*-denominated indebtedness as of December 31, 2012 was R\$20,497 million, or 61.5% of our total indebtedness, and our foreign currency-denominated indebtedness was R\$12,849 million, or 38.5% of our total indebtedness. As of December 31, 2012, our *real*-denominated indebtedness bore interest at an average rate of 10.18% per annum, and our foreign currency denominated indebtedness bore interest at an average rate of 4.46% per annum for loans denominated in U.S. dollars and 5.13% per annum for loans denominated in euros. As of December 31, 2012, 70.3% of our debt bore interest at floating rates, including the effect of swap operations.

### ***Short-Term Indebtedness***

Our consolidated short-term debt, consisting of the current portion of long-term loans and financings and debentures, was R\$3,114 million as of December 31, 2012. Under our financing policy, we generally do not incur short-term indebtedness, as we believe that our cash flows from operations generally will be sufficient to service our current liabilities.

### ***Long-Term Indebtedness***

Our principal sources of long-term debt are:

fixed-rate notes issued in the international market;

debentures issued in the Brazilian market;

credit facilities with BNDES;

credit facilities with international export credit agencies;

unsecured lines of credit obtained from Brazilian financial institutions;

real estate securitization transactions; and

a credit facility with a development bank.

Some of our debt instruments require that we and Telemar comply with financial covenants, semi-annually or quarterly. Under each of these debt instruments, the creditor has the right to accelerate the debt if, at the end of any applicable period we are not in compliance with the defined financial covenants ratios. We were in compliance with these financial covenants at December 31, 2012, and we believe that we will be able to comply with these financial covenants during 2013. In addition, we believe that our compliance with these financial covenants will not adversely affect our ability to implement our financing plans.

The instruments governing a substantial portion of our indebtedness contain cross-default or cross-acceleration clauses and the occurrence of an event of default under one of these instruments could trigger an event of default under other

indebtedness or enable the creditors under other indebtedness to accelerate that indebtedness.

As of December 31, 2012, all of our debt instruments with BNDES were secured by pledges of certain of our accounts receivable.

The following discussion briefly describes certain of our significant financing transactions.

*Fixed-Rate Notes*

We have issued four series of fixed-rate debt securities in the international market. All of these securities pay interest semi-annually in arrears. The table below sets forth our outstanding fixed-rate debt securities as of December 31, 2012, the outstanding principal amount of these securities and their maturity dates.

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| Security                       | Outstanding Principal   |       | Final Maturity |
|--------------------------------|-------------------------|-------|----------------|
|                                | Amount<br>(in millions) |       |                |
| 9.75% senior notes due 2016(1) | R\$                     | 1,100 | September 2016 |
| 5.125% senior notes due 2017   |                         | 750   | December 2017  |
| 9.500% senior notes due 2019   | US\$                    | 142   | April 2019     |
| 5.500% senior notes due 2020   | US\$                    | 1,787 | October 2020   |
| 5.75% senior notes due 2022    | US\$                    | 1,500 | February 2022  |

- (1) These notes are denominated in *reais* and payments of principal and interest under these notes are payable in U.S. dollars at prevailing exchange rates at the time of payment.

*Debentures*

We have issued several series of debentures in the Brazilian market. All of these securities pay interest annually or semi-annually in arrears. The table below sets forth our outstanding debentures as of December 31, 2012, the outstanding principal amount of these securities, the applicable interest rates, and their maturity dates.

| Security            | Outstanding Principal               |       | Interest Rate   | Final Maturity   |
|---------------------|-------------------------------------|-------|-----------------|------------------|
|                     | Amount<br>(in millions of<br>reais) |       |                 |                  |
| Debentures due 2013 | R\$                                 | 540   | CDI plus 0.55%  | March 2013       |
| Debentures due 2013 | R\$                                 | 1,754 | CDI plus 1.20%  | April 2013       |
| Debentures due 2017 | R\$                                 | 246   | IPCA plus 7.98% | April 2017       |
| Debentures due 2017 | R\$                                 | 1,000 | CDI plus 1.00%  | August 2017      |
| Debentures due 2018 | R\$                                 | 2,350 | CDI plus 1.15%  | December 2018(1) |
| Debentures due 2020 | R\$                                 | 400   | CDI plus 0.94%  | March 2020       |
| Debentures due 2020 | R\$                                 | 1,600 | IPCA plus 6.20% | March 2020(2)    |
| Debentures due 2021 | R\$                                 | 30    | IPCA plus 0.50% | July 2021        |

- (1) The outstanding principal amount of these debentures is payable in three equal annual installments commencing in December 2016.
- (2) The outstanding principal amount of these debentures is payable in two equal annual installments commencing in March 2019.

*Credit Facilities with BNDES*

We and our subsidiaries have entered into a variety of credit facilities with BNDES. The proceeds of these credit facilities have been used for a variety of purposes, including funding our investment plans, funding the expansion of our telecommunications plant (voice, data and video), and making operational improvements to meet the targets established in the General Plan on Universal Service and the General Plan on Quality Goals in effect at the time of these loans.



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The following table sets forth selected information with respect to our BNDES credit facilities as of December 31, 2012.

| <b>Facility</b>                                       | <b>Outstanding<br/>Principal<br/>Amount<br/>(in<br/>millions<br/>of reais)</b> | <b>Interest Rate</b> | <b>Amortization<br/>Schedule</b> | <b>Final Maturity</b> |
|---|--|----------------------|----------------------------------|-----------------------|
| <b>Oi 2006 credit facility:</b>                       |  |                      |                                  |                       |
| A loans   | 593  | TJLP plus<br>4.30%   | Monthly                          | May 2014              |
| B loans   | 9  | TJLP plus<br>2.30%   | Monthly                          | May 2014              |
| <b>Telemar 2006 credit facility:</b>                  |  |                      |                                  |                       |
| A loans   | 572  | TJLP plus<br>4.50%   | Monthly                          | June 2014             |
| B loans   | 24   | TJLP plus<br>2.50%   | Monthly                          | June 2014             |
| <b>Telemar 2009 credit facility:</b>                  |  |                      |                                  |                       |
| Floating-rate loans                                   | 1,541  | TJLP plus<br>3.95%   | Monthly (1)                      | December 2018         |
| Fixed-rate loans                                      | 206  | 4.50%                | Monthly (1)                      | December 2018         |
| <b>TNL PCS 2009 credit facility</b>                   |  |                      |                                  |                       |
| Floating-rate loans                                   | 525  | TJLP plus<br>3.95%   | Monthly (1)                      | December 2018         |
| Fixed-rate loans                                      | 25   | 4.50%                | Monthly (1)                      | December 2018         |
| <b>Oi 2009 credit facility:</b>                       |  |                      |                                  |                       |
| Floating-rate loans                                   | 340  | TJLP plus<br>3.95%   | Monthly (1)                      | December 2018         |
| Fixed-rate loans                                      | 80   | 4.50%                | Monthly (1)                      | December 2018         |
| <b>Brasil Telecom Mobile 2009 credit<br/>facility</b> |  |                      |                                  |                       |
| A loans   | 410  | TJLP plus<br>3.95%   | Monthly (1)                      | December 2018         |
| B loans   | 10   | 4.50%                | Monthly (1)                      | December 2018         |
| <b>Telemar 2012 credit facility:</b>                  |  |                      |                                  |                       |
| A loans   | 610  | TJLP plus<br>4.08%   | Monthly (2)                      | July 2021             |
| B loans   | 129  | 2.50%                | Monthly (2)                      | January 2021          |
| D loans   | 150  | TJLP plus<br>2.18%   | Monthly (2)                      | January 2021          |
| <b>TNL PCS 2012 credit facility</b>                   |  |                      |                                  |                       |
| A loans   | 312  | TJLP plus<br>4.08%   | Monthly (2)                      | July 2021             |
| B loans   | 80   | 2.50%                | Monthly (2)                      | January 2021          |

|  |     |           |             |              |
|--|-----|-----------|-------------|--------------|
| C loans  | 20  | 2.50%     | Monthly (2) | January 2021 |
| <b>Oi 2012 credit facility:</b>                    |     |           |             |              |
| A loans  |     | TJLP plus |             |              |
|  | 339 | 4.08%     | Monthly (2) | July 2021    |
| B loans  | 58  | 2.50%     | Monthly (2) | January 2021 |
| C loans  | 169 | 2.50%     | Monthly (2) | January 2021 |
| <b>Brasil Telecom Mobile 2012 credit facility:</b> |     |           |             |              |
| A loans  |     | TJLP plus |             |              |
|  | 90  | 4.08%     | Monthly (2) | July 2021    |
| B loans  | 33  | 2.50%     | Monthly (2) | January 2021 |
| C loans  | 11  | 2.50%     | Monthly (2) | January 2021 |

(1) Amortization on this facility commenced in January 2012.

(2) Amortization on this facility commences in August 2015.

*Credit Facilities with Export Credit Agencies*

Credit Facilities with FINNVERA

In June 2008, Telemar entered into an export credit facility agreement with FINNVERA under which FINNVERA agreed to disburse loans in the aggregate principal amount of up to US\$300 million. Disbursements of US\$192 million and US\$108 million under this export credit facility were received in 2008 and 2009, respectively. The proceeds of this export credit facility have been and will be used to fund equipment purchases related to Telemar's capital expenditures on its fixed-line and mobile telecommunications infrastructure. Loans under this export credit facility bear interest at an average rate of LIBOR plus 1.07% per annum. Interest on each of these loans is payable semi-annually in arrears through maturity in December 2018. The outstanding principal amount of these loans is payable in 17 equal semi-annual installments commencing in December 2010. At December 31, 2012, the outstanding principal amount under this export credit facility was US\$212 million.

In August 2009, Telemar entered into an export credit facility agreement with FINNVERA under which FINNVERA agreed to disburse loans in the aggregate principal amount of up to US\$500 million. Disbursements of US\$208 million, US\$27 million, US\$74 million, US\$97 million and US\$92 million under this export credit facility were received in February 2010, May 2010, February 2011, June 2011 and January 2012, respectively. The proceeds of this export credit facility have been and will be used to fund equipment purchases related to Telemar's capital expenditures on our fixed-line and mobile telecommunications infrastructure. Loans under this export credit facility bear interest at an average rate of LIBOR plus 1.70% per annum. Interest on each of these loans is payable semi-annually in arrears through maturity in August 2019. The outstanding principal amount of these loans is payable in 17 equal semi-annual installments commencing in August 2011. At December 31, 2012, the outstanding principal amount under this export credit facility was US\$412 million.

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In December 2011, Telemar entered into an export credit facility with FINNVERA under which FINNVERA agreed to disburse loans in the aggregate principal amount of up to US\$200 million. A disbursement of US\$188 under this export credit facility was received in December 2012. The proceeds of this export credit facility have been and will be used to fund equipment purchases related to Telemar's capital expenditures on our fixed-line and mobile telecommunications infrastructure. Loans under this facility bear interest at the rate of LIBOR plus 0.90% per annum, payable semi-annually in arrears. The principal amount of these loans is payable in 17 semiannual installments commencing in February 2013. As of December 31, 2012, the outstanding principal amount under this export credit facility was US\$200 million.

**Credit Facility with Nordic Investment Bank**

In July 2008, Telemar entered into a credit facility with Nordic Investment Bank under which Nordic Investment Bank disbursed loans in the aggregate principal amount of US\$250 million. The proceeds of this credit facility have been used to fund equipment purchases related to Telemar's infrastructure.

Under this credit facility, loans in the principal amount of US\$100 million (the A loan) and US\$150 million (the B loan) were disbursed in July 2008. The A loan bears interest at the rate of LIBOR plus 1.18% per annum and the B loan bears interest at the rate of LIBOR plus 0.80% per annum. Interest on each of these loans is payable semi-annually in arrears through maturity. The outstanding principal amount of the A loan is payable in 17 equal semi-annual installments commencing in July 2010, and the outstanding principal amount of the B loan is payable in 11 equal semi-annual installments commencing in July 2010. At December 31, 2012, the outstanding principal amount under these loans was US\$152 million.

**Credit Facilities with China Development Bank**

In February 2009, Telemar entered into a credit facility agreement with China Development Bank Corporation, or China Development Bank, under which China Development Bank agreed to disburse loans in the aggregate principal amount of up to US\$300 million. Disbursements of US\$227 million and US\$52 million under this credit facility were received in 2009 and 2010, respectively. The proceeds of this credit facility have been and will be used to fund equipment purchases related to Telemar's capital expenditures on telecommunications infrastructure. Loans under this credit facility bear interest at a rate of LIBOR plus 2.5% per annum. Interest on each of these loans is payable semi-annually in arrears through maturity in February 2016. The outstanding principal amount of these loans is payable in 11 equal semi-annual installments commencing in April 2011 and terminating upon maturity in February 2016. At December 31, 2012, the outstanding principal amount under this credit facility was US\$191 million.

In October 2009, Telemar entered into a credit facility agreement with China Development Bank under which China Development Bank agreed to disburse loans in the aggregate principal amount of up to US\$500 million. Disbursements of US\$94 million and US\$98 million under this credit facility were received in 2010 and 2011, respectively. The proceeds of this credit facility have been and will be used to fund equipment purchases related to Telemar's capital expenditures on telecommunications infrastructure. Loans under this credit facility bear interest at a rate of LIBOR plus 2.5% per annum. Interest on each of these loans is payable semi-annually in arrears through maturity in October 2016. The outstanding principal amount of these loans is payable in 11 equal semi-annual installments commencing in April 2012 and terminating upon maturity in October 2016. At December 31, 2012, the outstanding principal amount under this credit facility was US\$158 million.

In June 2011, Telemar entered into a stand-by credit facility with China Development Bank under which China Development Bank agreed to disburse loans in the aggregate principal amount of up to US\$500 million. A disbursement of US\$380 million under this stand-by credit facility was received in July 2011. The proceeds of this

stand-by credit facility have been and will be used to refinance other indebtedness of Telemar. Loans under this stand-by credit facility bear interest at the rate of LIBOR plus 2.30% per annum, payable semi-annually in arrears through maturity in June 2016. The principal of these loans is payable in five semi-annual installments, commencing in October 2014. At December 31, 2012, the outstanding principal amount under this credit facility was US\$380 million.



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**Table of Contents****Credit Facility with Crédit Agricole Corporate and Investment Bank**

In April 2010, Telemar entered into an export credit facility agreement with Crédit Agricole, as lender and facility agent, under which Crédit Agricole agreed to disburse loans in the aggregate principal amount of up to US\$220 million, in two tranches of US\$110 million each. Disbursements in the aggregate principal amount of US\$46 million and US\$31 million under the first tranche of this facility were received in July 2010 and February 2011, respectively, and a disbursements in the aggregate principal amount of US\$55 million and US\$89 million under the second tranche of this facility were received in May 2011 and February 2012, respectively. The proceeds of these disbursements have been and will be used to fund equipment purchases related to Telemar's capital expenditures on its fixed-line and mobile telecommunications infrastructure. Loans under the first and second tranches of this facility bear interest at an average rate of LIBOR plus 1.40% per annum. Loans under the first tranche of this facility pay interest semi-annually in arrears through maturity in August 2019. Loans under the second tranche of this facility pay interest semi-annually in arrears through maturity in August 2020. The outstanding principal amount of these loans is payable in 17 equal semi-annual installments, commencing in August 2011 for the first tranche and in August 2012 for the second tranche. The Office National Du Ducroire, the Belgian national export credit agency, is providing an insurance policy in connection with this facility. At December 31, 2012, the outstanding principal amount under this credit facility was US\$198 million.

**Export Credit Facility with Cisco Systems Capital**

In March 2011, Telemar entered into an export credit facility agreement with Cisco Systems Capital, or Cisco, under which Cisco agreed to disburse loans in the aggregate principal amount of up to US\$50 million. A disbursement of US\$46 million under this export credit facility was received in May 2011. The proceeds of this export credit facility have been and will be used to fund equipment purchases related to Telemar's capital expenditures on its fixed-line and mobile telecommunications infrastructure. Loans under this export credit facility bear interest at the rate of 3.5% per annum. Interest on each of these loans is payable semi-annually in arrears through maturity in May 2018. The outstanding principal amount of these loans is payable in 13 semi-annual installments commencing in May 2012. At December 31, 2012, the outstanding principal amount under this credit facility was US\$41 million.

**Export Credit Facility with Swedish Export Corporation**

In June 2011, Telemar entered into an export credit facility with Swedish Export Corporation, or SEK, and Deutsche Bank under which SEK agreed to disburse loans in the aggregate principal amount of up to US\$103 million. Disbursements of US\$5 million, US\$9 million, US\$39 million, US\$14 million and US\$21 million under this export credit facility were received in July 2011, November 2011, July 2012, October 2012, and February 2013, respectively. The proceeds of this export credit facility have been and will be used to fund equipment purchases related to Telemar's capital expenditures on its fixed-line and mobile telecommunications infrastructure. Loans under this export credit facility bear interest at the rate of 2.21% per annum, payable semi-annually in arrears, commencing in January 2012. The principal of these loans is payable in 17 equal semi-annual installments, commencing in February 2012. At December 31, 2012, the outstanding principal amount under this credit facility was US\$62 million.

***Unsecured Lines of Credit***

In May 2008, Telemar entered into an unsecured line of credit with a Brazilian financial institution in the aggregate amount of R\$4,300 million to finance the acquisition of control of Oi. The loans under this line of credit originally bore interest at the rate of the CDI rate plus 1.30% per annum, payable semi-annually in arrears in May and November of each year, commencing in May 2010. As a result of the renegotiation of the terms and conditions of these loans in May 2011, these loans bear interest at the rate of the CDI rate plus 1.00% per annum from May 2011 to May 2014 and

at the rate of CDI rate plus 1.83% per annum from May 2014 to May 2018. The principal of these loans is payable in seven equal annual installments, commencing in May 2010. As of December 31, 2012, the outstanding principal amount under this line of credit was R\$3,090 million.

**Table of Contents***Real Estate Securitization Transaction*

In August 2010, Telemar transferred 162 real estate properties to our wholly-owned subsidiary Copart 4 Participações S.A., or Copart 4, and Oi transferred 101 real estate properties to Copart 5 Participações S.A., or Copart 5, our wholly-owned subsidiary. Telemar entered into lease contracts with terms of up to 12 years for the continued use of all of the properties transferred to Copart 4 and Oi entered into lease contracts with terms of up to 12 years for the continued use of all of the properties transferred to Copart 5.

Copart 4 and Copart 5 assigned the receivables representing all payments under these leases to Brazilian Securities Companhia de Securitização, which issued Real Estate Receivables Certificates (*Certificados de Recebíveis Imobiliários*), or CRIs, backed by these receivables. The CRIs were purchased by Brazilian financial institutions.

We received net proceeds from the assignment of lease receivables in the total aggregate amount of R\$1,585 million on a consolidated basis, and recorded our obligations to make the assigned payments as short and long-term debt in our consolidated financial statements. The aggregate net effective interest rate on this transaction is 102% of the CDI rate. The proceeds raised in this transaction were used to repay short-term debt. In June 2012, each of Copart 4 and Copart 5 partially redeemed the CRIs that they had issued for an aggregate amount of R\$392.5 million. As of December 31, 2012, the aggregate liability under these leases was R\$1,361 million.

*Credit Facilities with Development Banks*

In February 2009, TNL PCS entered into a credit facility with Banco do Nordeste do Brasil S.A., or BNB, under which BNB agreed to disburse loans in an aggregate principal amount of up to R\$369 million. The proceeds of this credit facility have been used for capital expenditures on Telemar's mobile telecommunications infrastructure for the northeastern region of Brazil. Disbursements of R\$370 million under this credit facility were received in 2009. Loans under this credit facility bear interest at 10.0% per annum, with a 15% discount available for timely payment of the interest payments under these loans. Interest is payable quarterly in arrears from May 2009 through February 2011 and monthly in arrears thereafter through maturity in February 2019. The outstanding principal amount is payable in 96 equal monthly installments commencing in March 2011. At December 31, 2012, the outstanding principal amount under this credit facility was R\$285 million.

**Capital Expenditures**

Our capital expenditures on property, plant and equipment and intangible assets were R\$6,477 million in 2012, R\$1,297 million in 2011 and R\$889 million in 2010. The following table sets forth our capital expenditures on plant expansion and modernization for the periods indicated.

|   | <b>Year Ended December 31,</b> |             |             |
|---|--------------------------------|-------------|-------------|
|   | <b>2012</b>                    | <b>2011</b> | <b>2010</b> |
|   | <b>(in millions of reais)</b>  |             |             |
| Data transmission equipment               | R\$ 1,365                      | R\$ 443     | R\$ 146     |
| Installation services and devices         | 1,318                          | 115         |             |
| Mobile network and systems                | 1,081                          | 96          | 150         |
| Voice transmission                        | 645                            | 144         | 260         |
| Information technology services           | 392                            | 60          | 55          |
| Telecommunication services infrastructure | 322                            | 11          | 43          |

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|   |           |         |         |
|---|-----------|---------|---------|
| Buildings, improvements and furniture   | 244       | 6       | 3       |
| Submarine cables  | 152       | 15      | 52      |
| Network management system equipment   | 142       | 13      | 45      |
| Backbone transmission   | 36        | 25      | 21      |
| Internet services equipment   | 19        | 12      | 33      |
| Other   | 761       | 357     | 81      |
| Total capital expenditures  | 6,477     | 1,297   | 889     |
| (Unpaid) amount and cash outflow to settle<br>previously recorded liabilities | (1,147)   | (413)   | (134)   |
| Total capital expenditures according to the cash flow<br>statement            | R\$ 5,330 | R\$ 884 | R\$ 755 |

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Our 2013 capital expenditure budget totals approximately R\$6 billion. We plan to finance such expenditures through operating cash flows and long-term financings. From this total, we have budgeted 23% of our 2013 capital expenditure budget for installation services and devices, 22% for data transmission equipment, including equipment for broadband services and fiber-to-the-home infrastructure, 15% for the mobile telephone services business, 10% for voice transmission, including capital expenditures necessary to meet our regulatory targets, 9% for information technology services, and 3% for telecommunications services infrastructure.

Our principal capital expenditures relate to a variety of projects designed to expand and upgrade our data transmission networks, our mobile services networks, our voice transmission networks, our information technology equipment and our telecommunications services infrastructure.

### ***Data Transmission Equipment Programs***

In our access networks, we have been engaged in a program of deploying FTTH technology to support our triple play services, using a GPON network engineered to support IP TV and RF overlay video services, internet with speeds up to up to 200 Mbps, and VoIP services.

We have been engaged in a program of acquiring and installing data communications equipment to convert elements of our networks that use ATM protocol over legacy copper wire and SDH protocols to MPLS protocol over optical fiber, which supports IP and permits the creation of VPNs through our MetroEthernet networks.

We are upgrading our transport network to support 100 Gbps line rates in our optical DWDM systems and 100 Gbps interfaces at the IP backbone routers. We also deployed an optical switching layer based on optical transport network technology in order to provide more efficient use of our DWDM capacity, fast restorations, and IP routers traffic offloading.

We are in the process of quadrupling the capacity of our backbone as a result of the deployment of 40 Gbps optical technology. In 2013, we are implementing DWDM links of 100 Gbps between the States of Rio de Janeiro, São Paulo, Minas Gerais and Bahia. We are extending our optical fiber backbone and expect that it will reach Macapá (located in the State of Amapá) in 2013.

### ***Mobile Services Network Programs***

In February 2010, we completed a project to upgrade our core mobile network, with the primary goal of fully integrating the mobile network of Brasil Telecom Mobile into the mobile network of TNL PCS. We engaged Nokia Siemens Networks to replace our existing core mobile network, which relied on technology from Ericsson, with a new core mobile network that uses the same Nokia Siemens Networks technology employed in TNL PCS core mobile network to facilitate the integration of our networks. The total cost of this project was R\$131 million.

We have undertaken a project to upgrade a portion of our mobile networks to enable us to increase the capacity of our mobile network. In 2012, we constructed 2,237 new radio base stations to support the growth of our subscriber base and expand the capacity at many of our existing radio base stations. In addition, we have undertaken a project to replace approximately 1,407 of our radio base stations in Region I, all of which employ Alcatel-Lucent technology, with Huawei base stations. We completed the replacement of these radio base stations in December 2012. Our total investment in these projects was R\$151 million in 2010, R\$100 million in 2011 and R\$1,000 million in 2012.

We are engaged in a program of introducing wireless local loop technology which will provide service to our customers through our 2G network in areas not supported by our fixed-line network.

Since December 2007, when we acquired our authorizations to provide 3G services, we have engaged in a program of developing our 3G network. We are deploying new radio base stations and transceivers to improve our

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3G coverage and quality in areas which we already serve, reducing the level of signal congestion in these areas, and to expand our 3G service to municipalities in Regions I, II and III where we currently do not provide 3G service. We are continuing to upgrade portions of our 3G mobile network to support greater data rates through the HSPA+ standard.

In June 2012, we acquired the authorizations and radio frequency licenses necessary for us to commence the offering of 4G services throughout Brazil. We intend to offer these services using Long Term Evolution, or LTE, network technology and have begun deploying our 4G LTE network. As part of this project, we have upgraded our existing mobile core to the LTE Evolved Packet Core, using an Evolved NodeB base station under a Radio Access Network that we will share with other Brazilian mobile services operators, and expect to offer 4G LTE services during the FIFA Confederations Cup to be held in Brazil in June 2013.

In November 2011, we began deploying a network of Wi-Fi hotspots in order to offload traffic from our mobile network. The Oi Wi-Fi network is composed of sub networks that are accessible (1) from indoor public and commercial sites, (2) from outdoor public spaces, and (3) from residential access points of our fixed-line customers that share access points in association with Fon.

### ***Voice Transmission Network Programs***

We are engaged in a program of investing in new equipment for our switching station to support next-generation networks to support offerings of new value-added services to our fixed-line customers. We believe that our investment in next-generation networks will:

assist us in meeting the increased demand for long distance traffic, both domestic and international, through the use of VoIP;

permit us to offer differentiated services, such voice over broadband; and

significantly promote fixed-mobile convergence.

As part of this program, we are concluding the deployment of an IP Multimedia Subsystem, or IMS, core that will facilitate our convergent voice, broadband and IP TV offerings. The IMS core not only will provide control for the VoIP resource but also integrated access control and authentication for all three services, significantly improving automation and speed for customer provisioning.

We are also undertaking a program of removing and replacing smaller switching stations and integrating these operations with other switching stations to promote efficiency in our operations.

We monitor the anticipated demands of new residential developments and the service demand growth of existing residential areas to ensure that we make adequate network equipment available to service the demands of these areas.

### ***Information Technology Services Programs***

We are investing in the expansion of capacity of our servers dedicated to our corporate customers with a view to increasing the efficiency of the services that we provide to these customers and to support our *Oi Smart Cloud* service, which we launched in 2012 to provide end-to-end virtual telecommunications and information technology solutions

for our corporate clients.

***Telecommunications Services Infrastructure Programs***

We are investing in the expansion of the network operating platform supporting our network operations center to assist us in monitoring transmission failures in real time and assist us in correlating and integrating data related to these transmission failures to their root causes with the aim of reducing the frequency of these events. In 2012, we initiated projects to consolidate and replace Oi's systems architecture.



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We are investing in the expansion of our transport networks in an effort to ensure that our networks continue to have the capacity to serve our existing customers and to support our plans to expand our services. Among other investments, we are investing in the expansion of our national backbone to support the expansion of 3G services and new services, the expansion of our satellite network, taking measures to improve our network synchronization and signaling links, taking measures to improve our interconnection traffic, investing in projects to improve route optimization.

We are also investing in projects to improve our networks by increasing the redundancy of our wire and fiber optic cable routes and establishing new linear and ring routes. We also perform preventive maintenance on sections of our network that have unusually high failure rates, and have a program to replace network elements in these sections.

We are investing in the standardization of our facilities to deter fraud and improve the quality of our services, including the replacement of some of our public telephones.

**Off-Balance Sheet Arrangements**

We do not currently have any transactions involving off-balance sheet arrangements.

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**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

Our board of directors (*conselho de administração*) and our board of executive officers (*diretoria*) are responsible for operating our business.

**Board of Directors**

Our board of directors is a decision-making body responsible for, among other things, determining policies and guidelines for our business and our wholly-owned subsidiaries and controlled companies. Our board of directors also supervises our board of executive officers and monitors its implementation of the policies and guidelines that are established from time to time by the board of directors. Under the Brazilian Corporation Law, our board of directors is also responsible for hiring independent accountants.

Our by-laws provide for a board of directors of up to 17 members and an equal number of alternate members. As of the date of this annual report, our board of directors is composed of 16 members and 16 alternate members. During periods of absence or temporary unavailability of a regular member of our board of directors, the corresponding alternate member substitutes for the absent or unavailable regular member.

The members of our board of directors are elected at general meetings of shareholders for two-year terms and are eligible for reelection. The terms of all current members expire at our annual shareholders meeting in 2014. Members of our board of directors are subject to removal at any time with or without cause at a general meeting of shareholders. Our by-laws do not contain any citizenship or residency requirements for members of our board of directors. Our board of directors is presided over by the chairman of the board of directors, and, in his absence, on an interim basis, by his designated alternate. The chairman of our board of directors is elected at a general meeting of shareholders from among the members of our board of directors, serves for a two-year term and is eligible for reelection. Our bylaws provide that the chairman of our board of directors may not serve as our chief executive officer.

Our board of directors ordinarily meets once every month and extraordinarily when a meeting is called by the chairman or any two other members of our board of directors. Decisions of our board of directors require a quorum of a majority of the directors and are taken by a majority vote of those directors present.

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The following table sets forth certain information with respect to the current members of our board of directors and their alternates.

| <i>Name</i>                            | <i>Position</i> | <i>Member Since</i> | <i>Age</i> |
|--|-----------------|---------------------|------------|
| José Augusto da Gama Figueira          | Chairman        | January 2013        | 65         |
| Zeinal Abedin Mahomed Bava             | Director        | April 2012          | 47         |
| Luís Miguel da Fonseca Pacheco de Melo | Alternate       | April 2012          | 45         |
| Shakhaf Wine                           | Director        | April 2012          | 43         |
| Abilio Cesário Lopes Martins           | Alternate       | April 2012          | 41         |
| Armando Galhardo Nunes Guerra Jr       | Director        | April 2012          | 57         |
| Paulo Márcio de Oliveira Monteiro      | Alternate       | April 2012          | 54         |
| Sergio Franklin Quintella              | Director        | April 2012          | 78         |
| Bruno Gonçalves Siqueira               | Alternate       | April 2012          | 27         |
| Renato Torres de Faria                 | Director        | April 2012          | 51         |
| Carlos Fernando Horta Bretas           | Alternate       | April 2012          | 53         |
| Rafael Cardoso Cordeiro                | Director        | April 2012          | 32         |
| André Sant Anna Valladares de Andrade  | Alternate       | April 2012          | 28         |
| Fernando Magalhães Portella            | Director        | April 2012          | 61         |
| Carlos Jereissati                      | Alternate       | April 2012          | 41         |
| Alexandre Jereissati Legey             | Director        | April 2012          | 43         |
| Carlos Francisco Ribeiro Jereissati    | Alternate       | April 2012          | 66         |
| Pedro Jereissati                       | Director        | April 2012          | 34         |
| Cristina Anne Betts                    | Alternate       | April 2012          | 43         |
| Cristiano Yazbek Pereira               | Director        | April 2012          | 37         |
| Erika Jereissati Zullo                 | Alternate       | April 2012          | 42         |
| Fernando Marques dos Santos            | Director        | May 2012            | 60         |
| Laura Bedeschi Rego de Mattos          | Alternate       | April 2012          | 37         |
| José Valdir Ribeiro dos Reis           | Director        | April 2012          | 67         |
| Luciana Freitas Rodrigues              | Alternate       | April 2012          | 46         |
| Carlos Fernando Costa                  | Director        | April 2012          | 45         |
| Marcelo Almeida de Souza               | Alternate       | June 2012           | 30         |
| Carlos Augusto Borges                  | Director        | April 2012          | 54         |
| Alcinei Cardoso Rodrigues              | Alternate       | April 2012          | 48         |
| João Carlos de Almeida Gaspar (1)      | Director        | April 2011          | 49         |
| Antonio Cardoso dos Santos (1)         | Alternate       | April 2011          | 63         |

(1) Elected by the preferred shareholders.

We summarize below the business experience, areas of expertise and principal outside business interests of our current directors and their alternates.

**Directors**

*José Augusto da Gama Figueira.* Mr. Figueira has served as our chairman since January 2013. He previously served as an alternate member of our board of directors since April 2011 as a nominee of FATL and was an alternate member of the board of directors of TNL from April 2004 until February 2012. He has served as a director of TmarPart since

April 2008 and an executive officer of TmarPart since June 1999. He was an alternate director of TNL from March 2007 until February 2012, and an alternate director of Telemar from 2002 until February 2012. He previously served as a member of our board of directors from February 2009 until April 2011 and as an alternate member of TNL's board of directors from April 2003 until March 2004. He has also served as president of Instituto Telemar since August 2001. He was an executive officer of Pegasus, a company in the Andrade Gutierrez Group, from July 1997 to August 1999, and a member of the fiscal council of Telecomunicações do Espírito Santo S.A., Telecomunicações do Piauí S.A. and Telecomunicações do Amazonas S.A. from April to December 1999. He holds a bachelor's degree in electrical engineering from the Universidade do Estado do Rio de Janeiro and an MBA from FGV.

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*Zeinal Abedin Mahomed Bava.* Mr. Bava has served as a member of our board of directors since April 2012 as a nominee of Bratel and was a member of the board of directors of TNL from April 2011 until February 2012. Mr. Bava has been chief executive officer of Portugal Telecom since March 2008. He was chief executive officer of PT Multimédia Serviços de Telecomunicações e Multimédia, SGPS, S.A. from May 2003 until September 2007; executive director and Portugal Telecom relationship manager at Merrill Lynch from 1998 until 1999; executive director and Portugal Telecom relationship manager at Deutsche Morgan Grenfell & Co. from 1996 to 1998; and executive officer of Warburg Dillon Read from 1989 to 1996. Mr. Bava has held various board positions throughout his career, including chairman of the board of directors of: PT Prime Soluções Empresariais de Telecomunicações e Sistemas, S.A. from September 2007 until December 2011, PT Ventures, SGPS, S.A. from November 2008 until July 2010, PT Centro Corporativo, S.A. from March 2006 until April 2009, PT Sistemas de Informação, S.A. from September 2007 until April 2009, PT PRO, Serviços Administrativos e de Gestão Partilhados, S.A. from February 2003 until June 2008, Previsão Sociedade Gestora de Fundos de Pensões, S.A. from March 2003 to October 2007, TV Cabo Portugal, S.A. from March 2004 until September 2007, PT Conteúdos Atividade de Televisão e de Produção de Conteúdos, S.A. from until September 2007, Lusomundo Cinemas, S.A. from until September 2007, Lusomundo Audiovisuais, S.A. from until September 2007, PT Televisão por Cabo, SGPS, S.A. from until September 2007, PT Prestações Mandatária de Aquisições de Gestão de Bens, S.A. from March 2004 until 2006; vice-chairman of the board of directors of: PT Multimédia Serviços de Telecomunicações e Multimédia, SGPS, S.A. from November 2002 until September 2007, PT Comunicações, S.A. from January 2004 until December 2005 and PT Ventures, SGPS S.A. from 2000 until 2002; and a member of the board of directors of: Fundação Luso Brasileira from June 2009 until September 2009; Brasilcel, NV from December 2002 until October 2007, Portugal Telecom Investimentos Internacionais, S.A. from April 2004 until April 2006, PT Rede Fixa, SGPS S.A., from March 2006 until June 2009, PT Sistemas de Informação, S.A. from May 2004 until April 2006, PT Corporate Soluções Empresariais de Telecomunicações e Sistemas, S.A. from June 2003 until April 2006, Páginas Amarelas, S.A. from January 2004 until May 2005; PT Compras Serviços de Consultoria e Negociação, S.A. from May 2003 until 2005; CRT Celular Participações, S.A. from 2003 until 2005; Tele Sudeste Participações, S.A. from 2003 until 2005; Tele Leste Participações, S.A. from 2003 until 2005; Tele Centro Oeste Celular Participações, S.A. from 2003 until 2005; Portugal Telecom Brasil, S.A. from July 2002 until March 2004; BEST Banco Eletrônico de Serviço Total, S.A. from May 2001 until October 2004; and Telesp Celular Participações, S.A. from April 2001 until December 2003. Mr. Bava holds a degree in Electrical and Electrotechnical Engineering from University College London.

*Shakhaf Wine.* Mr. Wine has served as a member of our board of directors since April 2012 as a nominee of Bratel and was a member of the board of directors of TNL from April 2011 until February 2012. He has been chief executive officer and chairman of the board of directors of Portugal Telecom Brasil S.A. since September 2010. He has served as chairman of the board of directors of PT Multimédia.com Brasil Ltda., vice-chairman of the board of directors of Brasilcel N.V. and president of the controlling committee of Brasilcel N.V., each since September 2010. Mr. Wine was an investment banking manager responsible for European corporate client relationships in the global communications group at Merrill Lynch International from 1998 until 2003; senior associate in the Latin America and telecommunications groups at Deutsche Morgan Grenfell & Co. from 1993 until 1998; and a foreign exchange trader and dealer for Banco Central do Brasil at Banco Icatu from 1991 to 1993. Previously, he held various board positions, including chairman of the board of directors of: Mobitel S.A. until June 2011; vice-chairman of the board of directors of Vivo Participações S.A. from 2009 until September 2010; and a member of the board of directors of: Universo Online S.A. from 2009 until January 2011, PT Investimentos Internacionais Consultoria Internacional S.A. from 2006 until March 2009, PT Participações SGPS S.A. from March 2008 until March 2009, PT Móveis - Serviços de Telecomunicações SGPS S.A. from May 2006 until March 2009, PT Ventures SGPS S.A. from May 2006 until March 2009, Tele Centro Oeste Celular Participações, S.A. from March 2004 until October 2006, Tele Sudeste Celular Participações, S.A. from March 2004 until February 2006, Tele Leste Participações S.A. July 2005 until February 2006, Celular CRT Participações S.A. from March 2004 until February 2006, Banco1.net S.A., from April 2003 until July 2004 and PT Multimédia.com Participações Ltda., from April 2005 until November 2007. He holds a degree in

economics from Pontifícia Universidade Católica do Rio de Janeiro (PUC-RJ).

*Armando Galhardo Nunes Guerra Jr.* Mr. Guerra has served as a member of our board of directors since April 2012 as a nominee of AG Telecom. During his career, Mr. Guerra has developed various projects in the

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management and restructuring departments of companies such as Brasp rola, Portal Clicon, Cia AIX de Participa es, Andrade Gutierrez, Brasil Ferrovias S.A., Ponteio Lar Shopping and Shopping P er 21. He also serves as a member of the board of directors of Cosipar Cia Sider rgica do Par , Kepler Weber S.A., MASB Desenvolvimento Imobili rio S.A., ESTRE Ambiental S.A. since and Contax Participa es S.A. Previously, Mr. Guerra was chief executive officer of UNIPAR Uni o de Ind strias Petroqu micas S.A.; FEM Projetos, Constru es e Montagens S.A. from and MRS Log stica S.A.; director of the Ministry of Mines and Energy; and a member of the National Council of Privatization, supervising state-owned steel mills, Companhia Vale do Rio Doce and DNPM. He served as a member of the board of directors of Quattor Participa es S.A.; Brasil Ferrovias S.A.; Unipar; Cosipa; CSN; and CST. Mr. Guerra holds a degree in business administration, accounting and economics from Universidade Cat lica de Minas Gerais.

*Sergio Franklin Quintella.* Mr. Quintella has served as a member of our board of directors since April 2012 as a nominee of AG Telecom and was a member of the board of directors of TNL from April 2011 until February 2012. From 1965 until 1991, he was vice-president of Montreal Engenharia S.A. Mr. Quintella has served as a member of the Technical Council of the National Confederation of Trade (*Conselho T cnico da Confedera o Nacional do Com rcio*) since 1990 and as a member of the board of directors of Petrobras since 2009. He was president of the Auditors Tribunal (*Tribunal de Contas*) of the State of Rio de Janeiro from 1993 until 2005, CEO of Companhia do Jar  from 1982 until 1983, chief executive officer of IESA Internacional de Engenharia S.A. from 1979 until 1990, and president of the Brazilian Association of Technical Standards (*Associa o Brasileira de Normas T cnicas*) from 1975 until 1977. Mr. Quintella also served as a member of the boards of directors of the Brazilian National Monetary Council from 1985 until 1990, Refrescos do Brasil S.A. from 1980 until 1985, Caemi Minera o e Metalurgia S.A. from 1979 until 1983, Sulzer S.A. from 1976 until 1979 and the National Bank of Economic and Social Development (*Banco Nacional de Desenvolvimento Econ mico e Social*) from 1975 until 1980. Mr. Quintella has served at several academic institutions, including as a member of the development councils for Pontif cia Universidade Cat lica of Rio de Janeiro since 1978 and Universidade Est cio de S  since 2002 and as vice president of Funda o Get lio Vargas since 2005. He also served as a board member of the National Institute of Advanced Studies (*Conselho Diretor do Instituto Nacional de Altos Estudos*) from 1991 until 2010. Mr. Quintella holds bachelor's degrees in engineering from Universidade Cat lica do Rio de Janeiro, economics from Faculdade de Economia do Rio de Janeiro, economic engineering from Escola Nacional de Engenharia and a MBA from IPSOA in Italy. He also completed the Advanced Management Program at Harvard Business School and an extension course in public finance at Pennsylvania State University Philadelphia.

*Renato Torres de Faria.* Mr. Torres de Faria has served as a member of our board of directors since April 2012 as a nominee of AG Telecom and was a member of the board of directors of TNL from April 2011 until February 2012. He has been financial officer and investor relations officer of Andrade Gutierrez Concess es S.A., or AG Concess es, a company of the Andrade Gutierrez S.A., or AGSA, group that focuses on investments and operations through concessions and participation in companies in the highway, airport, port, energy and sanitation sectors, among others, since May 2002 and an officer of several real estate companies within AGSA, since 2004. From February 2009 until April 2011, Mr. Torres de Faria served as executive superintendent of Fundo AG-Angra, a fund created by AGSA and Angra Partners, which invests in infrastructure in Brazil. He has also served as superintendent officer and member of the board of directors of Domin  Holdings S.A., a business investment vehicle of Companhia de Saneamento do Paran  SANEPAR since February 2000, chief executive officer of Water Port S.A. Engenharia e Saneamento, or Water Port, a water and sewage company hired by CODESP to develop and implement the new water and sewer system on the right margin of the Port of Santos, since March 2004, and member of the board of directors of Concess es Rodovi rias S.A. CCR since March 2002 and Companhia Energ tica de Minas Gerais, or CEMIG, an energy company, since August 2010. Mr. Torres de Faria holds a bachelor's degree in mining engineering and an MBA from Funda o Dom Cabral and Universidade de S o Paulo.

*Rafael Cardoso Cordeiro.* Mr. Cordeiro has served as a member of our board of directors since April 2012 as a nominee of AG Telecom and was an alternate member of the board of directors of TNL from April 2011 until February 2012. He has been finance manager for AG Concessões since June 2002. From May 2005 until April 2011, he worked in the areas of treasury, structured finance, financial institution relations, capital markets, investor relations and economic-financial analysis of new projects at AG Concessões. From May 2004 until April 2005, he was a project engineer at Water Port. Currently, Mr. Cordeiro is a member of the board of directors of Contax Participações S.A. and CTX Participações S.A. He is a member of the Fiscal Council of CEMIG - Companhia Energética de Minas Gerais and a member of the board of directors of Water Port. He holds a bachelor's degree in civil engineering from Universidade Federal de Minas Gerais.



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*Fernando Magalhães Portella.* Mr. Portella has served as a member of our board of directors since April 2012 as a nominee of L.F. Tel and was a member of the board of directors of TNL from May 2008 until February 2012. Previously, he served as the chief executive officer of Organização Jaime Camara from July 2006 until January 2011. He has served as a member of the board of directors of Iguatemi Empresa de Shopping Centers S.A. since January 2007, and he was a member of the advisory council of Intermedica Sistema de Saude S.A. from February 2008 until February 2010. He was the vice-president of Citibank Brasil from 1986 until 1992 and a partner of Gemini Consulting from 1992 until 1996. He was also the CEO of Grupo de Comunicação O Dia and a member of the board of directors of the Associação Nacional de Jornais from 1996 until August 2003. Mr. Portella also served as the president of Associação Brasileira de Marketing e Negócios from 1999 until 2000. He was chief executive officer of Magalhães Portella & Associados from January 2004 to July 2006. Mr. Portella has a bachelor's degree in agronomics engineering from Universidade Estadual Paulista (UNESP) and has an executive MBA from Columbia University. He is also an alumnus of the General Management Program and the Corporate Leader Program at Harvard Business School.

*Alexandre Jereissati Legey.* Mr. Legey has served as a member of our board of directors since April 2012 as a nominee of L.F. Tel and was a member of the board of directors of TNL from May 2008 until February 2012. He has served as an alternate director of TmarPart since April 2011 and a member of the finance committee of Telemar since its inception in 1999. Mr. Legey has been chief financial officer and market relations officer of L.F. Tel S.A., or L.F. Tel, and Jereissati Telecom S.A. since 1998, chief economic-financial officer and market relations officer of Privatinvest Participações S.A. since 2008, and superintendent officer and market relations officer of Allum Participações S.A. since 2008. From January 2007 until January 2008, he was new business director of Iguatemi Empresa de Shopping Center S.A., a shopping center management company, where he identified, evaluated and determined the viability of new shopping centers. Mr. Legey began his career with the Jereissati Group in 1993 and served as its chief financial officer from 1993 until 1996. Currently, he is a member of the board of directors of several holding companies, such as CTX Participações S.A. since 2009, since Privatinvest Participações S.A. since 2008, Alium Participações S.A. since 2008, and Contax Participações S.A. since 2008. Mr. Legey holds a bachelor's degree in chemical engineering from Federal do Rio de Janeiro - UFRJ and an MBA from the Massachusetts Institute of Technology. He is a nephew of our alternate director Carlos Francisco Ribeiro Jereissati and cousin of our director Pedro Jereissati and our alternate directors Carlos Jereissati and Erika Jereissati Zullo.

*Pedro Jereissati.* Mr. Jereissati has served as a member of our board of directors since April 2012 as a nominee of L.F. Tel and was a member of the board of directors of TNL from May 2008 until February 2012. He has served as a member of the board of directors of TmarPart since April 2006 and an officer of Instituto Telemar since April 2004. He served as an alternate director of Telemar from since 2002 to April 2011. Mr. Jereissati has been chief executive officer and investor relations officer of TmarPart since April 2008, executive vice-president of the Jereissati Group since April 2008 and executive officer of L.F. Tel and Jereissati Telecom S.A. since May 2006. From 2005 until April 2008, he was chief financial officer and investor relations officer of Iguatemi Empresa de Shopping Centers S.A. From April 2001 until June 2006, he served as new business director of Jereissati Participações S.A. Mr. Jereissati joined the Jereissati Group in 1995. He has served as a member of the board of directors of the Jereissati Group since 2006, Contax Participações S.A. since April 2006, Iguatemi Empresa de Shopping Centers S.A. since January 2007, CTX Participações S.A. since 2009 and Privatinvest Participações S.A. since 2008. Mr. Jereissati was named to the Brazilian Council for Economic and Social Development by President Luis Inácio Lula da Silva in 2003. Mr. Jereissati holds a degree in business administration from Fundação Armando Álvares Penteado (FAAP) and an MBA from the Kellogg School of Management of Northwestern University. Mr. Jereissati is the son of our alternate director Carlos Francisco Ribeiro Jereissati, brother of our alternate directors Carlos Jereissati and Erika Jereissati Zullo and cousin of our director Alexandre Jereissati Legey.

*Cristiano Yazbek Pereira.* Mr. Pereira has served as a member of our board of directors since April 2012 as a nominee of L.F. Tel and was an alternate member of the board of directors of TNL from April 2010 until February 2012. He has been manager of corporate strategy of L.F. Tel since July 2009 and a member of the Board of Directors of Contax Participações S.A. since 2010. Mr. Pereira worked at Telefônica as strategy, regulatory and commercial manager for small - and medium-sized companies in Latin America from January 2003 to July 2009. Mr. Pereira was a consultant at A.T. Kearney from 2001 to 2002 and Accenture from 2000 to 2001. He holds a

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bachelor's degree in mechanical engineering from Escola Politécnica da Universidade de São Paulo and an Executive MBA from Business School São Paulo (BSP). He has also taken management courses at the Rotman School of Management of the University of Toronto and Escuela Superior de Administración y Dirección de Empresas (ESADE) in Barcelona.

*Fernando Marques dos Santos.* Mr. Santos has served as a member of our board of directors since May 2012 as a nominee of BNDESPar. Since 2012, he has been an executive officer of BNDES, where he is responsible for the human resources, AGIR Project and information technology and processes departments. Prior to being named an executive officer, he served in the office of the president and vice-president of BNDES. Mr. Santos has worked at BNDES since 1983, having served as superintendent of the credit department from 1994 to 2003, manager of the credit department (compliance) from 1989 to 1994 and manager of the projects department from 1983 to 1989. He holds a degree in mechanical engineering from Universidade do Estado do Rio de Janeiro - UERJ.

*José Valdir Ribeiro dos Reis.* Mr. Reis has served as a member of our board of directors since April 2012 as a nominee of PREVI. He has been chief executive officer and chairman of the board of directors of the Economic and Credit Cooperative of the Employees of Federal Financial Institutions (*COOPERFORTE - Cooperativa de Economia e Crédito Mútuo dos Funcionários de Instituições Financeiras Públicas Federais*) since July 1997. He was chief executive officer of PREVI - Caixa de Previdência dos Funcionários do Banco do Brasil, pension fund for employees of Banco do Brasil, from 1993 until 1996. He served as a member of the Board of Directors of Teka S.A. from 2002 until 2003; chairman of the board of directors of Fundação Tupy S.A., from 1996 until 2002; a member of the board of directors of GTD Participações S.A. from 1995 until 1996; chairman of the deliberative council of Fenabb - Federação das AABBs from 2005 until 2008; and vice-president of the Brazilian Confederation of Credit Cooperatives (*Confefrás - Confederação Brasileira das Cooperativas de Crédito*) from 2003 until 2007. Mr. Reis holds a degree in economics from Universidade Federal de Juiz de Fora - Minas Gerais and a post-graduate degree in financial administration from AEUDF/ICAT - Brasília - DF.

*Carlos Fernando Costa.* Mr. Costa has served as a member of our board of directors since April 2012 as a nominee of PETROS and was a member of the board of directors of TNL from April 2011 until February 2012. He has been the chief financial and investment officer for PETROS since January 2011. His prior positions at PETROS include: investment planning advisor from July 2010 to January 2011 and executive manager of market operations from October 2008 to July 2010. From March 2006 to October 2008, Mr. Costa was administrative director of the São Paulo State legislative assembly. From December 2003 to December 2004, he was a financial consultant at FGV. Mr. Costa has served on the board of directors of Investimentos e Participações em Infra-Estrutura S.A. - Invepar, since January 2009 and Log-In Logística since April 2011. He has served as an alternate member of the board of directors of Lupatech S.A. since April 2011. From March 2003 to March 2004, he served as a member of TNL's fiscal council. Mr. Costa holds a bachelor's degree in mathematics from Faculdade de Filosofia, Ciências e Letras de Santo André and post-graduate degrees in financial administration from Universidade Metodista and in business from Unibero.

*Carlos Augusto Borges.* Mr. Borges has served as a member of our board of directors since April 2012 as a nominee of FUNCEF. He has been director of corporate and real estate holdings at FUNCEF since May 2011. He has also been a member of the board of directors of Valepar since June 2011. He served as vice-president of transference of benefits, services and distribution and a member of the board of trustees of FGTS from 2003 until 2007; vice-president of services and distribution of VIGAT from 2003 until 2007; ombudsman for the Central Bank of Brazil and president of its statutory committee for the prevention of money laundering from 2007 until 2011; an alternate member of the Advisory Council of FUNCEF from July 2004 until September 2008; a member of the board of directors of CAIXA Seguradora S.A. from July 2007 until April 2011; a member of the board of directors of Empresa Hidrotérmica S.A. from October 2010 until April 2011; and a member of the board of directors of Sete Brasil from May 2011 until October 2011. Mr. Borges holds a bachelor's degree in accounting from Universidade Federal do Maranhão.

*João Carlos de Almeida Gaspar.* Mr. Gaspar has served as a member of our board of directors since April 2012 as the nominee of our preferred shareholders and was an alternate member of TNL's board of directors from April 2011 until February 2012. He also served as a member of the board of directors of Telemar from April 2008 until February 2012. He worked as an investment manager of a family office from 1998 until 2003, when he founded Unity Capital Gestão de Investimentos. He has worked for the capital markets areas of several companies,

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including Supra Corretora de Valores, Banco Iochpe de Investimentos and Itaú CCVM. He was a member of the boards of directors and audit committees for several telecommunications companies, including Telesc Celular S.A., Telepar Celular S.A., Telemig Celular S.A., Amazônia Celular S.A., Telepará S.A., CRT S.A., Telecomunicações de Goiás S.A. and Telecomunicações de Santa Catarina S.A.-Telesc. Mr. Gaspar also served as director of Animec National Association of Investors Capital Markets Association. He holds a law degree and an MBA from IBMEC.

***Alternate Directors***

*Luís Miguel da Fonseca Pacheco de Melo.* Mr. Melo has served as an alternate member of our board of directors as a nominee of Bratel since April 2012 and was an alternate member of the board of directors of TNL from April 2011 until February 2012. He has been chief financial officer of Portugal Telecom since April 2006 and has served as chairman of the board of directors of various PT companies since 2006: PT Centro Corporativo, S.A.; Portugal Telecom Imobiliária, S.A.; PT PRO, Serviços Administrativos e de Gestão Partilhados, S.A.; PT Prestações Mandatária de Aquisições de Gestão de Bens, S.A.; Previsão Sociedade Gestora de Fundos de Pensões, S.A.; PT Compras Serviços de Consultoria e Negociação, S.A.; PT ACS Associação de Cuidados de Saúde; PT Ventures, SGPS S.A. and CST Companhia Santomense de Telecomunicações, S.A.R.L. Mr. Melo has also been a manager of Africatel Holdings B.V. and Unitel, S.A.R.L. and president of the board of managers of Portugal Telecom Ásia, Ltda. each since 2006. Formerly, Mr. Melo was chairman of the board of directors of various PT companies, including PT PRO, Serviços Administrativos e de Gestão Partilhados, S.A. from May 2008 until March 2009, Previsão Sociedade Gestora de Fundos de Pensões, S.A. from October 2007 until May 2009, PT Contact Telemarketing e Serviços de Informação, S.A. from July 2008 until March 2009, PT-ACS Associação de Cuidados de Saúde from May 2007 until April 2009, and Cabo TV Açoreana, S.A. from December 2004 until October 2007. He has also served as a manager of various PT companies and as Financial Manager of PT Multimédia Serviços de Telecomunicações e Multimedia, SGPS S.A. from June 2002 until April 2006 and TV Cabo Portugal, S.A. from 2002 until 2006. He was also a member of the Board of Directors of Telemig Celular, S.A. from August 2008 until July 2010, Telemig Celular Participações, S.A. from August 2008 until November 2009, Vivo Participações, S.A. from July 2006 until July 2010, and Brasilcel from July 2006 until July 2010. Mr. Melo holds a degree in civil engineering from Instituto Superior Técnico and an MBA from IESE Barcelona.

*Abilio Cesário Lopes Martins.* Mr. Martins has served as an alternate member of our board of directors since April 2012 as a nominee of Bratel. He has been manager of the corporate communications department of Portugal Telecom since 2002. He has also served as chairman of the board of directors of PT Contact and as a member of the board of directors of PT Comunicações since 2007, TMN since 2007, PT Prime since 2007 and PT Brasil PT SGPS since 2000. Mr. Martins was a manager of Brasilcel from 2007 until 2010. Previously, he was a member of the Board of Directors of PT.Com from 2006 until 2008. Mr. Martins holds a degree in political science.

*Paulo Márcio de Oliveira Monteiro.* Mr. Monteiro has served as an alternate member of our board of directors as a nominee of AG Telecom since April 2012. Since March 2003, he has been financial manager of Andrade Gutierrez Concessões S.A., where he has worked since January 2000. Mr. Monteiro has served an alternate member of the board of directors of Companhia Energética de Minas Gerais - CEMIG, a company in the electrical energy generation, transmission and distribution sector, and an alternate member of the board of directors of CCR S.A. each since 2011. Mr. Monteiro holds a degree in civil engineering from Universidade Federal de Minas Gerais, a master's degree in finance from Instituto Tecnológico de Monterrey - ITESM, in Mexico City, an MBA from Universidade de São Paulo USP and a post-graduate degree in business management from Universidade Panamericana - IPADE, in Mexico City.

*Bruno Gonçalves Siqueira.* Mr. Siqueira has served as an alternate member of our board of directors as a nominee of AG Telecom since April 2012. He has been a controlling and accounting analyst at Andrade Gutierrez Concessões S.A. since March 2010, working primarily in the areas of accounting, tax, finance and investor relations. From

September 2007 until May 2010, he was an accounting and controlling analyst at AngloGold Ashanti Brasil Mineração S.A., a multinational corporation in the gold production chain. Mr. Siqueira has served as a member of the fiscal council of Contax Participações S.A. since 2012 and was a member of its board of directors from 2011 until 2012. He holds degrees in economics from Faculdade IBMEC/MG and accounting sciences from Universidade Federal de Minas Gerais and a post-graduate degree in management with a specialization in finance from Fundação Dom Cabral de Belo Horizonte.

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*Carlos Fernando Horta Bretas.* Mr. Bretas has served as an alternate member of our board of directors since April 2012 as a nominee of AG Telecom. He has been project manager in the financial and project development departments at Andrade Gutierrez Concessões S.A. since 1994. From May 1988 until February 1989, Mr. Bretas served as controller engineer of the state of Goiás office of Mendes Junior Edificações S.A., a civil engineering firm, where he also worked as a production engineer of this firm from 1984 until 1988. He was an alternate member of the board of directors of Contax Participações S.A. from 2011 until February 2012. Mr. Bretas holds a degree in civil engineering and a post-graduate degree in economic engineering from Fundação Dom Cabral de Belo Horizonte, an MBA in finance from USP, and an MBA in corporate law from Fundação Getúlio Vargas.

*André Sant Anna Valladares de Andrade.* Mr. Andrade has served as an alternate member of our board of directors since April 2012. Since January 2008, he has worked at Andrade Gutierrez Concessões S.A., where he is currently a project analyst with an emphasis on technical studies for project development, economic-financial analysis, portfolio management and control and company valuations. Mr. Andrade graduated with a degree in production engineering from Universidade Federal de Minas Gerais.

*Carlos Jereissati.* Mr. Jereissati has served as an alternate member of our board of directors since April 2012 as a nominee of L.F. Tel and was an alternate member of the board of directors of TNL from May 2008 until February 2012. He has served as a member of the board of directors of TmarPart since 2008. He has been the chief executive officer of Iguatemi Empresa de Shopping Centers S.A., where he has worked since 1996. Mr. Jereissati is a member of the board of directors of various companies in other sectors, including Jereissati Participações S.A. since 2008, Jereissati Telecom S.A. since 2008 and CTX Participações S.A. since 2009. From 2002 until 2004 and from 2005 until 2006, Mr. Jereissati served as president and vice-president of the Brazilian Association of Shopping Centers (*Associação Brasileira de Shopping Centers S.A.*), of which he is presently a member of the advisory board. Mr. Jereissati has been a member of the Brazil Volunteer Association (*IBRAVO Associação Brasil Voluntário*) since 1995 and the International Council of Shopping Centers (ICSC) since 1994. He was a member of the Brazilian Economic and Social Development Council (*Conselho de Desenvolvimento Econômico e Social*) from 2002 until 2006. In 2007, Mr. Jereissati was named a Young Global Leader by the World Economic Forum. Mr. Jereissati holds a bachelor's in business administration from FGV in São Paulo, and has completed many courses and seminars abroad, including Management for Success at the University of Michigan Business School, the Spring Convention of the International Council of Shopping Centers, and Real Estate Finance and Investment from Euromoney Training. Mr. Jereissati is the son of our alternate director Carlos Francisco Ribeiro Jereissati, brother of our director Pedro Jereissati and our alternate director Erika Jereissati Zullo and cousin of our director Alexandre Jereissati Legey.

*Carlos Francisco Ribeiro Jereissati.* Mr. Jereissati has served as an alternate member of our board of directors since April 2012 as a nominee of L.F. Tel and was an alternate member of the board of directors of TNL from April 2007 until February 2012, having previously served as a member of TNL's board of directors from August 1998 to April 2007, including as chairman from August 1998 to August 2000, from November 2002 to October 2003, and from November 2005 to April 2007. He has also served as a member of the board of directors of TmarPart since 1999, L.F. Tel since April 1999, and chairman of the board of directors of L.F. Tel since July 1999. He has been the chief executive officer of Jereissati Telecom S.A. since April 1984. Since 1970, Mr. Jereissati has served as the chief executive officer of Jereissati Participações S.A., a holding company that controls several companies, including Iguatemi Empresa de Shopping Centers S.A. and Jereissati Telecom S.A. He also served as a member of the board of directors of the BM&FBOVESPA, vice-chairman of the board of directors of Companhia Vidraria Santa Marina (a member of the Saint Gobain Group), president of the executive council of the Brazilian Association of Shopping Centers (*Associação Brasileira de Shopping Centers*), and member of the consultant council of the São Paulo State Union of Real Estate Companies. Mr. Jereissati holds a bachelor's degree in economics from Mackenzie University of São Paulo. Mr. Jereissati is the father of our director Pedro Jereissati and our alternate directors Carlos Jereissati and Erika Jereissati Zullo and uncle of our director Alexandre Jereissati Legey.

*Cristina Anne Betts.* Ms. Betts has served as an alternate member of our board of directors since April 2012 as a nominee of L.F. Tel. She has been vice-president of finance at Iguatemi Empresa de Shopping Centers S.A. since April 2008. She was a member of the board of directors of Contax Participações S.A. from 2009 until 2012. Previously, she worked at Tam Linhas Aéreas S.A., where she was director of the strategic planning and controlling departments and investor relations officer from 2004 until 2008; Bain & Company from 1999 until 2004; Banco Credit Suisse First Boston Garantia from 1995 until 1999; and PriceWaterhouse from 1992 until 1995. Ms. Betts holds a bachelor's degree in business administration from Fundação Getúlio Vargas and an MBA from INSEAD in France.



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*Erika Jereissati Zullo.* Ms. Zullo has served as an alternate member of our board of directors since April 2012 as a nominee of L.F. Tel. She is vice-president for retail at Iguatemi Empresas de Shopping Centers, where she has worked since 1989. She has been an associate of the ICSC – International Council of Shopping Centers since 1994, an associate of the Luxury Marketing Council since June 1996 and an alternate member of the board of directors of Abrasce – Associação Brasileira de Shopping Center S.A. since June 1996. She holds a bachelor’s degree in business administration from Universidade Mackenzie and a post-graduate degree in communication and marketing from ESPM in 1995. Ms. Zullo is the daughter of our alternate director Carlos Francisco Ribeiro Jereissati, sister of our director Pedro Jereissati and our alternate director Carlos Jereissati and cousin of our director Alexandre Jereissati Legey.

*Laura Bedeschi Rego de Mattos.* Mrs. Mattos has served as an alternate member of our board of directors since April 2012 as a nominee of BNDESPar and was an alternate member of the board of directors of TNL from April 2011 until February 2012. She has ten years of experience structuring debt and equity transactions at various institutions in the financial sector (BNDESPar, BNDES and FINEP). Since March 2002, Mrs. Mattos has worked at BNDES, where she has chaired the department that manages equity investments at BNDESPar since December 2010. In this role, Mrs. Mattos is responsible for leading the team that manages BNDESPar’s equity positions in the logistics, mining, steel, pulp and paper, telecommunications, capital goods, information technology and pharmaceutical industries. She also has experience structuring debt and infrastructure project finance transactions. From May 2005 to December 2010, Mrs. Mattos served as manager and chair of the capital markets investment department, where she was responsible for BNDESPar’s equity investments in new companies for the portfolio. Since December 2010, she has served as an alternate member of the board of directors of Valepar S.A., the controlling company of Vale S.A. Since April 2011, she has served as an alternate member of the Board of Directors of América Latina Logística S/A. Since December 2011, she has served as an alternate member of the Board of Directors of Fibria Celulose S/A. Mrs. Mattos holds a bachelor’s degree in chemical engineering from Universidade Federal do Rio de Janeiro, a post-graduate degree in finance from IBMEC – Instituto Brasileiro de Mercados de Capitais – Rio de Janeiro and a master’s degree in energy planning from Instituto Alberto Luiz Coimbra de Pós-graduação e Pesquisa de Engenharia (COPPE) at Universidade Federal do Rio de Janeiro.

*Luciana Freitas Rodrigues.* Ms. Rodrigues has served as an alternate member of our board of directors since April 2012 as a nominee of PREVI. She is core manager at PREVI, where she has worked since 2000. She has been a member of the board of directors of Valepar S.A., the holding company that controls Vale S.A., since April 2011. Previously, she was a member of the board of directors of Termopernambuco S.A. from April 2003 until April 2011; COSERN - Companhia Energética do Rio Grande do Norte from April 2003 until April 2011; ITAPEBI Geração de Energia S.A. from April 2003 until April 2011; and Neoenergia from April 2003 until April 2011. Ms. Rodrigues holds bachelor’s degrees in statistics from Universidade do Estado do Rio de Janeiro (UERJ) and actuarial sciences from Universidade Estácio de Sá, an MBA in finance from IBMEC, an MBA in corporate governance from Fundação Getúlio Vargas and an MBA in complementary social security from IDEAS.

*Marcelo Almeida de Souza.* Mr. Souza has served as an alternate member of our board of directors since June 2012 as a nominee of PETROS. He has been executive manager of the private credit department at PETROS since April 2012. From January 2011 to March 2012, he served as executive officer for investment planning at PETROS. From 2006 to 2008, he served as a manager in the private credit department at PETROS and investment analyst at the Brazilian Association of Financial Institutions (ANDIMA – Associação Nacional das Instituições do Mercado Financeiro). Since 2012, Mr. Souza has served as an alternate member of the board of directors of Invepar – Investimentos e Participações em Infra-Estrutura S.A., where he was a member of the fiscal council from November 2011 to May 2012. Mr. Souza holds a degree in business administration from Universidade Gama Filho and a specialization in finance from Coppead/UFRJ.

*Alcinei Cardoso Rodrigues.* Mr. Rodrigues has served as an alternate member of our board of directors since April 2012 as a nominee of FUNCEF and was an alternate member of the board of directors of TNL from April 2011 until February 2012. Previously, Mr. Rodrigues worked at Petros – Fundação Petrobras de Seguridade Social from June 2003 until November 2011, as executive manager of real estate holdings and executive manager of planning. Mr. Rodrigues served as a member of the board of directors of Investimento em Infraestrutura S.A

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(Invepar) from May 2010 until April 2011 and a member of the board of directors of Lupatech S.A. from May 2009 until April 2011. He holds a bachelor's degree in economic sciences from Pontifícia Universidade Católica de São Paulo (PUC-SP), a master's degree in economics from PUC-SP and a post-graduate degree in complementary social security from Pontifícia Universidade Católica do Rio de Janeiro (PUC-RJ).

*Antonio Cardoso dos Santos.* Mr. Cardoso has served as an alternate member of our board of directors since April 2012 as the nominee of our preferred shareholders and was an alternate member of TNL's board of directors from April 2011 until February 2012. He is an alternate member of the board of directors of Telemar. He previously served as a member of board of directors as a nominee of our preferred shareholders since March 2008. He was a member of the board of directors of Telemig Celular S.A. from 2004 until 2007, a member of the board of directors of Amazônia Celular from 2004 to 2007, a member of the board of directors of Telecomunicações do Pará S.A. from 2001 until 2002 and a member of the board of directors of Telecomunicações de Santa Catarina S.A. during 1999. Mr. Cardoso has also served as a member of the fiscal council of Telecomunicações do Piauí S.A. from 2001 until 2002 and CRT from 1999 until 2000. Mr. Cardoso received a bachelor's degree in business administration from São Paulo Superior School of Business Administration and holds a *Latu Sensu* Graduate degree in Business Management from Associação de Ensino Unificado do Distrito Federal (AEUDF).

**Executive Officers**

Our board of executive officers is our executive management body. Our executive officers are our legal representatives and are responsible for our internal organization and day-to-day operations and the implementation of the general policies and guidelines established from time to time by our board of directors.

Our by-laws require that the board of executive officers consist of between two and ten members, including a chief executive officer and a chief financial officer. Our by-laws provide that our chief executive officer may not serve as chairman of our board of directors. Each officer is responsible for business areas that our board of directors assigns to them. The members of our board of executive officers, other than our chief executive officer and our chief financial officer, have no formal titles (other than the title of executive officer or *Diretor* ).

The members of our board of executive officers are elected by our board of directors for two-year terms and are eligible for reelection. The current term of all of our executive officers ends on the date of our first board of directors meeting following our annual shareholders' meeting in 2015. Our board of directors may remove any executive officer from office at any time with or without cause. According to the Brazilian Corporation Law, executive officers must be residents of Brazil but need not be shareholders of our company. Our board of executive officers holds meetings when called by our chief executive officer or any two other members of our board of executive officers.

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The following table sets forth certain information with respect to the current members of our board of executive officers.

| <i>Name</i>                          | <i>Position</i>         | <i>Date Elected/ Appointed</i> | <i>Age</i> |
|--------------------------------------|-------------------------|--------------------------------|------------|
| José Mauro Mettrau Carneiro da Cunha | Chief Executive Officer | January 2013                   | 63         |
| Alex Waldemar Zornig                 | Chief Financial Officer | January 2009                   | 54         |
| Francis James Leahy Meaney           | Executive Officer       | February 2011                  | 48         |
| Tarso Rebello Dias                   | Executive Officer       | May 2011                       | 41         |
| Pedro dos Santos Ripper              | Executive Officer       | April 2012                     | 39         |
| Júlio Cesar Fonseca                  | Executive Officer       | April 2012                     | 53         |
| Eurico De Jesus Teles Neto           | Executive Officer       | April 2012                     | 56         |
| João de Deus Pinheiro de Macêdo      | Executive Officer       | April 2012                     | 64         |
| Bayard de Paoli Gontijo              | Executive Officer       | April 2012                     | 41         |

Summarized below is information regarding the business experience, areas of expertise and principal outside business interests of our current executive officers.

*José Mauro Mettrau Carneiro da Cunha.* Mr. Cunha has served as our chief executive officer since January 2013. He previously served as chairman of our board of directors from February 2009 until January 2013, as a nominee of FATL, and was chairman of the board of directors of TNL from April 2007 until February 2012. Mr. Cunha has also been an alternate director of TmarPart since April 2008. He was a member of the board of directors of Telemar from April 1999 to May 2012. He has also served on the board of directors of Santo Antonio Energia S.A. since April 2008 and Vale S.A. since April 2010. Mr. Cunha was an executive officer of Lupatech S.A. from April 2006 to April 2012, where he served as a member of the board of directors from April 2006 to April 2012. He has also held several executive positions at BNDES, and was a member of its board of executive officers from 1991 to 2002. He was the vice president of strategic planning of Braskem S.A. from February 2003 to October 2005, and business consultant from November 2005 to February 2007. Mr. Cunha was a member of the board of directors of Log-In Logística Intermodal from April 2007 to March 2011, Braskem S.A. from July 2007 to April 2010, Banco do Estado do Espírito Santo S.A. (Banestes) from April 2008 to April 2009, Light Serviços de Eletricidade S.A. from December 1997 to July 2000, Aracruz Celulose S.A. from June 1997 to July 2002, FUNTTEL from December 2000 to January 2002, FUNCEX - Fundação Centro de Estudos do Comércio Exterior from June 1997 to January 2002, and Politeno Indústria e Comércio S.A. from April 2003 to April 2004. Mr. Cunha holds a bachelor's degree in mechanical engineering from Universidade Católica de Petrópolis in Rio de Janeiro and a master's degree in industrial and transportation projects from Instituto Alberto Luiz Coimbra de Pós-Graduação (COPPE) at Universidade Federal do Rio de Janeiro. He attended the Executive Program in Management at the Anderson School at the University of California in Los Angeles.

*Alex Waldemar Zornig.* Mr. Zornig has served as our chief financial officer and investor relations officer since January 2009. Mr. Zornig served as the chief financial officer and investor relations officer of TNL and Telemar from November 2008 through February 2012. He began his career at PriceWaterhouse where he worked for 14 years (including three years in London) and last served in the capacity of an officer. He served as chief financial officer head of corporate administrative services at BankBoston, where he worked for 13 years (including two years in Boston). He served as an officer at Banco Itaú from May 1993 to August 2007. Prior to joining our company, Mr. Zornig was an executive vice president at Banco Safra, where he was in charge of all support areas of the bank from September 2007 to November 2008. Mr. Zornig holds a bachelor's degree in accounting from the Universidade de São Paulo, an MBA from FGV and a post-graduate degree from the London Business School.

*Francis James Leahy Meaney.* Mr. Meaney has served one of our executive officers since February 2011 and served as a one of directors from April 2011 to April 2012. He also served as an executive officer at TNL from February 2011 through February 2012. Mr. Meaney founded Contax and served as its chief executive officer from its incorporation in 2000 until 2010. He has served in several organizations of the contact center industry, including as vice president of the Brazilian Association of Contact Center Companies ABT from November 2005 until

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January 2011. Previously he served as the vice-president of Global Crossing Latin America, in Miami, from 1999 to 2000, managing director of Conectel, the largest paging company in Brazil from 1997 to 1999, and administrative consultant for several customer service companies in Latin America from 1990 to 1997. He started his career at Credit Suisse First Boston in New York, where he has worked from 1986 to 1988. Mr. Meaney has a bachelor's degree in economics from Notre Dame University and a master's in Business Administration from Harvard Business School. He also completed the Advanced Management Program at INSEAD.

*Tarso Rebello Dias.* Mr. Rebello Dias has served as one of our executive officers since May 2011. From February 2004 through February 2012, Mr. Rebelo Dias was treasury director of TNL, where he previously served as manager of financial operations from February 2000 to February 2004. From January 1998 to February 2000, he was coordinator of financial operations at Globo Comunicações e Participações (GLOBOPAR). From March 1995 to January 1998, Mr. Rebelo Dias was a financial analyst of commodities derivatives at Companhia Vale do Rio Doce in Rio de Janeiro. He holds a degree in economic sciences from Universidade Federal do Rio de Janeiro and an MBA from Fundação Dom Cabral/Telemar Brasil.

*Pedro dos Santos Ripper.* Mr. Ripper has served as one of our executive officers since April 2012. In 2008, he became responsible for the management of Corporate Strategy and New Business at Oi, and in 2009 he began to work with the Company's Board of Technology and Information, which is responsible for the Company's corporate strategy development and involves Cable TV services, content distribution, internet and means of mobile payment. Previously, he served as general director at IP Promon, where he eventually became CEO. He has also worked in Europe as a director of Diamond Cluster, a consulting firm specializing in telecommunications, and as an entrepreneur in the United States, where he co-founded a software company. He returned to Brazil in 2000, and in 2002 he assumed the position of sales representative at Cisco, where, in 2003, he became leader of the Telecommunications Strategy segment for South America. In 2006 he became CEO of Cisco in Brazil. Mr. Ripper holds a degree in Computer Engineering from PUC-RJ and a master's degree by PUC-RJ. Additionally, he completed the Advanced Management Program at Harvard Business School.

*Júlio Cesar Fonseca.* Mr. Fonseca has served one of our executive officers since April 2012, and previously served as a member of our board of directors from July 2011 to April 2012 and as an alternate member of our board of directors from April 2011 to July 2011. He has also served as People Management Director at Oi since December 2009. He was an executive officer of TNL from August 2010 through February 2012. He has 28 years of experience working in the human resources areas of large Brazilian and multinational companies, directly managing people and teams, with broad expertise in change management processes, especially in the context of mergers, acquisitions, privatizations and professionalizing family-run companies. He served as human resources manager at Ferrovia Centro Atlântica S.A., from April 1997 to December 1999, and at Companhia de Materiais Sulfurosos Matsulfur S.A., from May 1995 until April 1997. Mr. Fonseca holds a bachelor's degree in Psychology from PUC-MG, an Executive MBA from the Dom Cabral Foundation in Minas Gerais, and completed the Advanced Management Program in Corporate Management from INSEAD, France.

*Eurico de Jesus Teles Neto.* Mr. Neto served as member of our board of directors from 2009 to 2011 and as an alternate member of our board of directors until April 2012. Since April 2012, he has served as one of our executive officers. He previously served as member of the board of directors of Coari from 2009 until February 2012 and has been a member of the board of directors of Telemar Norte Leste since 2009. He was the legal officer of TNL from April 2007 through February 2012 and the legal manager of Telemar from April 2005 until April 2007. He previously served as manager of the real estate division at Telebahia, where he went on to hold the position of legal consultant in 1990. Mr. Neto holds a bachelor's degree in legal sciences and law from Universidade Católica de Salvador and holds a master's degree in Employment Law from Universidade Estácio de Sá.

*João de Deus Pinheiro de Macêdo.* Mr. Macêdo has served one of our executive officers since April 2012, and previously served as the vice chairman of our board of directors from February 2009 to April 2012 and was the planning officer of TNL prior to the corporate reorganization in February 2012. Mr. Macêdo served as business officer of Telemar Matriz from August 1998 to April 2000, and from May 2000 to September 2001 he served as individual client officer at the Rio de Janeiro branch. From 1985 to 1998, he served as the operations officer at Telecomunicações da Bahia S.A., or Telebahia, and was responsible for customer service, sales, operations and plant maintenance. In 1971, he started his career at Telebahia as supervisor of implementation and maintenance. At Telebahia, he managed the equipment division, the department of capital operations and the department of

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marketing and services. Mr. Macêdo holds a bachelor's degree in electric and electronic engineering from Universidade Federal da Bahia (UFBA). He attended a course in Transmission Systems (NEC Corp. and OKI Electric Industry Co., Ltd. Japan), Digital Switching (Nippon Telegraph & Telephone Corp. Japan) and Quality Management (Japan).

*Bayard de Paoli Gontijo.* Mr. Gontijo has served as one of our executive officers since April 2012. Mr. Gontijo started working at Oi as Treasury Manager in 2003 and currently holds the position of Director of Treasury and Investor Relations. Mr. Bayard has over 19 years' experience in the financial market and, since 1993, works with large companies and banks such as Banco Bamerindus do Brasil S.A., HSBC Bank Brasil S.A., and NET Serviços de Comunicações S.A. Mr. Gontijo holds a degree in Business Administration and holds an MBA from Coppead / UFRJ.

## **Fiscal Council**

The Brazilian Corporation Law requires us to establish a permanent or non-permanent fiscal council (*conselho fiscal*). Our by-laws provide for a permanent fiscal council composed of between three and five members and their respective alternate members. The fiscal council is a separate corporate body independent of our board of directors, our board of executive officers and our independent accountants. The primary responsibility of the fiscal council is to review our management's activities and our financial statements and to report their findings to our shareholders.

The members of our fiscal council are elected by our shareholders at the annual shareholders' meeting for one-year terms and are eligible for reelection. The terms of the members of our fiscal council expire at the next annual shareholders' meeting. Under the Brazilian Corporation Law, the fiscal council may not contain members who are members of our board of directors or our board of executive officers, spouses or relatives of any member of our board of directors or our board of executive officers, or our employees. To be eligible to serve on our fiscal council, a person must be a resident of Brazil and either be a university graduate or have been a company officer or fiscal council member of another Brazilian company for at least three years prior to election to our fiscal council. Holders of preferred shares without voting rights and non-controlling common shareholders that together hold at least 10.0% of our voting share capital are each entitled to elect one member and his or her respective alternate to the fiscal council.

The following table sets forth certain information with respect to the current members of our fiscal council and their alternates.

| <b>Name</b>                            | <b>Position</b> | <b>Member</b> |            |
|--|-----------------|---------------|------------|
|  |                 | <b>Since</b>  | <b>Age</b> |
| Allan Kardec de Melo Ferreira          | Chairman        | February 2009 | 66         |
| Newton Brandão Ferraz Ramos            | Alternate       | April 2012    | 43         |
| Sidnei Nunes                           | Member          | March 2013    | 53         |
| Aparecido Carlos Correia Galdino       | Alternate       | March 2013    | 61         |
| Umberto Conti                          | Member          | March 2013    | 38         |
| Carmela Carloni Gaspar                 | Alternate       | March 2013    | 30         |
| Marcos Duarte dos Santos (1)           | Member          | April 2010    | 43         |
| Peter Edward Cortes Marsden Wilson (1) | Alternate       | April 2012    | 38         |
| Manuel Jeremias Leite Caldas (2)       | Member          | March 2013    | 57         |
| Vanessa Montes de Moraes (2)           | Alternate       | March 2013    | 31         |



- (1) Elected by the preferred shareholders.
- (2) Elected by the minority shareholders.

We summarize below the business experience, areas of expertise and principal outside business interests of the current members of our fiscal council and their alternates.

**Table of Contents*****Fiscal Council Members***

*Allan Kardec de Melo Ferreira.* Mr. Ferreira has served as chairman of our fiscal council since February 2009. He has also served as an alternate member of the fiscal council of TmarPart since April 2006 and a member of the fiscal council of TNL from April 2002 through February 2012. From 1971 to 1993, he was an in-house counsel with Construtora Andrade Gutierrez. His current activities include management consultancy services to a number of companies in the civil, commercial and tax areas, participation in corporate restructuring processes (mergers, spin-offs, disposals, sale of assets) of the telecommunications companies of the Andrade Gutierrez Group and in several bidding processes conducted by the Minas Gerais Roads Department (*Departamento de Estrada de Rodagem de Minas Gerais*), the Belo Horizonte Traffic Department (*Empresa de Transporte e Trânsito de Belo Horizonte*), the Ministry of Communications, the National Road Department (*Departamento Nacional de Estradas de Rodagem*) and ANATEL. He holds a degree in law from Pontifícia Universidade Católica de Minas Gerais, in addition to having participated in several extension courses in foreign trade, in particular export services, at Fundação Centro de Comércio Exterior, FDC, Foreign Trade Ministry, and Construtora Andrade Gutierrez.

*Sidnei Nunes.* Mr. Nunes has served as a member of our fiscal council since March 2013. He served as an alternate member of our fiscal council from April 2012 to March 2013 and as a member of our fiscal council from April 2011 to April 2012. He served as an alternate member of the fiscal council of TNL from April 2007 through February 2012, an alternate member of the fiscal council of TmarPart since April 2008 and an alternate member of the fiscal council of Telemar from April 2007 through February 2012. He served as an alternate member of our fiscal council from February 2009 to April 2011. He has been managing officer of Jereissati Participações S.A. since April 2008, chief financial officer of Jereissati Telecom S.A. since April 2008 and managing officer of L.F. Tel since April 2006. Mr. Nunes has served as a member of the boards of directors of Iguatemi Empresa de Shopping Centers S.A. since April 2006, L.F. Tel since April 2006, and Grande Moinho Cearense S.A. since April 2005. Mr. Nunes is a financial officer and controller of several companies of the Jereissati Group since September 1995. Mr. Nunes holds bachelor's degrees in business administration and accounting from the Faculdade de Administração Paulo Eiró and an MBA from the University of São Paulo.

*Umberto Conti.* Mr. Conti has served as a member of our fiscal council since March 2013. Since October 2010, he has been the new business development coordinator at FUNCEF, where he previously served as special consultant to the president from November 2006 to October 2010. From September 1999 to November 2006, Mr. Conti was an economist at Caixa Econômica Federal. He has also served as a member of the investment committees of the Brazilian private equity investment funds FIP CRP VII since March 2010 and FIP Terra Viva since January 2009. He holds bachelor's degrees in data processing technology from Universidade Mackenzie and geography from Universidade de São Paulo and a graduate degree in finance from IBMEC.

*Marcos Duarte dos Santos.* Mr. Duarte has served as a member of our fiscal council as a nominee of our preferred shareholders since April 2010. He served as a member of the fiscal council of Telemar from April 2007 through February 2012. Mr. Duarte was a vice president and fixed income trader at CSFB – Garantia from 1997 to 1998, a vice president for Bankers Trust Company in New York from 1996 to 1997, and a vice president for Bankers Trust Company in Rio de Janeiro from 1994 to 1996. He served as a member of the fiscal councils of Tele Norte Celular S.A., Tele Ceará S.A. and Tele Espírito Santo S.A. from 2001 to 2002. He holds a bachelor's degree in production engineering from the Universidade Federal do Rio de Janeiro.

*Manuel Jeremias Leite Caldas.* Mr. Caldas has served as a member of our fiscal council as a nominee of our minority shareholders since March 2013. He has been a consultant at Alto Capital Gestão de Recursos since 2007. Previously, he was manager of the technical department of Banco PEBB S.A. from 1996 to 2006, research manager at Banco Gulfinvest S.A. from 1994 to 1995, manager of the economics department at Banco Nacional S.A. from 1991 to 1994,

financial analyst at Banco Bozano Simonsen S.A. from 1990 to 1991, engineer at Light Serviços de Eletricidade S.A. from 1989 to 1990 and engineer at Usina Itaipu in 1981. Mr. Caldas has served as a member of the board of directors of Eletropaulo Metropolitana Eletricidade de São Paulo S.A. since April 2012, an alternate member of the board of directors of Contax Participações S.A since 2012 and São Carlos Empreendimentos e Participações S.A. since 2011 and a member of the fiscal council of Centrais Elétricas Brasileiras S.A. Eletrobras since 2012. He also served as a member of the fiscal council of Companhia Energética do Rio Grande do Norte (Cosern) from 2009 to 2011. Mr. Caldas holds a bachelors degree in electrical engineering from Instituto Militar de Engenharia IME and a master s degree and a doctorate in economics from FGV.

**Table of Contents*****Alternate Fiscal Council Members***

*Newton Brandão Ferraz Ramos.* Mr. Ramos has served as an alternate member of our fiscal council since April 2012. He has been the controller at Andrade Gutierrez Concessões S.A. since July 1998. Mr. Ramos has served as a member of the fiscal council of Cia. de Saneamento do Paraná - SANEPAR since 2006, Cia. de Concessões Rodoviárias - CCR S.A. since 2005 and Dominó Holdings S.A. since 2008. He has also served as an alternate member of the board of directors of CEMIG - Companhia Energética de Minas Gerais S.A. since 2010. Mr. Ramos holds a degree in accounting sciences from Pontifícia Universidade Católica de Minas Gerais, a graduate degree in business administration from Universidade FUMEC and an MBA in finance from Fundação Dom Cabral.

*Aparecido Carlos Correia Galdino.* Mr. Galdino has served as an alternate member of our fiscal council since March 2013. He previously served as a member of our fiscal council, from February 2011 to March 2013. He has also served as a member of the fiscal council of TmarPart since April 2008. Mr. Galdino was an alternate member of the fiscal council of TNL from April 2009 through February 2012. He joined the Jereissati Group in 1971 and has been managing officer and investor relations officer of Jereissati Participações S.A. since April 1990. He has served as the chief financial officer of La Fonte Participações S.A. since April 1990, and has been a member of the board of directors of L.F. Tel S.A. since February 2008, Iguatemi Empresa de Shopping Centers S.A. since July 2008 and Jereissati Telecom S.A. since April 1991. He has served as a member of the fiscal council of Contax Participações S.A. since April 2008, as a member of the fiscal council of Tele Norte Celular Participações S.A. from May 2008 to present and as a member of the fiscal council of Amazônia Celular S.A. from May 2008 to March 2009. Mr. Galdino holds a bachelor's degree in business administration from Faculdades Integradas Princesa Isabel.

*Carmela Carloni Gaspar.* Ms. Gaspar has served as an alternate member of our fiscal council since March 2013. She has been an analyst at FUNCEF since December 2012. She was a products analyst at BANCOOB - Banco Cooperativo do Brasil S.A. from June 2012 to November 2012 and projects manager at R8 Consultoria Empresarial Ltda. from December 2009 to June 2012. From December 2006 to December 2009, she held various positions at Oi, including junior analyst in the controlling department from December 2006 to March 2008, senior analyst in the planning and marketing department from March 2008 to February 2009 and senior analyst in the Region II offers department from February 2009 to December 2009. Ms. Gaspar began her professional career as a business analyst at Spectrum Latino América S.A. /Value Partners. Ms. Gaspar holds a bachelor's degree in economic sciences from Universidade de Brasília and an MBA in projects from FGV.

*Peter Edward Cortes Marsden Wilson.* Mr. Wilson has served as an alternate member of our fiscal council since April 2012. He has been a partner at Managrow Consultoria Estratégica em Finanças Ltda. since 2007. From 2004 to 2007, he was an equity manager at PHI Capital Management; from 2001 to 2004, he was adjunct manager of investments at Grupo Ourinvest; and from 1993 to 1998, he was responsible for the middle and back offices of Banque Nationale de Paris, Latin America Investment Banking Group, where he was also an equity and fixed income fund trader. Mr. Wilson holds a degree in public administration, an MBA in finance and a master's degree in economics from FGV.

*Vanessa Montes de Moraes.* Ms. Moraes has served as an alternate member of our fiscal council since March 2013. She has been a partner at Argucia Capital Management Ltda. since February 2006, where she is responsible for the compliance, risk and products department. From August 2003 to December 2005, she was an analyst and variable income manager at Mellon Global Investments Brasil S/C Ltda.; from April 2003 to August 2003, she worked in the treasury department of Souza Cruz S.A.; and from January 2002 to October 2002, she was a research assistant at FGV. Ms. Moraes served as a member of the fiscal council of Contax Participações S.A. from 2010 to 2011 and an alternate member of Companhia Energética do Rio Grande do Norte (Cosern) from 2009 to 2011. Ms. Moraes holds a bachelor's degree and a master's degree in economics from IBMEC, and graduate degrees in corporate law from FGV and IBMEC.



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**Compensation**

According to our by-laws, our shareholders are responsible for establishing the aggregate compensation we pay to the members of our board of directors and our board of executive officers, as well as the individual compensation we pay to members of our fiscal council. Our shareholders determine this compensation at the annual shareholders meeting. Once aggregate compensation is established, our board of directors is responsible for distributing such aggregate compensation individually to the members of our board of directors and our board of executive officers in compliance with our by-laws.

The aggregate compensation paid by us to all members of our board of directors, board of executive officers and our fiscal council for services in all capacities was R\$17.2 million in 2012. This amount includes pension, retirement or similar benefits for our officers and directors.

On March 21, 2013, our shareholders (acting at the annual shareholders meeting) established the following compensation for the year 2013:

*board of directors:* an aggregate limit of R\$6,765,293;

*board of executive officers:* an aggregate limit of R\$48,789,371, not including possible amounts paid as benefits, representation allowance or profit sharing; and

*fiscal council:* an aggregate limit of R\$468,641.

We compensate our alternate directors for each meeting of our board of directors that they attend. We compensate alternate members of our fiscal council for each meeting of our fiscal council that they attend.

Our executive officers receive the same benefits generally provided to our employees, such as medical (including dental) assistance, private pension plan and meal vouchers. Like our employees, our executive officers also receive an annual bonus equal to one-month's salary (known as the thirteenth (monthly) salary in Brazil), an additional one-third of one-month's salary for vacation, and contributions of 8.0% of their salary into a defined contribution pension fund known as the Guarantee Fund for Time of Service (*Fundo de Garantia por Tempo de Serviço*). Members of our board of directors and fiscal council are not entitled to these benefits.

Members of our board of directors, board of executive officers and fiscal council are not parties to contracts providing for benefits upon the termination of employment other than, in the case of executive officers, the benefits described above.

Our Human Resources and Compensation Committee, or the Compensation Committee, is an advisory committee to our board of directors. It meets quarterly but may hold additional meeting if necessary. According to its charter, the Compensation Committee is responsible for: (1) reviewing, recommending and monitoring talent and human resources training and management strategies; (2) assisting our board of directors with large-scale changes to our organizational structure at the first and second organizational levels below the Chief Financial Officer; (3) analyzing our global compensation strategy, including fixed and variable compensation and benefits and stock options programs, and recommending bonus guidelines; (4) preparing an assessment of the Chief Financial Officer and reviewing the evaluations of our senior executives for submission to our board of directors; and (5) reviewing and recommending an

employee performance evaluation system, among other things.

The Compensation Committee is composed of three to eight members, including members of our board of directors, who are elected by our board of directors. The current membership of the Compensation Committee includes members of our board of directors (José Mauro Mettrau Carneiro da Cunha, Armando Galhardo Nunes Guerra Junior and Shakhaf Wine), alternate members of our board of directors (Carlos Jereissati, Laura Bedeschi Rego de Mattos, and Alcinei Cardoso Rodrigues), and other individuals (Fábio de Oliveira Moser and Mônica Ferreira Dias). All of the members of the Compensation Committee have been elected to terms that expire at the annual general shareholders meeting to be held in 2013.

**Table of Contents****Share Ownership**

As of April 25, 2013, the number of our common and preferred shares held by the members of our board of directors and board of executive officers, supervisory or management bodies, including outstanding stock options, do not exceed 1% of either class of our outstanding shares.

**Employees**

As of December 31, 2012, we had a total of 36,739 employees. All of our employees are employed on a full-time basis, divided into the following functions: network operations, sales and marketing, information technology, call center operations, support areas and authorized agents.

The table below sets forth a breakdown of our employees by main category of activity and geographic location as of the dates indicated:

|   | <b>As of December 31,</b> |               |               |
|---|---------------------------|---------------|---------------|
|   | <b>2012</b>               | <b>2011</b>   | <b>2010</b>   |
| <b>Number of employees by category of activity:</b>       |                           |               |               |
| Plant operation, maintenance, expansion and modernization | 9,286                     | 1,806         | 1,467         |
| Sales and marketing                                       | 5,421                     | 820           | 818           |
| Call center operations                                    | 16,994                    | 15,405        | 14,500        |
| Support areas   | 4,778                     | 1,998         | 1,177         |
| Authorized agents   | 260                       | 84            | 96            |
| <b>Total</b>  | <b>36,739</b>             | <b>20,113</b> | <b>18,058</b> |

**Number of employees by geographic location:**

|                   |       |       |       |
|-------------------|-------|-------|-------|
| Goiás             | 9,564 | 7,476 | 8,005 |
| Paraná            | 4,359 | 3,443 | 4,223 |
| Federal District  | 699   | 613   | 560   |
| Santa Catarina    | 319   | 367   | 916   |
| Mato Gross do Sul | 3,725 | 3,294 | 2,285 |
| Rio Grande do Sul | 721   | 526   | 443   |
| São Paulo         | 2,046 | 954   | 578   |
| Mato Grosso       | 192   | 232   | 126   |
| Rondônia          | 68    | 104   | 73    |
| Maranhão          | 158   | 190   | 1     |
| Roraima           | 34    | 5     |       |
| Pará              | 296   | 180   | 11    |
| Tocantins         | 40    | 234   | 33    |
| Alagoas           | 57    | 16    | 2     |
| Amazonas          | 219   | 43    | 3     |
| Paraíba           | 116   | 11    |       |
| Pernambuco        | 442   | 24    | 1     |
| Piauí             | 71    | 39    | 1     |



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|  |               |               |               |
|--|---------------|---------------|---------------|
| Rio Grande do Norte                            | 97            | 9             | 1             |
| Acre   | 22            | 34            | 20            |
| Rio de Janeiro                                 | 10,924        | 1,835         | 634           |
| Minas Gerais                                   | 1,243         | 150           | 49            |
| Ceará  | 412           | 57            | 14            |
| Amapá  | 34            | 1             |               |
| Bahia  | 589           | 179           | 18            |
| Sergipe  | 73            | 10            | 3             |
| Espírito Santo                                 | 145           | 18            | 6             |
| United States, Bermuda, Venezuela and Colombia | 74            | 69            | 52            |
| <b>Total</b>                                   | <b>36,739</b> | <b>20,113</b> | <b>18,058</b> |

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We negotiate separate collective bargaining agreements with the local unions in each of the states in Regions I, II and Region III for our company and each of our subsidiaries operating in such states. New collective bargaining agreements with these unions are negotiated every year. We maintain good relations with each of the unions representing our employees. As of December 31, 2012, approximately 33.7% of the employees of our company were members of state labor unions associated either with the National Federation of Telecommunications Workers (*Federação Nacional dos Trabalhadores em Telecomunicações*), or Fenattel, or with the Interstate Federation of Telecommunications Workers (*Federação Interestadual dos Trabalhadores em Telecomunicações*), or Fittel. We have never experienced a strike that had a material effect on our operations.

### ***Employee Benefits***

#### *Pension Benefit Plans*

##### *Sistel*

Fundação Sistel de Seguridade Social, or Sistel, is a not-for-profit private pension fund created by Telebrás in November 1977 to supplement the benefits provided by the federal government to employees of the former Telebrás System. The following are pension plans managed by Sistel.

##### PBS-A Plan

Since the privatization of Telebrás, the Sistel Benefits Plan (*Plano de Benefícios da Sistel Assistidos*), or PBS-A plan, a defined benefit plan, has been sponsored by the fixed-line telecommunications companies that resulted from the privatization of Telebrás, including our company and TNL. The PBS-A plan is self-funded and has been closed to new members since January 2000. Contributions to the PBS-A plan are contingent on the determination of an accumulated deficit and we are jointly and severally liable, along with other fixed-line telecommunications companies, for 100% of any insufficiency in payments owed to members of the PBS-A plan. As of December 31, 2012, the PBS-A plan had a surplus of R\$2.4 billion and we were not required to make contributions to the PBS-A plan in 2012, 2011 or 2010.

##### PBS-TNCP Plan

Since the privatization of Telebrás, our subsidiary Tele Norte Celular Participações S.A., or TNCP, has sponsored the Sistel Benefits Plan TNCP (*Plano de Benefícios da Sistel TNCP*), or PBS-TNCP plan. The PBS-TNCP plan has been closed to new members since April 2004. Contributions to the PBS-TNCP plan are contingent on the determination of an accumulated deficit. As a result of the corporate reorganization and TNL's earlier acquisition of control of TNCP, we are liable for 100% of any insufficiency in payments owed to members of the PBS-TNCP plan. As of December 31, 2012, the PBS-TNCP plan had a surplus of R\$24 million and we made contributions to the PBS-TNCP plan of less than R\$1 million in 2012, 2011 and 2010.

##### CELPREV Plan

In March 2004, Amazônia Celular S.A., or Amazônia, a subsidiary of TNCP, began sponsoring the CelPrev Amazônia, or CELPREV, plan, a defined contribution plan managed by Sistel. The CELPREV plan was offered to employees of Amazônia who did not participate in the PBS-TNCP plan, as well as to its new employees. Participants in the PBS-TNCP plan were encouraged to migrate to the CELPREV plan. Approximately 27.3% of Amazônia's active employees that were participants in the PBS-TNCP plan migrated to the CELPREV plan. As of December 31, 2012, the CELPREV plan had a surplus of approximately R\$1 million and we were not required to make contributions

to the CELPREV plan in 2012, 2011 or 2010.

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**Table of Contents****PAMA Plan and PCE Plan**

Since the privatization of Telebrás, the Medical Assistance Plan to the Retired (*Plano de Assistência Médica ao Aposentado*), or PAMA, a health-care plan managed by Sistel, has been sponsored by the fixed-line telecommunications companies that resulted from the privatization of Telebrás, including our company. The PAMA plan is defined contribution plan and has been closed to new members since February 2000, other than new beneficiaries of current members and employees that are covered by the PBS-A plan who have not yet elected to join the PAMA plan.

In December 2003, we and the other telecommunications companies that resulted from the privatization of Telebrás began sponsoring the PCE Special Coverage Plan, or the PCE plan, a defined contribution plan health-care plan managed by Sistel. The PCE plan is open to employees that are covered by PAMA plan. From March to July 2004, December 2005 to April 2006 and June to November 2008, we and TNL offered incentives to our employees to migrate from the PAMA plan to the PCE plan. As of December 31, 2012, the PAMA plan had a deficit and we were required to make contributions to the PAMA plan of less than R\$1 million in 2012, 2011 or 2010.

**FATL**

Fundação Atlântico de Seguridade Social, or FATL, is a not-for-profit, independent private pension fund that manages pension plans for the employees of its plans sponsors.

**TCSPREV Plan**

In December 1999, we and the other companies that participate in the plans managed by Sistel agreed to withdraw the active participants in these plans and each company agreed to establish its own separate new plan for these participants. In February 2000, we began sponsoring the TCSPREV Plan, a private defined contribution pension plan and settled benefit plan offered to our employees that participated in the PBS-A plan and new employees who were employed by our company after the privatization of the Telebrás System. Approximately 80% of our active employees that were participants in the PBS-A plan migrated to the TCSPREV plan. In March 2005, Fundação 14 de Previdência Privada, or Fundação 14, a private not-for-profit pension fund created by Brasil Telecom Holding in 2004 to manage the TCSPREV plan, began managing the TCSPREV plan. In January 2010, FATL began managing the TCSPREV plan.

The TCSPREV plan offers three categories of benefits to its members: (1) risk benefits, which are funded according to the defined benefit method; (2) programmable benefits, which are funded according to the defined contribution method; and (3) proportional paid benefits, applicable to those employees who migrated to a defined contribution method with their rights reserved as contributors to the defined benefit system. This plan was closed to new participants in March 2003; however, we resumed offering programmable benefits under this plan to new employees beginning in March 2005. We are liable for any deficits incurred by the TCSPREV plan according to the existing proportion of the contributions we make to this plan. As of December 31, 2012, the TCSPREV plan had a surplus of R\$971 million and we were not required to make contributions to the TCSPREV plan in 2012, 2011 or 2010.

**BrTPREV Plan**

In 2000, as a result of our acquisition of CRT, we assumed liability for retirement benefits to CRT's employees by means of the creation of the Fundador/Alternativo plan, a defined benefit plan, which is managed by Fundação BrTPREV, a private not-for-profit pension fund created by CRT in 1971 to manage the CRT plans. This plan has been closed to new members since October 2002.

In October 2002, we began sponsoring the BrTPREV plan, a private defined contribution pension plan and settled benefit plan offered to our employees that participated in the Fundador/Alternativo plan and new employees of our company. Approximately 96% of our active employees that were participants in the Fundador/Alternativo plan migrated to the BrTPREV plan. This plan was offered to our new employees from March 2003 to February 2005, when it was closed to new participants. In March 2005, Fundação BrTPREV began managing these plans. In

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January 2010, FATL began managing the Fundador/Alternativo plan and the BrTPREV plan. In July 2012, the Fundador/Alternativo plan was merged into the BrTPREV plan, and participants and beneficiaries of the Fundador/Alternativo plan automatically became members of the BrTPREV plan.

The BrTPREV plan offers three categories of benefits to its members: (1) risk benefits, which are funded according to the defined benefit method; (2) programmable benefits, which are funded according to the defined contribution method; (3) proportional paid benefits, applicable to those employees who migrated to a defined contribution method with their rights reserved as contributors to the defined benefit system. We are liable for any deficits incurred by the BrTPREV plan according to the existing proportion of the contributions we make to this plan. As of December 31, 2012, the BrTPREV plan had a deficit of R\$580 million, which is being amortized through 2022. Since February 2003, we have been making additional monthly contributions to the Fundador/Alternativo plan and the BrTPREV plan to reduce these deficits. During 2010, 2011 and 2012, we contributed R\$99 million, R\$91 million and R\$95 million, respectively, to the BrTPREV plan and the Fundador/Alternativo plan to reduce these deficits.

**PBS Telemar Plan**

In September 2000, Telemar began sponsoring the PBS-Telemar plan, a private defined benefit plan offered to Telemar's employees. In February 2005, FATL began managing the PBS Telemar plan. As a result of the corporate reorganization, we have assumed Telemar's obligations under the PBS-Telemar plan.

The PBS-Telemar plan has the same characteristics as the PBS-A plan. The PBS-Telemar plan was closed to new participants in September 2000. We are responsible for any deficits incurred by the PBS-Telemar plan according to the existing proportion of the contributions we make to this plan and those made by participants. As of December 31, 2012, the PBS-Telemar plan had a surplus of R\$46 million and we were not required to make contributions to the PBS-Telemar plan in 2012, 2011 or 2010.

**TelemarPrev Plan**

In September 2000, Telemar began sponsoring the TelemarPrev plan, a private defined contribution pension plan and settled benefit plan offered to Telemar's employees that participated in the PBS-Telemar plan and new employees who were employed by Telemar after the privatization of the Telebrás System. Approximately 96% of Telemar's active employees that were participants in the PBS-Telemar plan migrated to the TelemarPrev plan. In February 2005, FATL began managing the TelemarPrev plan. As a result of the corporate reorganization, we have assumed Telemar's obligations under the TelemarPrev plan.

The TelemarPrev plan offers two categories of benefits to its members: (1) risk benefits, which are funded according to the defined benefit method; and (2) programmable benefits, which are funded according to the defined contribution method. We are liable for any deficits incurred by the TelemarPrev plan according to the proportion of the contributions we make to this plan. As of December 31, 2012, the TelemarPrev plan had a surplus of R\$260 million and we were not required to make contributions to the TelemarPrev plan in 2012, 2011 or 2010.

For more information on our pension benefit plans, see note 26 to our consolidated financial statements.

***Medical, Dental and Employee Assistance Benefits***

We provide our employees with medical and dental assistance, pharmacy and prescription drug assistance, group life insurance and meal, food and transportation assistance. We and our employees cover the costs of these benefits on a shared basis. In 2012, we contributed R\$60 million to the medical and dental assistance plans, R\$6 million to the

occupational medicine plans, R\$82 million for the Worker's Food Program (*Programa de Alimentação do Trabalhador*), or PAT, and R\$7 million to the other benefits programs.

We sponsor and manage health care benefits for some retirees and pensioners that are members of the TCSPREV plan under the PAMEC-BrT plan, a defined benefit plan. The contributions for the PAMEC-BrT plan were fully paid in July 1998, through a single payment. In November 2007, the assets and liabilities of PAMEC-BrT were transferred from Fundação 14 to us and we began managing the plan. As a result of the transfer, we do not recognize assets to cover current expenses and we fully recognize the actuarial obligations as liabilities.

**Table of Contents***Profit Sharing Plans*

Our collective bargaining agreements with several labor unions require us to pay bonuses to employees who reach certain operational targets. As of December 31, 2012, we had provisioned R\$423 million to be distributed in bonuses with respect to 2012.

We also have implemented a profit sharing plan as an incentive for employees to pursue our goals and to align employees' interests with those of our shareholders. Profit sharing occurs if economic value-added targets and other targets defined annually by our board of directors are achieved.

*Education and Training*

We contribute to the professional qualification of our employees by offering training for the development of organizational and technical skills. We offered approximately 312,000 hours of training in 2012. In 2012, we invested approximately R\$22 million in the qualification and training of our employees.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****Major Shareholders**

Oi has two outstanding classes of share capital: common shares and preferred shares with no par value. Generally, only Oi's common shares have voting rights. Oi's preferred shares have voting rights only in exceptional circumstances.

As of April 25, 2013, we had 599,008,629 issued common shares and 1,198,077,775 issued preferred shares, including 84,250,695 common shares and 72,808,066 preferred shares held in treasury.

As of April 25, 2013, we had approximately 2,104,466 million shareholders, including 234 U.S. resident holders of our common shares and approximately 265 U.S. resident holders of our preferred shares (including The Bank of New York Mellon, as depository under our American Depositary Receipt, or ADR, facilities). As of April 25, 2013, there were 57,000,262 common shares (including common shares represented by ADSs) and 252,518,462 preferred shares (including preferred shares represented by ADSs) held by U.S. resident holders.

The following table sets forth information concerning the ownership of our common shares and preferred shares as of April 25, 2013, by each person whom we know to be the owner of more than 5% of our outstanding common shares, and by all of our directors and executive officers as a group. Except for the shareholders listed below, we are not aware of any other of our shareholders holding more than 5% of any class of our share capital. Our principal shareholders have the same voting rights with respect to each class of our shares that they own as other holders of shares of that class.

| Name                             | Common Shares    |      | Preferred Shares |      | Total            |      |
|----------------------------------|------------------|------|------------------|------|------------------|------|
|                                  | Number of Shares | %    | Number of Shares | %    | Number of Shares | %    |
| Telemar Participações S.A.(1)    | 290,549,788      | 56.4 |                  | 0.0  | 290,549,788      | 17.7 |
| Bratel Brasil S.A.(2)            | 326,917,780      | 64.0 | 218,668,046      | 19.4 | 545,585,826      | 33.3 |
| AG Telecom Participações S.A.(3) | 290,549,788      | 56.4 | 74,516,904       | 6.6  | 365,066,692      | 22.3 |



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|  |             |      |            |     |             |      |
|--|-------------|------|------------|-----|-------------|------|
| LF Tel S.A.(4)   | 290,549,788 | 56.4 | 74,516,473 | 6.6 | 365,066,261 | 22.3 |
| All directors, fiscal council members, their alternates and executive officers as a group (50 persons) | 80,799      | *    | 320,897    | *   | 401,696     | *    |

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- (1) Represents 249,734,835 common shares held directly by TmarPart and 40,814,953 common shares held by Valverde Participações S.A., a wholly-owned subsidiary of TmarPart.
- (2) Represents 36,367,992 common shares and 218,668,046 preferred shares held directly by Bratel Brasil S.A., and 290,549,788 common shares held by TmarPart. Bratel Brasil S.A. is one of the shareholders of TmarPart. Bratel Brasil S.A. disclaims beneficial ownership of the shares of our company owned by TmarPart, other than with respect to its proportionate interest in these shares.
- (3) Represents 74,516,904 preferred shares held directly by AG Telecom Participações S.A., and 290,549,788 common shares held by TmarPart. AG Telecom Participações S.A. disclaims beneficial ownership of the shares of our company owned by TmarPart, other than with respect to its proportionate interest in these shares.
- (4) Represents 74,516,473 preferred shares held directly by L.F. Tel S.A., and 290,549,788 common shares held by TmarPart. L.F. Tel S.A. disclaims beneficial ownership of the shares of our company owned by TmarPart, other than with respect to its proportionate interest in these shares.

\* less than 1%

***Changes in Share Ownership***

On February 27, 2012, the shareholders of TNL, Telemar, Coari and Brasil Telecom approved the corporate reorganization, including:

the Coari merger, in which:

each issued and then outstanding share of Brasil Telecom held by Coari and all Coari shares held in treasury were cancelled;

each issued and then outstanding common share of Coari was converted automatically into 5.1149 common shares of Brasil Telecom;

each issued and then outstanding preferred share of Coari was converted automatically into 0.3904 common shares of Brasil Telecom and 4.0034 preferred shares of Brasil Telecom;

Coari ceased to exist; and

Telemar became a wholly-owned subsidiary of Brasil Telecom; and

The TNL merger, in which:

each TNL share held in treasury prior to the TNL merger was cancelled, and each issued and then outstanding share of Brasil Telecom held by TNL was cancelled, other than 24,647,867 common

shares of Brasil Telecom, which were transferred to the treasury of Brasil Telecom;

each issued and then outstanding common share of TNL (other than common shares held by shareholders who exercised their withdrawal rights with respect to such common shares) was converted automatically into 2.3122 common shares of Brasil Telecom;

each issued and then outstanding preferred share of TNL was converted automatically into 0.1879 common shares of Brasil Telecom and 1.9262 preferred shares of Brasil Telecom; and

TNL ceased to exist.

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As a result of the corporate reorganization, as of April 25, 2013, TmarPart directly and indirectly owned 17.7% of the total outstanding share capital of Oi, including 56.4% of its outstanding voting share capital.

***TmarPart***

TmarPart has two outstanding classes of share capital: common shares and preferred shares with no par value. Generally, only TmarPart's common shares have voting rights. TmarPart's preferred shares have voting rights only in exceptional circumstances.

Certain of TmarPart's shareholders are parties to shareholders' agreements that address, among other matters, (1) voting rights at TmarPart shareholders' meetings, and (2) rights of first refusal and preemptive rights for disposal and purchase. See TmarPart Shareholders' Agreements.

On April 25, 2008, TmarPart announced that its shareholders had agreed to a restructuring of their holdings of TmarPart. In July 2009, Fiago Participações S.A., or Fiago, one of the shareholders of TmarPart, distributed the shares of TmarPart that it held to PREVI, PETROS, FUNCEF and FATL. On June 17, 2010, BNDESPar conducted an auction of a portion of its common shares of TmarPart over the BM&FBOVESPA, and FUNCEF and PETROS each exercised its respective pre-emptive rights with respect to the sale of these shares. The transfer of these shares from BNDESPar to FUNCEF and PETROS was settled on November 18, 2010.

On March 28, 2011:

Bratel purchased an aggregate of 261,631,051 common shares of Tmar Part, representing 9.6% of the outstanding common shares of TmarPart, from BNDESPar, PREVI, PETROS and FUNCEF; and

TmarPart conducted a capital increase in which it issued 186,664,449 common shares, in which (1) Bratel purchased an aggregate of 91,225,537 common shares of Tmar Part, representing 3.1% of the outstanding common shares of TmarPart, (2) AG Telecom and its subsidiary Luxemburgo Participações S.A., or Luxemburgo, which merged into AG Telecom in December 2011, purchased an aggregate of 36,784,481 common shares of Tmar Part, representing 1.3% of the outstanding common shares of TmarPart, (3) LF Tel purchased an aggregate of 36,784,491 common shares of Tmar Part, representing 1.9% of the outstanding common shares of TmarPart, and (4) FATL purchased an aggregate of 21,869,930 common shares of Tmar Part, representing 0.7% of the outstanding common shares of TmarPart.

The following table sets forth information concerning the ownership of the common shares and preferred shares of TmarPart following the completion of the sale of these shares.

| Name                         | Common Shares    |      | Preferred Shares |       | Total            |      |
|------------------------------|------------------|------|------------------|-------|------------------|------|
|                              | Number of Shares | %    | Number of Shares | %     | Number of Shares | %    |
| L.F. Tel S.A.                | 565,880,376      | 19.4 |                  |       | 565,880,376      | 19.3 |
| AG Telecom Participações S.A | 565,880,376      | 19.4 |                  |       | 565,880,376      | 19.3 |
| BNDES Participações S.A      | 381,551,843      | 13.1 | 733,336          | 100.0 | 382,285,179      | 13.1 |

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|   |             |      |             |      |
|---|-------------|------|-------------|------|
| Bratel Brasil S.A   | 352,856,590 | 12.1 | 352,856,590 | 12.1 |
| Fundação Atlântico de Seguridade Social                           | 336,439,735 | 11.5 | 336,439,735 | 11.5 |
| PREVI Caixa de Previdência dos<br>Funcionários do Banco do Brasil | 283,380,453 | 9.7  | 283,380,453 | 9.7  |
| FUNCEF Fundação dos Economiários<br>Federais                      | 218,777,747 | 7.5  | 218,777,747 | 7.5  |
| PETROS Fundação Petrobras de Seguridade<br>Social                 | 218,777,747 | 7.5  | 218,777,747 | 7.5  |

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The following is a brief description of the principal shareholders of TmarPart:

**L.F. Tel S.A.** is a subsidiary of Jereissati Telecom S.A., a holding company that is part of the Jereissati Group. The Jereissati Group partially owns and manages fourteen shopping malls in the Southern and Southeastern regions of Brazil. In 1997, the Jereissati Group made its first investment in the telecommunications sector by acquiring a small stake in the Band B telephone mobile operators Americel S.A. and Telet, which it sold in 2001. L.F. Tel has then been investing in telecommunications in Brazil through TNL and its subsidiaries.

**AG Telecom Participações S.A.** is a subsidiary of Andrade Gutierrez S.A. responsible for managing the telecommunications business of the Andrade Gutierrez Group. This Group is focused on three core businesses: (1) engineering and construction work in Brazil and abroad; (2) public concessions in Brazil; and (3) telecommunications in Brazil.

**BNDES Participações S.A.**, or BNDESPar, is a subsidiary of BNDES that offers long-term financing to Brazilian companies to contribute to the country's development. BNDESPar is dedicated to strengthening the capital structure of private companies in Brazil and developing the capital markets in Brazil in a manner that is consistent with the operational priorities and policies established by BNDES. See [Related Party Transactions](#) [BNDES Facilities](#).

**Bratel Brasil** is an indirect wholly-owned subsidiary of Portugal Telecom. Portugal Telecom is a telecommunications services provider with operations mainly in Portugal, Brazil and other countries, primarily in sub-Saharan Africa, which offers (1) wireline services, which include IP TV, DTH satellite and fiber-to-the-home, or FTTH, pay television services, internet access (broadband ADSL and FTTH), fixed line telephone services for residential and nonresidential customers, leased lines, unbundled local loop access and wholesale line rental, interconnection, data and business solutions, portal and e-commerce services, (2) mobile telecommunications services, such as voice, data and internet-related services in primarily in Portugal, Brazil, Angola and Namibia, (3) fixed-mobile and IT-telecoms convergent service, and (4) sales of telecommunications equipment.

**Fundação Atlântico de Seguridade Social** is a private supplementary pension entity that TNL incorporated in August 2004, and which manages private pension plans for the benefit of the employees of TNL and its subsidiaries.

**PREVI Caixa de Previdência dos Funcionários do Banco do Brasil**, or PREVI, is a private pension entity that manages pension plans for the benefit of the employees of the Bank of Brazil and PREVI's employees.

**FUNCEF Fundação dos Economiários Federais**, or FUNCEF, is a private pension entity that manages pension plans for the benefit of the employees of *Caixa Econômica Federal*, a Brazilian Federal Economic Bank.

**PETROS Fundação Petrobras de Seguridade Social** is a private supplementary pension entity established by Petróleo Brasileiro S.A., whose objective is to establish, administer and manage the benefit plans of various entities with whom it has entered into advisory agreements.

### ***TmarPart Shareholders Agreements***

On April 25, 2008, TmarPart's shareholders entered into two shareholders' agreements. We refer to the shareholders agreement among AG Telecom, L.F. Tel, Asseca Participações S.A., or Asseca, BNDESPar, Fiago, and FATL as parties, with TmarPart, PREVI, PETROS, FUNCEF and Andrade Gutierrez Investimentos em Telecomunicações S.A., as intervening parties, as the Global Shareholders' Agreement. We refer to the shareholders' agreement among AG Telecom, L.F. Tel, Asseca and FATL as parties, with TmarPart and Andrade Gutierrez Investimentos em Telecomunicações S.A., as intervening parties, as the Control Group Shareholders' Agreement.

On June 20, 2008, the 352,730,590 common shares of TmarPart owned by Asseca were distributed to L.F. Tel and Luxemburgo, with each receiving 176,365,295 common shares of TmarPart. As a result, Asseca is no longer a shareholder of TmarPart and has no rights under the Global Shareholders Agreement or the Control Group Shareholders Agreement.

In July 2009, Fiago distributed the shares of TmarPart that it held to PREVI, PETROS, FUNCEF and FATL. As a result of this distribution, Fiago is no longer a shareholder of TmarPart and has no rights under the Global

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Shareholders Agreement. Following this distribution, PREVI holds sufficient voting share capital of TmarPart to designate one member of the board of directors of each of the controlled subsidiaries and his or her alternate, as described below.

On January 25, 2011, TmarPart's shareholders amended the Global Shareholders Agreement and the Control Group Shareholders Agreement to reflect Bratel's acquisition of voting shares of TmarPart and to increase the quorum requirements to hold pre-meetings and approve certain designated matters. The amendment to the Global Shareholders Agreement was entered into among AG Telecom, Luxemburgo, BNDESPar, PREVI, FATL, FUNCEF, PETROS, L.F. Tel and Bratel, as parties, with TmarPart and Portugal Telecom SGPS, as intervening parties. The amendment to the Control Group Shareholders Agreement was entered into among AG Telecom, Luxemburgo, L.F. Tel and FATL, as parties, with TmarPart, as intervening party.

*Global Shareholders Agreement*

The initial term of the Global Shareholders Agreement expires on the later of April 25, 2048 and the expiration date of the last to expire of the concessions or authorizations held by TmarPart or its subsidiaries. The term of the Global Shareholders Agreement may be extended for successive periods of 10 years with the consent of each of the parties thereto.

The parties to the Global Shareholders Agreement have agreed to the following provisions with respect to elections of members of the boards of directors and executive officers, and the voting of their shares, of Oi and each of Oi's subsidiaries that have annual net operating revenue equal to or greater than R\$100 million, which we refer to as the controlled subsidiaries:

AG Telecom, L.F. Tel, and FATL will together have the right to designate a majority of the members of the board of directors of each of the controlled subsidiaries;

each increment of 7% of the voting share capital of TmarPart held by each of AG Telecom, L.F. Tel and FATL will entitle that party to designate one member of the board of directors of each of the controlled subsidiaries and his or her alternate;

so long as it holds at least 7% of the voting share capital of TmarPart, Bratel will be entitled to designate two members of the board of directors of TNL and their alternates, among the directors and executive officers of Bratel;

each increment of 7% of the voting share capital of TmarPart held by each of BNDESPar, PREVI, PETROS and FUNCEF will entitle that party to designate (1) one member of the board of directors of TNL and his or her alternate, and (2) one member of the board of directors of each of the controlled subsidiaries and his or her alternate;

PREVI, PETROS and FUNCEF will be entitled to aggregate their shares with BNDESPar to determine their eligibility to exercise the rights described above;



AG Telecom, L.F. Tel, BNDESPar, Bratel, FATL, PREVI, PETROS, and FUNCEF will together, through rules outlined in the Global Shareholders Agreement, select the chief executive officers of each of the controlled subsidiaries;

the chief executive officer of TNL will select the other executive officers of TNL;

the chief executive officer of TNL in conjunction with the chief executive officer of each of the other controlled subsidiaries will select the other executive officers of that controlled subsidiary;

BNDESPar, PREVI, PETROS, and FUNCEF collectively have the right to designate one member to the Fiscal Council of each of the controlled subsidiaries; and

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AG Telecom, L.F. Tel, BNDESPar, Bratel, FATL, PREVI, FUNCEF and PETROS will hold pre-meetings prior to meetings of shareholders and of the boards of directors of the controlled subsidiaries and will vote their TmarPart shares and instruct their representatives on the these boards of directors to vote in accordance with the decisions made at the pre-meetings.

Under the Global Shareholders Agreement, each of the parties has agreed:

not to enter into other shareholders agreements with respect to its TmarPart shares, other than (1) the Global Shareholders Agreement, (2) the Control Group Shareholders Agreement and (3) the shareholders agreement entered into between Bratel and Andrade Gutierrez Telecomunicações Ltda., or AGT, and Jereissati Telecom S.A.;

not to amend the Global Shareholders Agreement, the Control Group Shareholders Agreement or the shareholders agreement entered into between Bratel and AGT and Jereissati Telecom S.A. without the consent of all parties to the Global Shareholders Agreement;

not to grant any liens on any of its TmarPart shares;

to grant a right of first refusal and tag along rights to the other parties to the Global Shareholders Agreement with respect to any sale of its TmarPart shares, except that FATL must grant the right of first refusal for its TmarPart shares to AG Telecom and L.F. Tel;

that the other parties to the Global Shareholders Agreement have the right to sell, and Bratel has the obligation to buy, up to all of the other parties shares of TmarPart in the event that Bratel acquires control of TmarPart;

to offer its TmarPart shares to the other parties to the Global Shareholders Agreement in the event of a transfer of control of such shareholder;

that AG Telecom or L.F. Tel, as the case may be, must offer its TmarPart shares to the other parties to the Global Shareholders Agreement in the event that Bratel acquires control of AG Telecom or L.F. Tel; and

that the other shareholders have the right to purchase all of Bratel s TmarPart shares in the event of a change of control of Portugal Telecom.

*Control Group Shareholders Agreement*

The initial term of the Control Group Shareholders Agreement expires on April 25, 2048 and may be extended for successive periods of 10 years with the consent of each of the parties thereto.

Under the Control Group Shareholders Agreement, each of the parties has agreed:

to hold pre-meetings prior to the pre-meetings to be held pursuant to the Global Shareholders Agreement and to vote their TmarPart shares in accordance with the decisions made at such pre-meetings;

that any TmarPart shares sold by a party to the Control Group Shareholders Agreement to any other party to this agreement will remain subject to this agreement; and

that if a party to the Control Group Shareholders Agreement sells all or part of its TmarPart shares to another party or to a third party, the purchaser(s) and the selling party, as the case may be, will be considered one voting block for the purposes of the Control Group Shareholders Agreement (even if the purchaser(s) is/are already a party to the agreement) and that such voting block will hold pre-meetings prior to the meetings of the parties to the Control Group Shareholders Agreement.

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***Pasa Participações S.A. and EDSP75 Participações S.A. Shareholders Agreements***

On January 25, 2011, (1) Jereissati Telecom S.A., or Jereissati Telecom, entered into a shareholders agreement with Bratel Brasil S.A., or Bratel, in relation to EDSP75 Participações S.A., or EDSP 75, with EDSP75, LF Tel, Pasa Participações S.A., or Pasa, AGT, AG Telecom Participações S.A., or AG Telecom, and Portugal Telecom as intervening parties, or the EDSP75 Shareholders Agreement, and (2) AGT entered into a shareholders agreement with Bratel in relation to Pasa, with Pasa, AG Telecom and Portugal Telecom as intervening parties, or the Pasa Shareholders Agreement. The initial terms of these shareholders agreements expire on April 25, 2048 but may be extended for successive periods of 10 years with the consent of each of the parties.

These shareholders agreements are intended to coordinate the corporate governance of Pasa and EDSP75 and streamline the decision-making process among Jereissati Telecom, AGT and Portugal Telecom in connection with TmarPart. These shareholders agreements provide that, among other things:

pre-meetings are to be held between the shareholders to decide in advance the matters to be analyzed during pre-meetings to be held under the Global Shareholders Agreement and the Control Group Shareholders Agreement; and

approval of certain matters are subject supermajority vote of the shareholders, including:

approval of, and amendments to, the annual budget of Pasa, EDSP75, AG Telecom and LF Tel, which are subject to an 83% majority vote;

the entering by Pasa, EDSP75, AG Telecom or LF Tel into any loan agreements in excess of R\$50 million, or the entering into any agreement imposing a pecuniary obligation on Pasa, EDSP75, AG Telecom or LF Tel in excess of R\$50 million, or the granting of any guarantees by Pasa, EDSP75, AG Telecom or LF Tel in excess of R\$50 million, which are subject to a 90% majority vote; and

any amendments to the Global Shareholders Agreement or the issuance of preferred shares by Pasa, EDSP75, AG Telecom or LF Tel, the approval of any decision subject to supermajority vote under the Global Shareholders Agreement (defined as a material decision under the Pasa Shareholders Agreement and the EDSP75 Shareholders Agreement), among other matters, which are subject to the unanimous vote of the shareholders.

These shareholders agreements also contemplate:

rights of first offer to the shareholders with respect to the transfer of the shares issued by Pasa and EDSP75;

tag-along rights for the benefit of Portugal Telecom in case of the sale of Pasa and EDSP75 shares by AGT or Jereissati Telecom, as the case may be;

a general restriction on the sale of the shares issued by Pasa and EDSP75 by AGT or Jereissati Telecom, as the case may be, to competitors of Portugal Telecom; and

a general right to PREVI, PETROS, FUNCEF and BNDESPAR, while they remain shareholders of TmarPart, or to any third parties which may acquire the shares held by these companies in TmarPart, to substitute AGT or Jereissati Telecom in the exercise of their preemptive rights under the Pasa Shareholders Agreement and the EDSP75 Shareholders Agreement Portugal Telecom or one of its subsidiaries sells its shares in Pasa and/or EDSP75.

**Related Party Transactions**

The following summarizes the material transactions that we and TNL have engaged in with our principal shareholders and their affiliates since January 1, 2012.

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We are a party to two shareholder s agreements with the controlling shareholders of our company. See Major Shareholders TmarPart Shareholders Agreements.

Under the Brazilian Corporation Law, each of our directors, their alternates and our executive officers cannot vote on any matter in which they have a conflict of interest and such transactions can only be approved on reasonable and fair terms and conditions that are no more favorable than the terms and conditions prevailing in the market or offered by third parties. However, if one of our directors is absent from a meeting of our board of directors, that director s alternate may vote even if that director has a conflict of interest, unless the alternate director shares that conflict of interest or has another conflict of interest.

***Corporate Reorganization***

On February 27, 2012, the shareholders of TNL, Telemar, Coari and Brasil Telecom approved the corporate reorganization, including the split-off and share exchange, the Coari merger and the TNL merger. As a result of these transactions, the number of our issued and outstanding shares has increased by 395,585,453 common shares and 798,480,405 preferred shares. For a description of the corporate reorganization, see Item 4. Information on the Company Our History and Development Corporate Reorganization of TNL, Telemar and Our Company.

***BNDES Facilities***

For a description of our credit facilities with BNDES, see Item 5. Operating and Financial Review and Prospects Indebtedness and Financing Strategy Long-Term Indebtedness. For other information about these agreements, see note 19 to our consolidated financial statements.

***Transactions with AIX***

Companhia AIX de Participações S.A., in which we own 50% of the outstanding share capital, renders services to us relating to the rental of ducts for transmission of traffic originated outside our local network in Region I. In 2012, our total consolidated expenses for services rendered by AIX amounted to R\$14 million.

***Transactions with Contax***

On November 30, 2004, Telemar and TNL PCS entered into a call center services agreement with Contax, a call center business owned principally by the controlling shareholders of TmarPart, according to which Contax renders call center services to TNL PCS on a fully outsourced basis. Telemar and TNL PCS agreed to pay an estimated amount of R\$550 million per year, subject to adjustment based on services actually rendered at the request of Telemar and TNL PCS. Contax currently provides a variety of services to Telemar and TNL PCS, including customer services for our fixed-line business in Regions I and III, outbound telemarketing to attract additional mobile customers, customer support for pre-paid and post-paid mobile telephone users, technical support for ADSL subscribers and debt collection services. In 2012, our total consolidated expenses for services rendered by Contax amounted to R\$1,280 million.

**ITEM 8. FINANCIAL INFORMATION**

**Consolidated Statements and Other Financial Information**

Reference is made to Item 19 for a list of all financial statements filed as part of this annual report.

## **Legal Proceedings**

### ***General***

We are a party to certain legal proceedings arising in the normal course of business, including civil, administrative, tax, social security, labor, government and arbitration proceedings. We classify our risk of loss in legal proceedings as remote, possible or probable, and we only record provisions for reasonably estimable

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probable losses, as determined by our management. As of December 31, 2012, the total estimated amount in controversy for those proceedings in respect of which the risk of loss was deemed probable or possible totaled approximately R\$25,724 million, and we had established provisions of R\$6,421 million relating to these proceedings. Our provisions for legal contingencies are subject to monthly monetary adjustments. For a detailed description of our provisions for contingencies, see note 23 to our consolidated financial statements.

In certain instances, we are required to make judicial deposits or post financial guarantees with the applicable judicial bodies. As of December 31, 2012, we had made judicial deposits in the aggregate amount of R\$11,791 million and obtained financial guarantees from third parties in the aggregate amount of R\$12,217 million. During 2012, we paid fees in the aggregate amount of R\$84 million to the financial institutions from which we had obtained these guarantees, and as of December 31, 2012, we had pledged 20,817,294 common shares of Telemar, representing 8.58% of its outstanding share capital, as security for one of these financial guarantees.

***Tax Proceedings***

As of December 31, 2012, the total estimated contingency in connection with tax proceedings against us in respect of which the risk of loss was deemed probable or possible totaled R\$18,025 million and we had recorded provisions of R\$765 million relating to these proceedings.

The Brazilian corporate tax system is complex, and we are currently involved in tax proceedings regarding, and have filed claims to avoid payment of, certain taxes that we believe are unconstitutional. These tax contingencies, which relate primarily to value-added tax, service tax and taxes on revenue, are described in detail in note 23 to our consolidated financial statements. We record provisions for probable losses in connection with these claims based on an analysis of potential results, assuming a combination of litigation and settlement strategies. We currently do not believe that the proceedings that we consider as probable losses, if decided against us, will have a material adverse effect on our financial position. It is possible, however, that our future results of operations could be materially affected by changes in our assumptions and the effectiveness of our strategies with respect to these proceedings.

***Value-Added State Taxes (ICMS)***

Under the regulations governing the ICMS, in effect in all Brazilian states, telecommunications companies must pay ICMS on every transaction involving the sale of telecommunication services they provide. We may record ICMS credits for each of our purchases of operational assets. The ICMS regulations allow us to apply the credits we have recorded for the purchase of operational assets to reduce the ICMS amounts we must pay when we sell our services.

We have received various tax assessments challenging the amount of tax credits that we recorded to offset the ICMS amounts we owed. Most of the tax assessments are based on two main issues: (1) whether ICMS is due on those services subject to the Local Service Tax (*Imposto Sobre Serviços de Qualquer Natureza*), or ISS; and (2) whether some of the assets we have purchased are related to the telecommunication services provided, and, therefore, eligible for an ICMS tax credit. A small part of the assessments that are considered to have a probable risk of loss are related to: (1) whether certain revenues are subject to ICMS tax or ISS tax; (2) offset and usage of tax credits on the purchase of goods and other materials, including those necessary to maintain the network; and (3) assessments related to non-compliance with certain ancillary (non-monetary) obligations.

As of December 31, 2012, we deemed the risk of loss as possible with respect to approximately R\$5,755 million of these assessments and had not recorded any provisions in respect of these assessments. As of that date, we had recorded provisions in the amount of R\$448 million for those assessments in respect of which we deemed the risk of loss as probable.



*Local Service Tax (ISS)*

We have received various tax assessments claiming that we owe ISS taxes on supplementary services. We have challenged these assessments on the basis that ISS taxes should not be applied to supplementary services (such as, among others things, equipment leasing and technical and administrative services) provided by telecommunication service providers, because these services do not clearly fit into the definition of telecommunication services.

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As of December 31, 2012, we deemed the risk of loss as possible with respect to approximately R\$1,787 million of these assessments and had not recorded any provisions in respect of these assessments. As of that date, we had recorded provisions in the amount of R\$66 million for those assessments in respect of which we deemed the risk of loss as probable.

*FUST and FUNTTEL*

The FUST is a fund that was established to promote the expansion of telecommunication services to non-commercially viable users. The FUNTTEL was established to finance telecommunications technology research. We are required to make contributions to the FUST and the FUNTTEL. Due to a change by ANATEL in the basis for calculation of our contributions to the FUST and the FUNTTEL, we made provisions for additional contributions to the FUST and TNL made provisions for additional contributions to the FUST and the FUNTTEL. With respect to the calculation of the contribution to the FUST, the Brazilian Association of Fixed-Line Companies (*Associação Brasileira das Empresas de Telefonia Fixa*) of which we are members, filed a lawsuit to request a review of the applicable legislation.

As of December 31, 2012, we deemed the risk of loss as possible with respect to approximately R\$2,010 million of these assessments and had not recorded any provisions in respect of these assessments. As of that date, we had recorded provisions in the amount of R\$143 million for assessments of the FUST in respect of which we deemed the risk of loss as probable.

*Contributions to the INSS*

Pursuant to Brazilian social security legislation, companies must pay contributions to the National Social Security Institute (*Instituto Nacional do Seguro Social*), or INSS, based on their payroll. In the case of outsourced services, the contracting parties must, in certain circumstances, withhold the social contribution due from the third-party service providers and pay the retained amounts to the INSS. In other cases, the parties are jointly and severally liable for contributions to the INSS. Assessments have been filed against us primarily relating to claims regarding joint and several liability and claims regarding the percentage to be used to calculate workers' compensation benefits and other amounts subject to social security tax.

As of December 31, 2012, we deemed the risk of loss as possible with respect to approximately R\$957 million of these assessments and had not recorded any provisions in respect of these assessments. As of that date, we had recorded provisions of R\$12 million for those assessments in respect of which we deemed the risk of loss as probable.

*IRPJ, CSLL, PIS and COFINS*

In July 2005, TNL received a tax assessment notice from the Federal Revenue Service, in the amount of R\$2,535 million, mainly related to the corporate restructuring effected in 1998, which included TNL's accounting for the goodwill resulting from the Telebrás system's privatization auction. The goodwill amortization and respective deduction for tax purposes are set forth in Law No. 9,532/1997, Article 7, which states that the result of the goodwill amortization should be calculated as part of a company's taxable income resulting from an amalgamation, spin-off or merger, in which one of the companies has investments in the other, and acquired with premium based on the expectation of profitability of the investor. The goodwill amortization and respective deduction for tax purposes was in compliance with the provisions set forth by CVM Instruction No. 319/1999. Based on the advice of our outside legal counsel, we believe that TNL's use of this goodwill was proper. TNL properly contested the tax assessment notice and obtained a partial favorable decision by the lower administrative court, which removed the fine assessed on TNL and reduced the amount of the tax assessment notice by R\$658 million. TNL appealed and the federal

administrative court of appeals ruled in TNL's favor and cancelled the remaining portion of the tax assessment notice. The Federal Revenue Office did not appeal this decision, and the time for lodging an appeal has expired. As a result, the decision of the federal administrative court of appeals is final.

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### *PIS and COFINS*

In 2006, the Brazilian federal tax authorities filed a claim in the amount of R\$1,026 million related to the basis for the calculation of PIS/COFINS. In 2007, TNL obtained a partially favorable decision in a lower court that reduced the amount of this claim to R\$584 million. Both TNL and the Brazilian federal tax authorities filed appeals, with respect to which decisions are pending. As of December 31, 2012, we deemed the risk of loss as possible with respect to approximately R\$150 million of these assessments and had not recorded any provisions in respect of this claim.

### *ILL*

TNL used credits from the Tax on Net Profit (*Imposto sobre Lucro Líquido*), or ILL, to offset certain other taxes based on decisions rendered by the Brazilian Federal Supreme Court in cases brought by other taxpayers that have held this tax unconstitutional. No final administrative or judicial ruling has been rendered setting forth the criteria by which to calculate the amounts permitted to be offset. As of December 31, 2012, we had recorded provisions in the amount of R\$19 million for those assessments in respect of which we deem the risk of loss as probable.

### *Other Tax Claims*

There are various federal taxes that have been assessed against us, largely relating to (1) assessments of taxes against our company that we do not believe are due and which we are contesting, and (2) our use of tax credits to offset certain federal taxes, which the federal tax authorities are contesting.

As of December 31, 2012, we deemed the risk of loss as possible with respect to approximately R\$6,601 million of these assessments and had not recorded any provisions in respect of these assessments. As of that date, we had recorded provisions in the amount of R\$78 million for those assessments in respect of which we deemed the risk of loss as probable.

### *Civil Claims*

As of December 31, 2012, the total estimated contingency in connection with civil claims against us, including ANATEL proceedings, in respect of which the risk of loss was deemed probable or possible, totaled R\$5,067 million and we had recorded provisions of R\$4,076 million relating to these proceedings.

### *Administrative Proceedings*

Almost every week, we receive notifications from ANATEL requesting information about our compliance with the various services obligations imposed on our company by virtue of our concession agreements. When we are not able to comply with these requests or with our concession obligations, ANATEL may initiate administrative proceedings to impose sanctions on us. We have received various notifications, mainly for not meeting certain goals or obligations set out in the General Plan on Universal Service or the General Plan on Quality Goals, such as responding to complaints relating to billing errors, requests for service repairs on a timely basis and requests from locations with collective or individual access.

As of December 31, 2012, we deemed the risk of loss as possible with respect to approximately R\$145 million of these claims and had not recorded any provisions in respect of these claims. As of that date, we had recorded provisions in the amount of R\$987 million for those claims in respect of which we deemed the risk of loss as probable.

As a condition to ANATEL's approval of the Portugal Telecom Alliance, ANATEL required that Telemar and Oi pay all pending administrative fines, amounting to approximately R\$218 million, regardless of the procedural

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posture of the proceedings which Telemar and Oi had instituted to contest these fines. Telemar and Oi deemed the risk of loss as possible and had not recorded any provisions in respect of these claims. Telemar and Oi sought and have been granted injunctive relief which has permitted them to make judicial deposits of these amounts while preserving its rights to contest these fines. ANATEL has appealed these injunctions, which appeals remain pending.

### *Brazilian Antitrust Proceedings*

We are subject to administrative proceedings and preliminary investigations conducted by the Brazilian antitrust authorities with respect to potential violations of the Brazilian antitrust law. Such investigations may result in penalties, including fines. To date, no fines or penalties have been levied against us. We deemed the risk of loss as possible that we will be fined in one or more of such proceedings and have not recorded any provisions for those claims.

### *Financial Interest Agreement (CRT and Community Telephone Program)*

As successor to CRT, which we acquired in July 2000, we are subject to various civil claims. The claims, filed in 1998 and 1999, allege: (1) error in the sale of CRT's share capital; (2) the illegality of bidding procedure No. 04/98; (3) errors in the calculation of the number of shares offered; (4) procedural nonconformities in the shareholders meeting that approved the sale of shares of CRT; and (5) errors in the valuation of the shares of CRT.

We are also a defendant in several claims filed by users of telephone lines in the State of Rio Grande do Sul. Prior to our acquisition of control of CRT in July 2000, CRT entered into financial interest agreements with its fixed-line subscribers. Under these financial interest agreements, customers subscribing to CRT's fixed-line service had the right to subscribe to a number of CRT shares. The number of shares to be issued to such subscribers was determined based on a formula that divided the cost of the fixed-line subscription by the book value of CRT's shares.

Beginning in June 1997, certain of CRT's fixed-line subscribers began to file suits in which they claimed that the calculation used by CRT to arrive at the number of shares to be issued pursuant to the financial interest agreements was incorrect and resulted in the claimants receiving too few shares.

In addition, as successor to Telecomunicações do Mato Grosso do Sul S.A., Telems, Telecomunicações de Goiás S.A., Telegoiás and Telecomunicações do Mato Grosso S.A., Telemat, which were operating companies that Brasil Telecom Holding acquired in the privatization of Telebrás and which were subsequently merged into our company, we are subject to various civil claims in connection with telephone programs (Community Telephone Programs) established in the States of Mato Grosso do Sul, Goiás and Mato Grosso.

In 2009, two court decisions significantly changed the assumptions underlying our estimate of the potential losses relating to these suits.

On March 30, 2009, the Superior Court of Justice ruled that for suits that had yet to be adjudicated, the number of shares to be issued must be calculated using CRT's balance sheet at the end of the month in which the shares were issued. However, for those lawsuits that have already been adjudicated, the number of shares to be issued must be calculated according to the most recent judicial decision, which, in most of the cases, used the balance sheet at the end of the year prior to the date on which the shares were issued.

On May 28, 2009, a member of the Brazilian Supreme Court published a decision ruling that the financial interest agreements are not subject to a statute of limitations, which resulted in a change in the likelihood of an unfavorable outcome in these pending cases to probable.

As of December 31, 2012, we had recorded provisions in the amount of R\$2,334 million for those claims in respect of which we deemed the risk of loss as probable.

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**Table of Contents***Customer Service Centers*

We are a defendant in 69 civil class actions filed by the Attorney General of the National Treasury jointly with certain consumer agencies demanding the re-opening of customer service centers. The lower courts have rendered decisions in all of these proceedings, some of which have been unfavorable to us. All of these proceedings are currently under appeal. As of December 31, 2012, we had recorded provisions in the amount of R\$12 million for those claims in respect of which we deemed the risk of loss as probable.

*Customer Service*

We are a defendant in a civil class action lawsuit filed by the Federal Prosecutor's Office (*Ministério Público Federal*) seeking recovery for alleged collective moral damages caused by TNL's alleged non-compliance with the Customer Service (*Serviço de Atendimento ao Consumidor - SAC*) regulations established by the Ministry of Justice (*Ministério da Justiça*). TNL presented its defense and asked for a change of venue to federal court in Rio de Janeiro, where we are headquartered. Other defendants have been named and await service of process. The amount involved in this action is R\$300 million. As a result of the corporate reorganization, we have succeeded to TNL's position as a defendant in this action. As of December 31, 2012, we deemed the risk of loss as possible with respect to these lawsuits and had not made any provisions with respect to this action since it was awaiting the court's initial decision.

*Labor Claims*

We are a party to a large number of labor claims arising out of the ordinary course of our businesses. We do not believe any of these claims, individually or in the aggregate would have a material effect on our business, financial condition or results of operations if such claims are decided against us. These proceedings generally involve claims for: (1) risk premium payments sought by employees working in dangerous conditions; (2) wage parity claims seeking equal pay among employees who do the same kind of work, within a given period of time, and have the same productivity and technical performance; (3) indemnification payments for, among other things, work accidents, occupational injuries, employment stability, child care allowances and achievement of productivity standards set forth in our collective bargaining agreements; (4) overtime wages; and (5) joint liability allegations by employees of third-party service providers.

As of December 31, 2012, the total estimated contingency in connection with labor claims against us in respect of which the risk of loss was deemed probable or possible totaled R\$2,631 million and we had recorded provisions of R\$1,579 million relating to these proceedings.

**Dividends and Dividend Policy***Payment of Dividends*

Our dividend distribution policy has historically included the distribution of periodic dividends, based on annual balance sheets approved by our board of directors. On April 16, 2012, our board of directors approved a policy regarding distributions to shareholders during 2012 through 2015 based on our earnings during the 2011 through 2014 fiscal years. Under this policy, we approved the distribution of R\$2,000 at our 2012 annual general shareholders meeting and R\$1,000 million at our general shareholders meeting held on August 10, 2012. We intend to approve the distribution of R\$1,000 at each of our annual general shareholders meetings in 2013 and 2014, which we are required by the Brazilian Corporation Law and our by-laws to hold by April 30 of those years, and R\$1,000 million in each of August 2013 and August 2014. Our distribution policy may be implemented through the distribution of dividends, the payment of interest on shareholders' equity, bonuses, redemption, the reduction of capital or in other transactions that



enable the distribution of funds to shareholders. We will make these distributions only to the extent that we are able to maintain a net debt to EBITDA ratio of 3.0, including in our calculation of net debt our obligation to make distributions to shareholders in the following year. In addition, our approval of these distributions will be subject to market conditions, the financial stability of our company and applicable legal and regulatory requirements.

When we declare dividends, we are generally required to pay them within 60 days of declaring them unless the shareholders' resolution establishes another payment date. In any event, if we declare dividends, we must pay them by the end of the fiscal year for which they are declared. Under Article 9 of Law 9,249/95 and our by-laws, we also

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may pay interest attributable to shareholders' equity as an alternative form of dividends upon approval of our board of directors. For a more detailed description of interest attributable to shareholders' equity, see "Payment of Dividends and Interest Attributable to Shareholders' Equity" Interest Attributable to Shareholders' Equity.

The following table sets forth the dividends and/or interest attributable to shareholders' equity paid to holders of our common shares and preferred shares since January 1, 2008 in *reais* and in U.S. dollars translated from *reais* at the commercial market selling rate in effect as of the payment date.

| Year | Payment Date         | Nominal Reais per |                  | US\$ equivalent per |                  |
|------|----------------------|-------------------|------------------|---------------------|------------------|
|      |                      | Common Shares     | Preferred Shares | Common Shares       | Preferred Shares |
| 2008 | April 16, 2008(1)    | 1.3840            | 1.3840           | 0.8288              | 0.8288           |
| 2009 | August 10, 2009 (2)  | 0.5924            | 0.5924           | 0.3220              | 0.3220           |
| 2010 | January 21, 2010 (2) | 0.1528            | 0.1528           | 0.7605              | 0.7605           |
| 2011 | May 9, 2011 (3)      | 0.7352            | 0.7352           | 0.4539              | 0.4539           |
| 2012 | August 27, 2012 (4)  | 0.6097            | 0.6097           | 0.3004              | 0.3004           |

- (1) Represents interest attributable to shareholders' equity of R\$0.6403 (US\$0.3834) per common and preferred share, plus dividends of R\$0.7437 (US\$0.4454) per common and preferred share.
- (2) Represents interest attributable to shareholders' equity.
- (3) Represents interest attributable to shareholders' equity of R\$0.4360 (US\$0.2692) per common and preferred share, plus dividends of R\$0.2992 (US\$0.1847) per common and preferred share.
- (4) Represents dividends of R\$0.3095 (US\$0.1525) per common and preferred share, plus payment for the redemption of class B and class C preferred shares issued as a bonus and distributed to shareholders of common and preferred shares of the Company in the total amount of R\$ 0.3002 (US\$0.1479) per common and preferred share.

The following discussion summarizes the principal provisions of the Brazilian Corporation Law and our by-laws relating to the distribution of dividends, including interest attributable to shareholders' equity.

**Calculation of Adjusted Net Profit**

At each annual shareholders' meeting, our board of directors is required to recommend how to allocate our net profit for the preceding fiscal year, which recommendation our board of executive officers initially submits to our board of directors for approval. This allocation is subject to approval by our common shareholders. The Brazilian Corporation Law defines "net profit" for any fiscal year as our net income after income taxes for that fiscal year, net of any accumulated losses from prior fiscal years and any amounts allocated to employees' participation in our net profit in that fiscal year. Under the Brazilian Corporation Law, our adjusted net profit available for distribution are equal to our net profit in any fiscal year, reduced by amounts allocated to our legal reserve and other applicable reserves, and increased by any reversals of reserves that we constituted in prior years.

Our calculation of net profit and allocations to reserves for any fiscal year are determined on the basis of financial statements prepared in accordance with Brazilian GAAP.

**Reserve Accounts**

Under the Brazilian Corporation Law and our by-laws, we are required to maintain a legal reserve. In addition, we are permitted by the Brazilian Corporation Law to establish the following discretionary reserves:

a contingency reserve for an anticipated loss that is deemed probable in future years. Any amount so allocated in a previous year must be reversed in the fiscal year in which the loss had been anticipated if the loss does not occur as projected or charged off in the event that the anticipated loss occurs;

a reserve for investment projects, in an amount based on a capital expenditure budget approved by our shareholders;

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a special goodwill reserve for the merger, which represents the net amount of the counterpart of the premium amount recorded in the asset, pursuant to provisions of CVM Instruction 319/1999;

an unrealized income reserve described under **Mandatory Distributions** below; and

a tax incentive investment reserve, included in our capital reserve accounts, in the amount of the reduction in our income tax obligations due to government tax incentive programs.

Allocations to each of these reserves (other than the legal reserve) are subject to approval by our common shareholders voting at our annual shareholders meeting.

The Brazilian Corporation Law provides that the legal reserve and the tax incentive investment reserve may be credited to shareholders equity or used to absorb losses, but these reserves are unavailable for the payment of distributions in subsequent years. The amounts allocated to the other reserves may be credited to shareholders equity and used for the payment of distributions in subsequent years.

### *Legal Reserve Account*

Under the Brazilian Corporation Law and our by-laws, we must allocate 5% of our net profit for each fiscal year to our legal reserve until the aggregate amount of our legal reserve equals 20% of our paid-in capital. However, we are not required to make any allocations to our legal reserve in a fiscal year in which our legal reserve, when added to our other reserves, exceeds 30% of our shareholders equity. At December 31, 2012, we had a balance of R\$384 million in our legal reserve account.

### *Capital Reserve Accounts*

Under the Brazilian Corporation Law, we are also permitted to record a capital reserve that may be used only (1) to absorb losses which exceed retained earnings and income reserves as defined in the Brazilian Corporation Law, (2) to redeem or repurchase share capital and/or participation certificates, (3) to increase our capital, or (4) if specified in our by-laws (which currently do not so specify), to pay preferred share dividends. Amounts allocated to our capital reserves are unavailable for the payment of distributions and are not taken into consideration for purposes of determining the mandatory distributable amount. At December 31, 2012, we had a balance of R\$4,303 million in our capital reserve accounts.

### *Dividend Preference of Preferred Shares*

Under our by-laws, our preferred shareholders are entitled to a minimum annual non-cumulative preferential dividend, or the Minimum Preferred Dividend, equal to the greater of (1) 6.0% per year of our share capital divided by our total number of shares, or (2) 3.0% per year of the book value of our shareholders equity divided by our total number of shares, before dividends may be paid to our common shareholders. Distributions of dividends in any year are made:

first, to the holders of preferred shares, up to the amount of the Minimum Preferred Dividend for such year;

then, to the holders of common shares, until the amount distributed in respect of each common share is equal to the amount distributed in respect of each preferred share; and

thereafter, to the common and preferred shareholders on a pro rata basis.

If the Minimum Preferred Dividend is not paid for a period of three years, holders of preferred shares shall be entitled to full voting rights.

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***Mandatory Distributions***

As permitted by the Brazilian Corporation Law, our by-laws specify that 25% of our adjusted net profit for each fiscal year must be distributed to shareholders as dividends or interest attributable to shareholders' equity. We refer to this amount as the mandatory distributable amount.

The mandatory distributable amount of dividends and interest attributable to shareholders' equity is recognized as a provision at the year-end. Any proposed dividends above the mandatory distributable amount are only recognized when declared.

Under the Brazilian Corporation Law, the amount by which the mandatory distributable amount exceeds the realized portion of net income for any particular year may be allocated to the unrealized income reserve, and the mandatory distribution may be limited to the realized portion of net income. The realized portion of net income is the amount by which our net income exceeds the sum of (1) our net positive results, if any, from the equity method of accounting for earnings and losses of our subsidiaries and certain associated companies, and (2) the profits, gains or income obtained on transactions maturing after the end of the following fiscal year. As amounts allocated to the unrealized income reserve are realized in subsequent years, such amounts must be added to the dividend payment relating to the year of realization.

In addition to the mandatory distributable amount, our board of directors may recommend that holders of our common shares approve the payment of additional distributions. Distributions made to holders of our preferred shares are computed in determining whether we have paid the required mandatory distribution. We net any payment of interim distributions against the required mandatory distribution for that fiscal year.

The Brazilian Corporation Law permits us to suspend the mandatory distribution in respect of common shares and preferred shares if our board of directors reports to our annual shareholders' meeting that the distribution would be incompatible with our financial condition at that time. Our fiscal council must approve any suspension of the mandatory distribution. In addition, our management must report the reasons of any suspension of the mandatory distribution to the CVM. We must allocate net profit not distributed by our company as a result of a suspension to a special reserve and, if not absorbed by subsequent losses, we must distribute these amounts as soon as our financial condition permits. In case our profits reserves, as defined in the Brazilian Corporation Law, exceed our share capital, the excess must be credited to shareholders' equity or used for the payment of distributions.

***Payment of Dividends and Interest Attributable to Shareholders' Equity***

We may pay the mandatory distributable amount as dividends or as interest attributable to shareholders' equity, which is similar to a dividend but is deductible in calculating our income tax obligations.

Because our shares are issued in book-entry form, dividends with respect to any share are automatically credited to the account holding such share. Shareholders who are not residents of Brazil must register with the Brazilian Central Bank in order for dividends, sales proceeds or other amounts with respect to their shares to be eligible to be remitted outside of Brazil.

The common and preferred shares underlying our ADSs are held in Brazil by the depositary, which has registered with the Brazilian Central Bank as the registered owner of our common and preferred shares. Payments of cash dividends and distributions, if any, will be made in Brazilian currency to the depositary. The depositary will then convert such proceeds into dollars and will cause such dollars to be distributed to holders of our ADSs. As with other types of remittances from Brazil, the Brazilian government may impose temporary restrictions on remittances to foreign

investors of the proceeds of their investments in Brazil, as it did for approximately six months in 1989 and early 1999, and on the conversion of Brazilian currency into foreign currencies, which could hinder or prevent the depositary from converting dividends into U.S. dollars and remitting these U.S. dollars abroad. See Item 3. Key Information Risk Factors Risks Relating to Our Preferred Shares and the ADSs.

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### *Dividends*

We are required by the Brazilian Corporation Law and by our by-laws to hold an annual shareholders meeting by April 30 of each year. At our annual shareholders meeting, our common shareholders may vote to declare an annual dividend. Our payment of annual dividends is based on our audited financial statements prepared for our preceding fiscal year.

Any holder of record of shares at the time that a dividend is declared is entitled to receive dividends. Under the Brazilian Corporation Law, we are generally required to pay dividends within 60 days after declaring them, unless the shareholders resolution establishes another payment date, which, in any case, must occur prior to the end of the fiscal year in which the dividend is declared.

Our board of directors may declare interim dividends based on the accrued profits recorded or the realized profits in our annual or semi-annual financial statements approved by our common shareholders. In addition, we may pay dividends from net income based on our unaudited quarterly financial statements. We may set off any payment of interim dividends against the amount of the mandatory distributable amount for the year in which the interim dividends were paid.

### *Interest Attributable to Shareholders Equity*

Brazilian companies, including our company, are permitted to pay interest attributable to shareholders equity as an alternative form of payment of dividends to our shareholders. These payments may be deducted when calculating Brazilian income tax and social contribution tax. The interest rate applied to these distributions generally cannot exceed the Long-Term Interest Rate for the applicable period. The amount of interest paid that we can deduct for tax purposes cannot exceed the greater of:

50% of our net income (after the deduction of the provision for social contribution tax and before the deduction of the provision for corporate income tax) before taking into account any such distribution for the period for which the payment is made; and

50% of the sum of our retained earnings and income reserves.

Any payment of interest attributable to shareholders equity to holders of our common shares, preferred shares or ADSs, whether or not they are Brazilian residents, is subject to Brazilian withholding tax at the rate of 15%, except that a 25% withholding tax rate applies if the recipient is a resident of a tax haven jurisdiction. A tax haven jurisdiction is a country (1) that does not impose income tax or whose income tax rate is lower than 20%, or (2) which does not permit disclosure of the identity of shareholders of entities organized under its jurisdiction. See Item 10. Additional Information Taxation Brazilian Tax Considerations. Under our by-laws, we may include the amount distributed as interest attributable to shareholders equity, net of any withholding tax, as part of the mandatory distributable amount.

### *Prescription of Payments*

Our shareholders have three years to claim dividend distributions made with respect to their shares, as from the date that we distribute the dividends to our shareholders, after which any unclaimed dividend distributions legally revert to us. We are not required to adjust the amount of any distributions for inflation that occurs during the period from the



date of declaration to the payment date.

**Significant Changes**

Other than as disclosed in this annual report, no significant change has occurred since the date of the audited consolidated financial statements included in this annual report.

**Table of Contents****ITEM 9. THE OFFER AND LISTING****Markets for Our Equity Securities**

The principal trading market for our common shares and preferred shares is the BM&FBOVESPA, where they are traded under the symbols OIBR3 and OIBR4, respectively. Our common shares and preferred shares began trading on the BM&FBOVESPA on July 10, 1992. On November 16, 2001, our Preferred ADSs began trading on the NYSE under the symbol BTM. On November 17, 2009, our Common ADSs began trading on NYSE under the symbol BTMC. On April 9, 2012, the trading symbols for our Preferred ADSs and Common ADSs on the NYSE were changed to OIBR and OIBR.C, respectively.

We have registered our Common ADSs and Preferred ADSs with the SEC pursuant to the Exchange Act. On December 31, 2012, there were 20,146,838 Common ADSs outstanding, representing 20,146,838 common shares, or 3.9% of our outstanding common shares and 168,504,287 Preferred ADSs outstanding, representing 168,504,287 preferred shares, or 15.0% of our outstanding preferred shares.

**Price History of Our Common Shares, Preferred Shares and the ADSs**

The tables below set forth the high and low closing sales prices and the approximate average daily trading volume for our common shares and preferred shares on the BM&FBOVESPA and the high and low closing sales prices and the approximate average daily trading volume for the Common ADSs and the Preferred ADSs on the NYSE for the periods indicated.

|                | BM&FBOVESPA                       |       |                              | NYSE                              |                                 |                               |
|----------------|-----------------------------------|-------|------------------------------|-----------------------------------|---------------------------------|-------------------------------|
|                | <i>Reais per Preferred Share</i>  |       | Average Daily Trading Volume | U.S. dollars per Preferred ADS(1) |                                 | Average Daily Trading Volume  |
|                | Closing Price per Preferred Share | High  |                              | Low                               | Closing Price per Preferred ADS |                               |
|                | High                              | Low   | (thousands of shares)        | High                              | Low                             | (thousands of Preferred ADSs) |
|                | <i>(in reais)</i>                 |       |                              | <i>(in U.S. dollars)</i>          |                                 |                               |
| 2008           | 20.94                             | 10.81 | 1,061.6                      | 12.60                             | 4.82                            | 557.7                         |
| 2009           | 18.29                             | 11.06 | 600.6                        | 10.80                             | 4.53                            | 294.3                         |
| 2010           | 17.43                             | 10.45 | 899.6                        | 10.30                             | 5.69                            | 822.0                         |
| 2011           | 16.77                             | 10.15 | 819.3                        | 10.41                             | 5.44                            | 722.7                         |
| 2012           | 12.73                             | 7.52  | 4,370.5                      | 7.00                              | 3.67                            | 2,343.0                       |
| <b>2011</b>    |                                   |       |                              |                                   |                                 |                               |
| First Quarter  | 14.56                             | 12.25 | 751.3                        | 9.00                              | 7.51                            | 692.4                         |
| Second Quarter | 16.77                             | 14.38 | 937.8                        | 10.33                             | 8.99                            | 882.0                         |
| Third Quarter  | 14.87                             | 10.60 | 869.3                        | 9.60                              | 5.82                            | 779.1                         |
| Fourth Quarter | 11.99                             | 10.15 | 713.4                        | 7.07                              | 5.44                            | 535.2                         |
| <b>2012</b>    |                                   |       |                              |                                   |                                 |                               |
| First Quarter  | 12.73                             | 9.77  | 1,333.9                      | 7.00                              | 5.30                            | 704.1                         |
| Second Quarter | 11.49                             | 7.52  | 6,226.1                      | 6.10                              | 3.70                            | 4,343.6                       |
| Third Quarter  | 10.27                             | 7.58  | 6,205.7                      | 4.64                              | 3.71                            | 2,532.4                       |

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|                               |      |      |         |      |      |         |
|-------------------------------|------|------|---------|------|------|---------|
| Fourth Quarter<br><b>2013</b> | 8.58 | 7.83 | 3,652.1 | 4.20 | 3.67 | 1,791.9 |
| First Quarter                 | 5.86 | 8.37 | 7,291.2 | 4.35 | 2.90 | 3,110.9 |
| <b>Most Recent Six Months</b> |      |      |         |      |      |         |
| October 2012                  | 8.58 | 8.14 | 3,601.7 | 4.20 | 3.99 | 1,976.1 |
| November 2012                 | 8.37 | 7.83 | 3,782.0 | 4.03 | 3.67 | 1,544.1 |

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|               | BM&FBOVESPA                       |      |                              | NYSE                              |      |                               |
|---------------|-----------------------------------|------|------------------------------|-----------------------------------|------|-------------------------------|
|               | <i>Reais per Preferred Share</i>  |      |                              | U.S. dollars per Preferred ADS(1) |      |                               |
|               | Closing Price per Preferred Share |      | Average Daily Trading Volume | Closing Price per Preferred ADS   |      | Average Daily Trading Volume  |
|               | High                              | Low  | (thousands of shares)        | High                              | Low  | (thousands of Preferred ADSs) |
|               | <i>(in reais)</i>                 |      |                              | <i>(in U.S. dollars)</i>          |      |                               |
| December 2012 | 8.50                              | 7.94 | 3,576.5                      | 4.09                              | 3.76 | 2,029.2                       |
| January 2013  | 9.17                              | 7.79 | 6,532.8                      | 4.42                              | 3.84 | 3,682.7                       |
| February 2013 | 8.12                              | 7.12 | 5,854.4                      | 4.08                              | 3.52 | 2,192.3                       |
| March 2013    | 8.37                              | 5.86 | 5,471.6                      | 4.36                              | 2.90 | 2,468.5                       |
| April 2013(2) | 8.37                              | 5.18 | 6,049.4                      | 4.36                              | 2.53 | 2,705.1                       |

(1) Adjusted to reflect change of ratio from three preferred shares per Preferred ADS to one preferred share per Preferred ADS effective as of August 15, 2012.

(2) Through April 25, 2013.

Source: Economática Ltda./ Bloomberg

|                | BM&FBOVESPA                    |       |                              | NYSE                         |       |                              |
|----------------|--------------------------------|-------|------------------------------|------------------------------|-------|------------------------------|
|                | <i>Reais per Common Share</i>  |       |                              | U.S. dollars per Common ADS  |       |                              |
|                | Closing Price per Common Share |       | Average Daily Trading Volume | Closing Price per Common ADS |       | Average Daily Trading Volume |
|                | High                           | Low   | (thousands of shares)        | High                         | Low   | (thousands of Common ADSs)   |
|                | <i>(in reais)</i>              |       |                              | <i>(in U.S. dollars)</i>     |       |                              |
| 2008           | 55.50                          | 31.10 | 3.8                          |                              |       |                              |
| 2009           | 61.00                          | 25.70 | 36.9                         | 16.66                        | 15.27 | 33.1                         |
| 2010           | 28.55                          | 13.75 | 111.1                        | 16.60                        | 7.26  | 70.5                         |
| 2011           | 18.45                          | 11.25 | 69.9                         | 11.65                        | 5.85  | 13.3                         |
| 2012           | 14.20                          | 8.71  | 582.2                        | 7.84                         | 4.03  | 102.4                        |
| <b>2011</b>    |                                |       |                              |                              |       |                              |
| First Quarter  | 17.69                          | 15.28 | 57.0                         | 10.83                        | 9.13  | 14.7                         |
| Second Quarter | 18.45                          | 16.20 | 104.2                        | 11.65                        | 9.88  | 16.3                         |
| Third Quarter  | 17.00                          | 11.80 | 53.0                         | 10.72                        | 6.29  | 12.9                         |
| Fourth Quarter | 13.19                          | 11.25 | 65.9                         | 7.56                         | 5.85  | 9.4                          |
| <b>2012</b>    |                                |       |                              |                              |       |                              |
| First Quarter  | 14.20                          | 9.37  | 80.3                         | 7.84                         | 6.33  | 10.2                         |
| Second Quarter | 12.89                          | 8.71  | 1,153.3                      | 6.90                         | 4.42  | 216.8                        |
| Third Quarter  | 11.95                          | 8.91  | 556.5                        | 5.86                         | 4.33  | 110.1                        |
| Fourth Quarter | 10.54                          | 8.83  | 556.1                        | 5.17                         | 4.03  | 70.8                         |

**2013**

|               |      |      |         |      |      |      |
|---------------|------|------|---------|------|------|------|
| First Quarter | 9.40 | 6.72 | 1,134.9 | 4.96 | 3.36 | 91.1 |
|---------------|------|------|---------|------|------|------|

**Most Recent Six Months**

|               |       |      |         |      |      |       |
|---------------|-------|------|---------|------|------|-------|
| October 2012  | 10.54 | 9.60 | 459.3   | 5.17 | 4.66 | 64.3  |
| November 2012 | 9.90  | 9.02 | 583.7   | 4.83 | 4.38 | 52.9  |
| December 2012 | 9.42  | 8.83 | 645.5   | 4.49 | 4.03 | 96.4  |
| January 2013  | 10.15 | 9.00 | 1,015.0 | 5.03 | 4.34 | 147.1 |
| February 2013 | 10.17 | 8.05 | 1,018.5 | 5.00 | 4.02 | 59.1  |
| March 2013    | 9.75  | 6.72 | 801.7   | 5.10 | 3.36 | 80.8  |
| April 2013(1) | 9.41  | 5.95 | 950.6   | 4.97 | 2.91 | 101.2 |

(1) Through April 25, 2013.

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Source: Economática Ltda./ Bloomberg

On April 25, 2013, the closing sales price of:

our common shares on the **BM&FBOVESPA** was R\$5.96 per common share;

our Common ADSs on the NYSE was US\$3.00 per Common ADS;

our preferred shares on the **BM&FBOVESPA** was R\$5.26 per preferred share; and

our Preferred ADSs on the NYSE was US\$2.57 per Preferred ADS.

**Regulation of Brazilian Securities Markets**

The Brazilian securities markets are regulated by the CVM, which has regulatory authority over the stock exchanges and the securities markets generally, the National Monetary Council and the Central Bank, which has, among other powers, licensing authority over brokerage firms and which regulates foreign investment and foreign exchange transactions. The Brazilian securities markets are governed by (1) Law No. 6,385, as amended and supplemented, which is the principal law governing the Brazilian securities markets, (2) the Brazilian Corporation Law, and (3) the regulations issued by the CVM, the National Monetary Council and the Central Bank.

These laws and regulations provide for, among other things, disclosure requirements applicable to issuers of publicly traded securities, restrictions on insider trading (including criminal sanctions under the Brazilian Penal Code) and price manipulation, protection of minority shareholders and disclosure of transactions in a company's securities by its insiders, including directors, officers and major shareholders. They also provide for the licensing and oversight of brokerage firms and the governance of Brazilian stock exchanges.

However, the Brazilian securities markets are not as highly regulated or supervised as U.S. securities markets or securities markets in some other jurisdictions. In addition, rules and policies against self-dealing or for preserving shareholder interests may be less well-defined and enforced in Brazil than in the United States, which may put holders of our preferred shares and the ADSs at a disadvantage. Finally, corporate disclosures also may be less complete than for public companies in the United States and certain other jurisdictions.

Under the Brazilian Corporation Law, a company is either publicly held (*companhia aberta*), as we are, or privately held (*companhia fechada*). All publicly held companies are registered with the CVM and are subject to reporting and regulatory requirements. A company registered with CVM may have its securities traded either on the BM&FBOVESPA or in the Brazilian over-the-counter market. Shares of companies, such as our company, that are listed on the BM&FBOVESPA may not simultaneously trade on the Brazilian over-the-counter market. The shares of a publicly held company may also be traded privately, subject to certain limitations.

The Brazilian over-the-counter market consists of direct trades between individuals in which a financial institution registered with the CVM serves as intermediary. No special application, other than registration with the CVM, is necessary for securities of a public company to be traded in this market. The CVM requires that it be given notice of all trades carried out in the Brazilian over-the-counter market by the respective intermediaries.

***Disclosure Requirements***

Law No. 6,385 requires that a publicly traded company, such as our company, submit to the CVM and the BM&FBOVESPA certain periodic information, including annual and quarterly reports prepared by management and independent auditors. Law No. 6,385 also requires us to file with the CVM our shareholders' agreements, notices of shareholders' meetings and copies of the minutes of these meetings.

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CVM Instruction No. 358, which became effective in April 2002, revised and consolidated the requirements regarding the disclosure and use of information related to material facts and acts of publicly traded companies, including the disclosure of information in the trading and acquisition of securities issued by publicly traded companies.

CVM Instruction No. 358 includes provisions that:

establish the concept of a material fact that gives rise to reporting requirements. Material facts include decisions made by the controlling shareholders, resolutions of the general meeting of shareholders and of management of the company, or any other facts related to the company's business (whether occurring within the company or otherwise related thereto) that may influence the price of its publicly traded securities, or the decision of investors to trade such securities or to exercise any of such securities' underlying rights;

specify examples of facts that are considered to be material, which include, among others, the execution of agreements providing for the transfer of control, the entry or withdrawal of shareholders that maintain any managing, financial, technological or administrative function with or contribution to the company, and any corporate restructuring undertaken among related companies;

require the investor relations officer, controlling shareholders, other officers or directors, members of the fiscal council and other advisory boards to disclose material facts;

require simultaneous disclosure of material facts to all markets in which the company's securities are admitted for trading;

require the acquirer of a controlling stake in a company to publish material facts, including its intentions as to whether or not to de-list the company's shares, within one year;

establish rules regarding disclosure requirements in the acquisition and disposal of a material shareholding stake; and

prohibit trading on the basis of material non-public information.

Brazilian regulations also require that any person or group of persons representing the same interest that has directly or indirectly acquired an interest corresponding to 5% of a type or class of shares of a publicly traded company must provide such publicly traded company with information on such acquisition and its purpose, and such company must transmit this information to the CVM. If this acquisition causes a change in the control of the company or in the administrative structure of the company, or if this acquisition triggers the obligation to make a public offering in accordance with CVM Instruction No. 361, as amended, then the acquirer must disclose this information to the applicable stock exchanges and the appropriate Brazilian newspapers.

***Integrated Disclosure***



On December 7, 2009, the CVM issued CVM Instruction No. 480 in order to, among other things:

consolidate the rules regarding registration of securities to be issued so that the procedures of registration, suspension and cancellation are identical for all issuers.

create two different categories of securities issuers in accordance with the securities that those issuers are authorized to issue in the Brazilian regulated markets and establish different disclosure requirements for each category. A category A issuer, such as our company, is authorized to issue any and all securities and is subject to more stringent disclosure requirements. A category B issuer is authorized to issue any and all securities, other than shares, share certificates and other securities issued by the issuer of such shares or shares certificates or by a company of its group that grants to its holders the right to acquire such shares or shares certificates.

create a new CVM form for annual reports (*Formulário de Referência*) to replace the previous form for annual reports (*Formulário de Informações Anuais*) that requires a significantly higher level of disclosure in several areas, including, among others, management discussion and analysis of the financial statements, management compensation, risk controls and derivative policies, and which must be signed by the company's chief executive officer and investor relations officer.

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replace the former requirements with respect to the content of a prospectus used in a public securities offering with a requirement to publish an offering note with information on the public securities offering to supplement the *Formulário de Referência*.

classify as Well-Known Seasoned Issuers (*Emissor de Grande Exposição ao Mercado*) companies (1) that have had securities traded in the BM&FBOVESPA for at least three years, (2) that are in compliance with the CVM rules on current and periodic reporting obligations on the previous 12 months, and (3) which have shares traded in the market with a market value equal or greater than R\$5 billion. The CVM is expected to issue regulations regarding which public securities offerings by Well-Known Seasoned Issuers that will permit these issuers to register public securities offerings through an expedited procedure.

***Recommendations Regarding Business Combination Transactions Between Affiliated Companies***

In September 2008, the CVM issued CVM Practice Bulletin No. 35/08 (*Parecer de Orientação No. 35/08*) recommending that where a controlling company and its subsidiaries or affiliated companies engage in a business combination transaction, certain additional procedures be followed to protect the non-controlling shareholders. The release constitutes guidance for Brazilian companies engaging in business combination transactions, and does not mandate that any procedure be followed. The release recommends that the constituent companies implement one of the following procedures in connection with a business combination transaction:

establish an independent advisory committee to protect the interests of the non-controlling shareholders and to negotiate the terms and conditions for such business combination transaction; or

condition the of approval of the business combination transaction upon the affirmative vote of a majority of the non-controlling shareholders of the controlled company, including the minority holders of the voting and the non-voting shares of the controlled company.

***Proxy Solicitation Rules***

On December 17, 2009, the CVM issued Instruction No. 481, which sets forth (1) the procedures relating to the public solicitation of proxies for the exercise of voting rights at shareholders meetings of publicly held companies, and (2) disclosure requirements to be followed by public held companies before such shareholders meetings.

CVM Instruction No. 481 provides that:

shareholders that own 0.5% or more of a company's share capital may nominate members of the board of directors and the fiscal council in a public solicitation of proxies conducted by the company's management, and that shareholders will be entitled to vote with respect to these nominations;

companies that accept digital proxies sent through the internet must allow shareholders who hold 0.5% or more of the company's share capital to make a public solicitation of proxies through the company's digital proxy system; and

publicly held companies that do not accept digital proxies sent through the internet must pay part of the costs of the public solicitation of proxies made by shareholders that own 0.5% or more of the company's share capital.

CVM Instruction No. 481 also specifies the information and documents that must be made available to shareholders following the date of the publication of the first call notice for the shareholders' meeting. The information and documents that must be provided varies according to the agenda of the shareholders' meeting. This information must be available through the CVM's website before the shareholders' meeting, must be prepared in accordance with the requirements of Instruction No. 481, and, if the information and documents relate to the annual shareholders' meeting, must include management's discussion and analysis of the financial statements, personal data and history of the nominees for election to the company's board of directors and/or fiscal council, and a proposal for the compensation of the company's management.

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**Table of Contents****Trading on the BM&FBOVESPA*****Overview of the BM&FBOVESPA***

In 2000, the São Paulo Stock Exchange (*Bolsa de Valores de São Paulo S.A. BVSP*), or the BM&FBOVESPA, was reorganized through the execution of memoranda of understanding by the Brazilian stock exchanges. Following this reorganization, the BM&FBOVESPA was a non-profit entity owned by its member brokerage firms and trading on the BM&FBOVESPA was limited to these member brokerage firms and a limited number of authorized nonmembers. Under the memoranda, all securities are now traded only on the BM&FBOVESPA, with the exception of electronically traded public debt securities and privatization auctions, which are traded on the Rio de Janeiro Stock Exchange.

In August 2007, the BM&FBOVESPA underwent a corporate restructuring that resulted in the creation of BM&FBOVESPA Holding S.A., a public corporation, whose wholly-owned subsidiaries were (1) the BM&FBOVESPA, which is responsible for the operations of the stock exchange and the organized over-the-counter markets, and (2) the Brazilian Settlement and Custodial Company (*Companhia Brasileira de Liquidação e Custódia*), or CBLC, which is responsible for settlement, clearing and depositary services. In the corporate restructuring, all holders of membership certificates of the BM&FBOVESPA and of shares of CBLC became shareholders of BM&FBOVESPA Holding S.A. As a result of the corporate restructuring, access to the trading and other services rendered by the BM&FBOVESPA is not conditioned on stock ownership in BM&FBOVESPA Holding S.A.

In May 2008, the BM&FBOVESPA merged with the Commodities and Futures Exchange (*Bolsa de Mercadorias & Futuros*) to form the BM&FBOVESPA. In November 2008, the CBLC merged with the BM&FBOVESPA. As a result, the BM&FBOVESPA now performs its own settlement, clearing and depositary services.

***Trading and Settlement***

Trading of equity securities on the BM&FBOVESPA is conducted through an electronic trading system called Megabolsa every business day from 10:00 a.m. to 5:30 p.m., São Paulo time. Trading of equity securities on the BM&FBOVESPA is also conducted after market between 6:00 p.m. and 7:30 p.m., São Paulo time, in an after-market system connected to both traditional brokerage firms and brokerage firms operating on the internet. This after-market trading is subject to regulatory limits on price volatility of securities and on the volume of shares traded by investors operating on the internet.

Since March 2003, market making activities have been allowed on the BM&FBOVESPA. On July 23, 2012, we announced the engagement of Brasil Plural Corretora de Câmbio, Títulos e Valores Mobiliários S.A. (formerly known as Flow Corretora de Câmbio, Títulos e Valores Mobiliários S.A.) as market maker of our common shares and preferred shares on the BM&FBOVESPA. Trading in securities listed on the BM&FBOVESPA may be effected off the exchange in the unorganized over-the-counter market under certain circumstances, although such trading is very limited.

The trading of securities of a company on the BM&FBOVESPA may be suspended at the request of a company in anticipation of the announcement of a material event. A requesting company must also suspend trading of its securities on international stock exchanges on which its securities are traded. The CVM and the BM&FBOVESPA have discretionary authority to suspend trading in shares of a particular issuer, based on or due to a belief that, among other reasons, a company has provided inadequate information regarding a material event or has provided inadequate responses to inquiries by the CVM or the BM&FBOVESPA.

In order to reduce volatility, the BM&FBOVESPA has adopted a circuit breaker mechanism under which trading sessions may be suspended for a period of 30 minutes or one hour whenever the Ibovespa index falls 10% or 15%, respectively, compared to the closing of the previous trading session.

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Settlement of transactions on the BM&FBOVESPA is effected three business days after the trade date, without adjustment of the purchase price for inflation. Delivery of and payment for shares is made through the facilities of the clearing and settlement chamber of the BM&FBOVESPA. The seller is ordinarily required to deliver shares to the clearing and settlement chamber of the BM&FBOVESPA on the second business day following the trade date.

***Market Size***

Although the Brazilian equity market is Latin America's largest in terms of market capitalization, it is smaller, more volatile and less liquid than the major U.S. and European securities markets. Moreover, the BM&FBOVESPA is significantly less liquid than the NYSE or other major exchanges in the world.

As of December 31, 2012, the aggregate market capitalization of all companies listed on the BM&FBOVESPA was equivalent to approximately R\$2,524 billion (US\$1,235 billion) and the 10 largest companies listed on the BM&FBOVESPA represented approximately 51% of the total market capitalization of all listed companies. By comparison, as of December 31, 2012, the aggregate market capitalization of the companies (including U.S. and non-U.S. companies) listed on the NYSE was approximately US\$16.9 trillion. The average daily trading volume of the BM&FBOVESPA and the NYSE for 2012 was approximately R\$7.3 billion (US\$3.6 billion) and US\$59.9 billion, respectively.

Although any of the outstanding shares of a listed company may trade on the BM&FBOVESPA, in most cases fewer than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling persons, one principal shareholder or governmental entities that rarely trade their shares. For this reason, data showing the total market capitalization of the BM&FBOVESPA tends to overstate the liquidity of the Brazilian equity market. The relative volatility and illiquidity of the Brazilian equity markets may substantially limit your ability to sell our common shares or preferred shares at the time and price you desire and, as a result, could negatively impact the market price of these securities.

***Regulation of Foreign Investments***

Trading on the BM&FBOVESPA by a holder not deemed to be domiciled in Brazil for Brazilian tax and regulatory purposes, or a non-Brazilian holder, is subject to certain limitations under Brazilian foreign investment regulations. With limited exceptions, non-Brazilian holders may trade on the BM&FBOVESPA only in accordance with the requirements of Resolution No. 2,689 of the National Monetary Council. Resolution No. 2,689 requires that securities held by non-Brazilian holders be maintained in the custody of, or in deposit accounts with, financial institutions that are authorized by the Central Bank and the CVM. In addition, Resolution No. 2,689 requires non-Brazilian holders to restrict their securities trading to transactions on the BM&FBOVESPA or qualified over-the-counter markets. With limited exceptions, non-Brazilian holders may not transfer the ownership of investments made under Resolution No. 2,689 to other non-Brazilian holders through private transactions. See [Item 10. Additional Information Exchange Controls Resolution 2,689](#) for further information about Resolution 2,689, and [Item 10. Additional Information Taxation Brazilian Tax Considerations Taxation of Gains](#) for a description of certain tax benefits extended to non-Brazilian holders who qualify under Resolution No. 2,689.

***BM&FBOVESPA Corporate Governance Standards***

In December 2000, the BM&FBOVESPA introduced three special listing segments:

Level 1 of Differentiated Corporate Governance Practices;

Level 2 of Differentiated Corporate Governance Practices; and

The *Novo Mercado* (New Market).

These special listing segments were designed for the trading of shares issued by companies that voluntarily undertake to abide by corporate governance practices and disclosure requirements in addition to those already required by Brazilian law. The inclusion of a company in any of the special listing segments requires adherence to a series of corporate governance rules. These rules were designed to increase shareholders' rights and enhance the quality of information provided to shareholders.

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Our shares joined Level 1 of Differentiated Corporate Governance Practices on December 14, 2012. As a Level 1 company, we must, among other things:

ensure that shares representing 25% of our total share capital are effectively available for trading;

adopt offering procedures that favor widespread ownership of shares whenever we make a public offering;

comply with minimum quarterly disclosure standards, including issuing consolidated financial information, a cash flow statement, and special audit revisions on a quarterly basis;

follow stricter disclosure policies with respect to contracts with related parties, material contracts and transactions involving our securities made by our controlling shareholders, directors or executive officers;

make a schedule of corporate events available to our shareholders; and

hold public meetings with analysts and investors at least annually.

Pursuant to the regulations of the BM&FBOVESPA, the members of our board of directors and board of executive officers are personally liable for our compliance with the rules and regulations of the BM&FBOVESPA's Level 1 Listing Segment.

**ITEM 10. ADDITIONAL INFORMATION**

**Description of Our Company's By-laws**

The following is a summary of the material provisions of our by-laws and of the Brazilian Corporation Law. In Brazil, a company's by-laws (*estatuto social*) are the principal governing document of a corporation (*sociedade anônima*).

***General***

Our registered name is Oi S.A., and our registered office is located in the City of Rio de Janeiro, State of Rio de Janeiro, Brazil. Our registration number with the Brazilian Commercial Registry is No. 33.3.0029520-8. We have been duly registered with the CVM under No. 11312 since March 27, 1980. Our headquarters are located in City of Rio de Janeiro, State of Rio de Janeiro, Brazil. Our company has a perpetual existence.

As of April 25, 2013, we had outstanding share capital of R\$7,471,208,836.63, equal to 1,797,086,404 total shares, consisting of 599,008,629 issued common shares and 1,198,077,775 issued preferred shares, including 84,250,695 common shares and 72,808,066 preferred shares held in treasury. All of our outstanding share capital is fully paid. All of our shares are without par value. Under the Brazilian Corporation Law, the aggregate number of our non-voting and limited voting preferred shares may not exceed two-thirds of our total outstanding share capital.



***Corporate Purposes***

Under Article 2 of our by-laws, our corporate purposes are:

to offer telecommunication services and all activities required or useful for the operation of these services, in conformity with our concessions, authorizations and permits;

to participate in the capital of other companies;

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to organize wholly-owned subsidiaries for the performance of activities consistent with our corporate purposes, which are recommended to be decentralized;

to import, or promote the importation of, goods and services that are necessary to the performance of activities consistent with our corporate purposes;

to provide technical assistance services to other telecommunications companies engaged in activities of common interest;

to perform study and research activities aimed at the development of the telecommunications sector;

to enter into contracts and agreements with other telecommunications companies or other persons or entities to assure the operations of our services, with no loss of its attributions and responsibilities; and

to perform other activities related to the above corporate purposes.

***Board of Directors***

Under our by-laws, any matters subject to the approval of our board of directors can be approved by only by a majority of votes of the members of our board of directors. Under our by-laws, our board of directors may only deliberate if a majority of its members are present at a duly convened meeting. Any resolutions of our board of directors may be approved only by the affirmative vote of a majority of the members of our board of directors.

***Election of Directors***

The shareholders of TmarPart, our controlling shareholder, have entered into shareholders agreements that determine the representation of these shareholders on our board of directors. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders TmarPart Shareholders Agreements. The members of our board of directors are elected at general meetings of shareholders for concurrent two-year terms.

***Qualification of Directors***

There is no minimum share ownership or residency requirement to qualify for membership on our board of directors. Our by-laws do not require the members of our board of directors to be residents of Brazil. The Brazilian Corporation Law requires each of our executive officers to be residents of Brazil.

***Fiduciary Duties and Conflicts of Interest***

All members of our board of directors and their alternates owe fiduciary duties to us and all of our shareholders.

Under the Brazilian Corporation Law, if one of our directors or his respective alternate or one of our executive officers has a conflict of interest with our company in connection with any proposed transaction, such director, alternate director or executive officer may not vote in any decision of our board of directors or of our board of executive officers, as the case may be, regarding such transaction and must disclose the nature and extent of his conflicting

interest for inclusion in the minutes of the applicable meeting. However, if one of our directors is absent from a meeting of our board of directors, that director's alternate may vote even if that director has a conflict of interest, unless the alternate director shares that conflict of interest or has another conflict of interest.

Any transaction in which one of our directors (including the alternate members) or executive officers may have an interest, including any financings, can only be approved on reasonable and fair terms and conditions that are no more favorable than the terms and conditions prevailing in the market or offered by third parties. If any such transaction does not meet this requirement, then the Brazilian Corporation Law provides that the transaction may be nullified and the interested director or executive officer must return to us any benefits or other advantages that he obtained from, or as result of, such transaction. Under the Brazilian Corporation Law and upon the request of a shareholder who owns at least 5.0% of our total share capital, our directors and executive officers must reveal to our

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shareholders at an ordinary meeting of our shareholders certain transactions and circumstances that may give rise to a conflict of interest. In addition, our company or shareholders who own 5.0% or more of our share capital may bring an action for civil liability against directors and executive officers for any losses caused to us as a result of a conflict of interest.

### *Compensation*

Under our by-laws, our common shareholders approve the aggregate compensation payable to our directors, executive officers and members of our fiscal council. Subject to this approval, our board of directors establishes the compensation of its members and of our executive officers. See Item 6. Directors, Senior Management and Employees Compensation.

### *Mandatory Retirement*

Neither the Brazilian Corporation Law nor our by-laws establish any mandatory retirement age for our directors or executive officers.

### *Share Capital*

Under the Brazilian Corporation Law, the number of our issued and outstanding non-voting shares or shares with limited voting rights, such as our preferred shares, may not exceed two-thirds of our total outstanding share capital.

Each of our common shares entitles its holder to one vote at our annual and extraordinary shareholders meetings. Holders of our common shares are not entitled to any preference in respect of our dividends or other distributions or otherwise in case of our liquidation.

Our preferred shares are non-voting, except in limited circumstances, and do not have priority over our common shares in the case of our liquidation. See Voting Rights for information regarding the voting rights of our preferred shares and Item 8. Financial Information Dividends and Dividend Policy Calculation of Adjusted Net Profit and Dividend Preference of Preferred Shares for information regarding the distribution preferences of our preferred shares.

### *Shareholders Meetings*

Under the Brazilian Corporation Law, we must hold an annual shareholders meeting by April 30 of each year in order to:

approve or reject the financial statements approved by our board of directors and board of executive officers, including any recommendation by our board of directors for the allocation of net profit and distribution of dividends;

elect members of our board of directors (upon expiration of their two-year terms) and members of our fiscal council, subject to the right of minority shareholders to elect members of our board of directors and our fiscal council; and

approve any monetary adjustment to our share capital.

In addition to the annual shareholders meetings, holders of our common shares have the power to determine any matters related to changes in our corporate purposes and to pass any resolutions they deem necessary to protect and enhance our development whenever our interests so require, by means of extraordinary shareholders meetings.

We convene our shareholders meetings, including our annual shareholders meeting, by publishing a notice in the national edition of *Valor Econômico*, a Brazilian newspaper, and in the Official Gazette of the state of Rio de Janeiro (*Diário Oficial do Estado do Rio de Janeiro*). On the first call of any meeting, the notice must be published

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no fewer than three times, beginning at least 15 calendar days prior to the scheduled meeting date. For meetings involving the issuance of securities or deliberations where preferred shareholders are entitled to vote, the notice must be published at least 30 calendar days prior to the scheduled meeting date. The notice must contain the meeting's place, date, time, agenda and, in the case of a proposed amendment to our by-laws, a description of the subject matter of the proposed amendment.

Our board of directors may convene a shareholders' meeting. Under the Brazilian Corporation Law, shareholders meetings also may be convened by our shareholders as follows:

by any of our shareholders if, under certain circumstances set forth in the Brazilian Corporation Law, our directors do not convene a shareholders' meeting within 60 days;

by shareholders holding at least 5% of our total share capital if, after a period of eight days, our directors fail to call a shareholders' meeting that has been requested by such shareholders; and

by shareholders holding at least 5% of either our total voting share capital or our total non-voting share capital, if after a period of eight days, our directors fail to call a shareholders' meeting for the purpose of appointing a fiscal council that has been requested by such shareholders.

In addition, our fiscal council may convene a shareholders' meeting if our board of directors does not convene an annual shareholders' meeting within 30 days or at any other time to consider any urgent and serious matters.

Each shareholders' meeting is presided over by the chief executive officer, who is responsible for choosing a secretary of the meeting. A shareholder may be represented at a shareholders' meeting by an attorney-in-fact appointed by the shareholder not more than one year before the meeting. The attorney-in-fact must be a shareholder, a member of our board of directors, a member of our board of executive officers, a lawyer or a financial institution, and the power of attorney appointing the attorney-in-fact must comply with certain formalities set forth under Brazilian law. To be admitted to a shareholders' meeting, a person must produce proof of his or her shareholder status or a valid power of attorney.

In order for a valid action to be taken at a shareholders' meeting, shareholders representing at least 25% of our issued and outstanding voting share capital must be present on first call. However, shareholders representing at least two-thirds of our issued and outstanding voting share capital must be present at a shareholders' meeting called to amend our by-laws. If a quorum is not present, our board of directors may issue a second call by publishing a notice as described above at least eight calendar days prior to the scheduled meeting. The quorum requirements do not apply to a meeting held on the second call, and the shareholders' meetings may be convened with the presence of shareholders representing any number of shares (subject to the voting requirements for certain matters described below). A shareholder without a right to vote may attend a shareholders' meeting and take part in the discussion of matters submitted for consideration.

***Voting Rights***

Under the Brazilian Corporation Law and our by-laws, each of our common shares entitles its holder to one vote at our shareholders' meetings. Our preferred shares generally do not confer voting rights, except in limited circumstances described below. We may not restrain or deny any voting rights without the consent of the majority of the shares

affected. Whenever the shares of any class of share capital are entitled to vote, each share is entitled to one vote.

*Voting Rights of Common Shares*

Except as otherwise provided by law, resolutions of a shareholders' meeting are passed by a simple majority vote of the holders of our common shares present or represented at the meeting, without taking abstentions into account. Under the Brazilian Corporation Law, the approval of shareholders representing at least half of our outstanding voting shares is required for the types of action described below:

creating preferred shares or disproportionately increasing an existing class of our preferred shares relative to the other classes of our preferred shares, other than to the extent permitted by our by-laws;

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changing a priority, preference, right, privilege or condition of redemption or amortization of any class of our preferred shares or creating a new class of preferred shares that has a priority, preference, right, condition or redemption or amortization superior to an existing class of our preferred shares;

reducing the mandatory dividend set forth in our by-laws;

changing our corporate purpose;

merging our company with another company, or consolidating our company, subject to the conditions set forth in the Brazilian Corporation Law;

transferring all of our shares to another company, known as an *incorporação de ações* under the Brazilian Corporation Law;

participating in a centralized group of companies (*grupo de sociedades*) as defined under the Brazilian Corporation Law and subject to the conditions set forth in the Brazilian Corporation Law;

dissolving or liquidating our company or canceling any ongoing liquidation of our company;

creating any founders' shares (*partes beneficiárias*) entitling the holders thereof to participate in the profits of our company; and

spinning-off of all or any part of our company.

Decisions on the transformation of our company into another form of company require the unanimous approval of our shareholders, including the holders of our preferred shares.

Our company is required to give effect to shareholders agreements that contain provisions regarding the purchase or sale of our shares, preemptive rights to acquire our shares, the exercise of the right to vote our shares or the power to control our company, if these agreements are filed with our headquarters in Rio de Janeiro. Brazilian Corporation Law obligates the president of any shareholder or board of directors meeting to disregard any vote taken by any of the parties to any shareholders agreement that has been duly filed with our company that violates the provisions of any such agreement. In the event that a shareholder that is party to a shareholders agreement (or a director appointed by such shareholder) is absent from any shareholders' or board of directors' meeting or abstains from voting, the other party or parties to that shareholders agreement have the right to vote the shares of the absent or abstaining shareholder (or on behalf of the absent director) in compliance with that shareholders agreement.

Under the Brazilian Corporation Law, neither our by-laws nor actions taken at a shareholders' meeting may deprive any of our shareholders of certain specific rights, including:



the right to participate in the distribution of our profits;

the right to participate in any remaining residual assets in the event of our liquidation;

the right to supervise the management of our corporate business as specified in the Brazilian Corporation Law;

the right to preemptive rights in the event of an issuance of our shares, debentures convertible into our shares or subscription bonuses, other than with respect to a public offering of our securities; and

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the right to withdraw from our company under the circumstances specified in the Brazilian Corporation Law.  
*Voting Rights of Minority Shareholders*

Shareholders holding shares representing not less than 5% of our shares entitled to vote at our shareholders meeting have the right to request that we adopt a cumulative voting procedure. If the cumulative voting procedure is adopted, our controlling shareholders always retain the right to elect at least one member more than the number of members elected by the other shareholders, regardless of the total number of members of our board of directors. This procedure must be requested by the required number of shareholders at least 48 hours prior to a shareholders meeting.

Under the Brazilian Corporation Law, shareholders that are not controlling shareholders, but that together hold either:

non-voting preferred shares representing at least 10% of our total share capital; or

common shares representing at least 15% of our voting capital, have the right to appoint one member and an alternate to our board of directors at our annual shareholders meeting. If no group of our common or preferred shareholders meets the thresholds described above, shareholders holding preferred shares or common shares representing at least 10% of our total share capital are entitled to combine their holdings to appoint one member and an alternate to our board of directors. In the event that minority holders of common shares and/or holders of non-voting preferred shares elect a director and the cumulative voting procedures described above are also used, our controlling shareholders always retain the right to elect at least one member more than the number of members elected by the other shareholders, regardless of the total number of members of our board of directors. The shareholders seeking to exercise these minority rights must prove that they have held their shares for not less than three months preceding the shareholders meeting at which the director will be appointed. Any directors appointed by the non-controlling shareholders have the right to veto for cause the selection of our independent registered public accounting firm.

In accordance with the Brazilian Corporation Law, the holders of preferred shares without voting rights or with restricted voting rights are entitled to elect one member and an alternate to our fiscal council in a separate election. Minority shareholders have the same right as long as they jointly represent 10% or more of the voting shares. The other shareholders with the right to vote may elect the remaining members and alternates, who, in any event, must number more than the directors and alternates elected by the holders of the non-voting preferred shares and the minority shareholders.

*Voting Rights of Preferred Shares*

Holders of our preferred shares are not entitled to vote on any matter, except:

with respect to the election of a member of our board of directors by preferred shareholders holding at least 10% of our total share capital as described above;

with respect to the election of a member and alternate member of our fiscal council as described above;

with respect to the approval of the contracting of foreign entities related to the controlling shareholders of our company to render management services, including technical assistance, in which decisions preferred shares will have the right to vote separately from the common shares;

with respect to decisions relating to the employment of foreign entities linked to the controlling shareholders of our company to provide management services, including technical assistance, if the remuneration for such services will exceed 0.2% of our consolidated annual sales for fixed switched telephone service, network service transport telecommunication and the mobile highway telephone service, after deductions of tax and contributions; and

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in the limited circumstances described below.

The Brazilian Corporation Law and our by-laws provide that our preferred shares will acquire unrestricted voting rights after the third consecutive fiscal year that we fail to pay the minimum dividends to which our preferred shares are entitled. This voting right will continue until the past due minimum dividend for any year in that three consecutive-year period is paid in full. Our preferred shareholders will also obtain unrestricted voting rights if we enter into a liquidation process.

Under the Brazilian Corporation Law, the following actions require ratification by the majority of issued and outstanding shares of the affected class within one year from the shareholders' meeting at which the common shareholders approve the action:

the creation of preferred shares or a disproportionate increase of an existing class of our preferred shares relative to the other classes of our preferred shares, other than to the extent permitted by our by-laws;

a change of a priority, preference, right, privilege or condition of redemption or amortization of any class of our preferred shares; or

the creation of a new class of preferred shares that has a priority, preference, right, condition or redemption or amortization superior to an existing class of our preferred shares.

### ***Liquidation***

We may be liquidated in accordance with the provisions of Brazilian law. In the event of our extrajudicial liquidation, a shareholders' meeting will determine the manner of our liquidation, appoint our liquidator and our fiscal council that will function during the liquidation period.

Upon our liquidation, our preferred shares do not have a liquidation preference over our common shares in respect of the distribution of our net assets. In the event of our liquidation, the assets available for distribution to our shareholders would be distributed to our shareholders in an amount equal to their *pro rata* share of our legal capital. If the assets to be so distributed are insufficient to fully compensate our all of our shareholders for their legal capital, each of our shareholders would receive a *pro rata* amount (based on their *pro rata* share of our legal capital) of any assets available for distribution.

### ***Preemptive Rights***

Under the Brazilian Corporation Law, each of our shareholders has a general preemptive right to subscribe for our shares or securities convertible into our shares in any capital increase, in proportion to the number of our shares held by such shareholder.

Under our by-laws, except when issuing voting shares or securities convertible into voting shares, our board of directors or our shareholders, as the case may be, may decide not to extend preemptive rights to our shareholders with respect to any issuance of our shares, debentures convertible into our shares or warrants made in connection with a public exchange made to acquire control of another company or in connection with a public offering or through a stock exchange. The preemptive rights are transferable and must be exercised within a period of at least 30 days following the publication of notice of the issuance of shares or securities convertible into our shares. Holders of our

ADSs may not be able to exercise the preemptive rights relating to our preferred shares underlying their ADSs unless a registration statement under the Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the shares relating to these preemptive rights or to take any other action to make preemptive rights available to holders of our ADSs, and we may not file any such registration statement.

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**Table of Contents*****Redemption, Amortization, Tender Offers and Rights of Withdrawal***

Our by-laws or our shareholders at a shareholders meeting may authorize us to use our profits or reserves to redeem or amortize our shares in accordance with conditions and procedures established for such redemption or amortization. The Brazilian Corporation Law defines redemption (*resgate de ações*) as the payment of the value of the shares in order to permanently remove such shares from circulation, with or without a corresponding reduction of our share capital. The Brazilian Corporation Law defines amortization (*amortização*) as the distribution to the shareholders, without a corresponding capital reduction, of amounts that they would otherwise receive if we were liquidated. If an amortization distribution has been paid prior to our liquidation, then upon our liquidation, the shareholders who did not receive an amortization distribution will have a preference equal to the amount of the amortization distribution in the distribution of our capital.

The Brazilian Corporation Law authorizes us to redeem shares not held by our controlling shareholders, if, after a tender offer effected as a consequence of delisting or a substantial reduction in the liquidity of our shares, our controlling shareholders increase their participation in our total share capital to more than 95%. The redemption price in such case would be the same price paid for our shares in any such tender offer.

The Brazilian Corporation Law and our by-laws also require the acquirer of control (in case of a change of control) or the controller (in case of delisting or a substantial reduction in liquidity of our shares) to make a tender offer for the acquisition of the shares held by minority shareholders under certain circumstances described below under Mandatory Tender Offers. The shareholder can also withdraw its capital from our company under certain circumstances described below under Rights of Withdrawal.

***Mandatory Tender Offers***

The Brazilian Corporation Law requires that if our common shares are delisted from the BM&FBOVESPA or there is a substantial reduction in liquidity of our common shares, as defined by the CVM, in each case as a result of purchases by our controlling shareholders, our controlling shareholders must effect a tender offer for acquisition of our remaining common shares at a purchase price equal to the fair value of our common shares taking into account the total number of our outstanding common shares.

If our controlling shareholders enter into a transaction which results in a change of control of our company, the controlling shareholders must include in the documentation of the transaction an obligation to effect a public offer for the purchase of all our common shares for the same price per share paid to the controlling shareholders. The tender offer must be submitted to the CVM within 30 days from the date of execution of the documents that provide for the change of control.

***Rights of Withdrawal***

The Brazilian Corporation Law provides that, in certain limited circumstances, a dissenting shareholder may withdraw its equity interest from our company and be reimbursed by us for the value of our common or preferred shares that it then holds.

This right of withdrawal may be exercised by the dissenting or non-voting holders of the adversely affected class of shares (including any holder of preferred shares of an adversely affected class) in the event that the holders of a majority of all outstanding common shares authorize:

the creation of preferred shares or a disproportionate increase of an existing class of our preferred shares relative to the other classes of our preferred shares, other than to the extent permitted by our by-laws;

a change of a priority, preference, right, privilege or condition of redemption or amortization of any class of our preferred shares; or

the creation of a new class of preferred shares that has a priority, preference, right, condition or redemption or amortization superior to an existing class of our preferred shares.

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In addition, this right of withdrawal may be exercised by any dissenting or non-voting shareholder (including any holder of preferred shares) in the event that the holders of a majority of the outstanding common shares authorize:

a reduction of the mandatory dividend set forth in our by-laws;

our participation in a centralized group of companies;

a change in our corporate purpose;

spinning-off of all or any part of our company, if such spin-off implies (1) a change in our business purpose (except if the spun-off assets revert to a company whose main purpose is the same as ours), (2) a reduction of the mandatory dividend set forth in our by-laws, or (3) our participation in a centralized group of companies; or

in one of the following transactions in which the shares held by such holders do not meet liquidity and dispersion thresholds under the Brazilian Corporation Law:

the merger of our company with another company, or the consolidation of our company, in a transaction in which our company is not the surviving entity;

the transfer of all of our outstanding shares to another company in an *incorporação de ações* transaction;

the transfer of all of the outstanding shares of another company to us in an *incorporação de ações* transaction; or

the acquisition of control of another company at a price that exceeds certain limits set forth in the Brazilian Corporation Law.

Dissenting or non-voting shareholders are also entitled to withdraw in the event that the entity resulting from a merger or spin-off does not have its shares listed in an exchange or traded in the secondary market within 120 days from the shareholders' meeting that approved the relevant merger or spin-off.

Notwithstanding the above, in the event that we are consolidated or merged with another company, become part of a centralized group of companies, or acquire the control of another company for a price in excess of certain limits imposed by the Brazilian Corporation Law, holders of any type or class of our shares or the shares of the resulting entity that have minimal market liquidity and are dispersed among a sufficient number of shareholders will not have the right to withdraw. For this purpose, shares that are part of general indices representative of portfolios of securities traded in Brazil or abroad are considered liquid, and sufficient dispersion will exist if the controlling shareholder, the



parent company or other companies under its control hold less than half of the total number of outstanding shares of that type or class. In case of a spin-off, the right of withdrawal will only exist if (1) there is a significant change in the corporate purpose, (2) there is a reduction in the mandatory dividend, or (3) the spin-off results in our participation in a centralized group of companies.

Only shareholders who own shares on the date of publication of the first notice convening the relevant shareholders meeting or the press release concerning the relevant transaction is published, whichever is earlier, will be entitled to withdrawal rights.

The redemption of shares arising out of the exercise of any withdrawal rights would be made at the economic value of the shares, generally equal to the book value per share, determined on the basis of our most recent audited balance sheet approved by our shareholders. The economic value of the shares may be lower than the net book value amount if it is based on the economic value of the enterprise, as determined by an appraisal process in accordance with Brazilian Corporation Law. If the shareholders' meeting approving the action that gave rise to withdrawal rights occurred more than 60 days after the date of the most recent approved audited balance sheet, a shareholder may demand that its shares be valued on the basis of a balance sheet prepared specifically for this purpose.

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The right of withdrawal lapses 30 days after the date of publication of the minutes of the shareholders' meeting that approved the action that gave rise to withdrawal rights, except when the resolution is approved pending confirmation by the holders of our preferred shares (such confirmation to be given at an extraordinary meeting of such preferred shareholders to be held within one year). In this event, the 30-day period for dissenting shareholders begins at the date of publication of the minutes of the extraordinary meeting of such preferred shareholders. Our shareholders may reconsider any resolution giving rise to withdrawal rights within 10 days after the expiration of the exercise period of withdrawal rights if we believe that the withdrawal of shares of dissenting shareholders would jeopardize our financial stability.

***Liability of Our Shareholders for Further Capital Calls***

Neither Brazilian law nor our by-laws require any capital calls. Our shareholders' liability for capital calls is limited to the payment of the issue price of any shares subscribed or acquired.

***Inspection of Corporate Records***

Shareholders that own 5% or more of our outstanding share capital have the right to inspect our corporate records, including shareholders' lists, corporate minutes, financial records and other documents of our company, if (1) we or any of our officers or directors have committed any act contrary to Brazilian law or our by-laws, or (2) there are grounds to suspect that there are material irregularities in our company. However, in either case, the shareholder that desires to inspect our corporate records must obtain a court order authorizing the inspection.

***Disclosures of Share Ownership***

Brazilian regulations require that (1) each of our controlling shareholders, directly or indirectly, (2) shareholders who have elected members of our board of directors or fiscal council, and (3) any person or group of persons representing a person that has directly or indirectly acquired or sold an interest corresponding to at least 5% of the total number of our shares of any type or class to disclose its or their share ownership or divestment to the CVM and to the BM&FBOVESPA. In addition, a statement (*fato relevante*) containing certain required information must be published in the national edition of *Valor Econômico*, a Brazilian newspaper, and in the Official Gazette of the state of Rio de Janeiro (*Diário Oficial do Estado do Rio de Janeiro*).

Our controlling shareholders, shareholders that appoint members of our board of directors or fiscal council and members of our board of directors, board of executive officers or fiscal council must file a statement of any change in their holdings of our shares with the CVM and the Brazilian stock exchanges on which our securities are traded.

***Form and Transfer***

Our preferred shares and common shares are in book-entry form, registered in the name of each shareholder or its nominee. The transfer of our shares is governed by Article 35 of the Brazilian Corporation Law, which provides that a transfer of shares is effected by our transfer agent, Banco do Brasil S.A., by an entry made by the transfer agent in its books, upon presentation of valid written share transfer instructions to us by a transferor or its representative. When preferred shares or common shares are acquired or sold on a Brazilian stock exchange, the transfer is effected on the records of our transfer agent by a representative of a brokerage firm or the stock exchange's clearing system. The transfer agent also performs all the services of safe-keeping of our shares. Transfers of our shares by a non-Brazilian investor are made in the same manner and are executed on the investor's behalf by the investor's local agent. If the original investment was registered with the Central Bank pursuant to foreign investment regulations, the non-Brazilian investor is also required to amend, if necessary, through its local agent, the electronic certificate of registration to

reflect the new ownership.

The BM&FBOVESPA operates a central clearing system. A holder of our shares may choose, at its discretion, to participate in this system, and all shares that such shareholder elects to be put into the clearing system are

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deposited in custody with the clearing and settlement chamber of the BM&FBOVESPA (through a Brazilian institution that is duly authorized to operate by the Central Bank and maintains a clearing account with the clearing and settlement chamber of the BM&FBOVESPA). Shares subject to the custody of the clearing and settlement chamber of the BM&FBOVESPA are noted as such in our registry of shareholders. Each participating shareholder will, in turn, be registered in the register of the clearing and settlement chamber of the BM&FBOVESPA and will be treated in the same manner as shareholders registered in our books.

## **Material Contracts**

We have not entered into any material contracts, other than those described in this annual report or entered into in the ordinary course of business.

## **Exchange Controls**

There are no restrictions on ownership or voting of our capital stock by individuals or legal entities domiciled outside Brazil. However, the right to convert dividend payments, interest on shareholders' equity payments and proceeds from the sale of our share capital into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation and foreign exchange regulations, which generally require, among other things, the registration of the relevant investment with the Central Bank and the CVM.

Investments in our common shares or preferred shares by (1) a holder not deemed to be domiciled in Brazil for Brazilian tax purposes, (2) a non-Brazilian holder who is registered with the CVM under Resolution No. 2,689, or (3) the depositary, are eligible for registration with the Central Bank. This registration (the amount so registered is referred to as registered capital) allows the remittance outside Brazil of foreign currency, converted at the commercial market rate, acquired with the proceeds of distributions on, and amounts realized through, dispositions of our common shares or preferred shares. The registered capital per common share or preferred share purchased in the form of an ADS, or purchased in Brazil and deposited with the depositary in exchange for an ADS, will be equal to its purchase price (stated in U.S. dollars). The registered capital per common share withdrawn upon cancellation of a Common ADS will be the U.S. dollar equivalent of (1) the average price of a common share on the BM&FBOVESPA on the day of withdrawal, or (2) if no preferred shares were traded on that day, the average price on the BM&FBOVESPA in the 15 trading sessions immediately preceding such withdrawal. The registered capital per preferred share withdrawn upon cancellation of a Preferred ADS will be the U.S. dollar equivalent of (1) the average price of a preferred share on the BM&FBOVESPA on the day of withdrawal, or (2) if no preferred shares were traded on that day, the average price on the BM&FBOVESPA in the 15 trading sessions immediately preceding such withdrawal. The U.S. dollar equivalent will be determined on the basis of the average commercial market rates quoted by the Central Bank on the relevant dates.

## ***Annex V Regulations***

Resolution No. 1,927 of the National Monetary Council, as amended, provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. It restates and amends Annex V to Resolution No. 1,289 of the National Monetary Council, known as the Annex V Regulations. The ADS program was approved under the Annex V Regulations by the Central Bank and the CVM prior to the issuance of the ADSs. Accordingly, the proceeds from the sale of ADSs by ADR holders outside Brazil are not subject to Brazilian foreign investment controls, and holders of the ADSs who are not resident in a tax haven jurisdiction are entitled to favorable tax treatment. See **Taxation** Brazilian Tax Considerations.

We pay dividends and other cash distributions with respect to our common shares and preferred shares in *reais*. We have obtained an electronic certificate of foreign capital registration from the Central Bank in the name of the depositary with respect to our ADSs to be maintained by the custodian on behalf of the depositary. Pursuant to this registration, the custodian is able to convert dividends and other distributions with respect to our common shares and preferred shares represented by ADSs into foreign currency and remit the proceeds outside Brazil to the depositary so that the depositary may distribute these proceeds to the holders of record of the ADSs.

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Investors residing outside Brazil may register their investments in our shares as foreign portfolio investments under Resolution No. 2,689 (described below) or as foreign direct investments under Law No. 4,131 (described below). Registration under Resolution No. 2,689 or Law No. 4,131 generally enables non-Brazilian investors to convert dividends, other distributions and sales proceeds received in connection with registered investments into foreign currency and to remit such amounts outside Brazil. Registration under Resolution No. 2,689 affords favorable tax treatment to non-Brazilian portfolio investors who are not resident in a tax haven jurisdiction, which is defined under Brazilian tax laws as a country that does not impose taxes or where the maximum income tax rate is lower than 20% or that restricts the disclosure of shareholder composition or ownership of investments. See Taxation Brazilian Tax Considerations.

In the event that a holder of ADSs exchanges those ADSs for the underlying common shares or preferred shares, the holder must:

sell those shares on the BM&FBOVESPA and rely on the depositary's electronic registration for five business days from the date of exchange to obtain and remit U.S. dollars outside Brazil upon the holder's sale of our preferred shares;

convert its investment in those shares into a foreign portfolio investment under Resolution No. 2,689; or

convert its investment in those shares into a direct foreign investment under Law No. 4,131.

The custodian is authorized to update the depositary's electronic registration to reflect conversions of ADSs into foreign portfolio investments under Resolution No. 2,689.

If a holder of ADSs elects to convert its ADSs into a foreign direct investment under Law No. 4,131, the conversion will be effected by the Central Bank after receipt of an electronic request from the custodian with details of the transaction. If a foreign direct investor under Law No. 4,131 elects to deposit its common shares or preferred shares into the relevant ADR program in exchange for ADSs, such holder will be required to present to the custodian evidence of payment of capital gains taxes. The conversion will be effected by the Central Bank after receipt of an electronic request from the custodian with details of the transaction. See Taxation Brazilian Tax Considerations for details of the tax consequences to an investor residing outside Brazil of investing in our common shares or preferred shares in Brazil.

If a holder of ADSs wishes to convert its investment in our shares into either a foreign portfolio investment under Resolution No. 2,689 or a foreign direct investment under Law No. 4,131, it should begin the process of obtaining its own foreign investor registration with the Central Bank or with the CVM, as the case may be, in advance of exchanging the ADSs for the underlying common shares or preferred shares. A non-Brazilian holder of common shares or preferred shares may experience delays in obtaining a foreign investor registration, which may delay remittances outside Brazil, which may in turn adversely affect the amount, in U.S. dollars, received by the non-Brazilian holder.

Unless the holder has registered its investment with the Central Bank, the holder may not be able to convert the proceeds from the disposition of, or distributions with respect to, such common shares or preferred shares into foreign currency or remit those proceeds outside Brazil. In addition, if the non-Brazilian investor resides in a tax haven jurisdiction or is not an investor registered under Resolution No. 2,689, the investor will be subject to less favorable

tax treatment than a holder of ADSs. See Taxation Brazilian Tax Considerations.

***Resolution 2,689***

All investments made by a non-Brazilian investor under Resolution No. 2,689 are subject to an electronic registration with the Central Bank. This registration permits non-Brazilian investors to convert dividend payments, interest on shareholders' equity payments and proceeds from the sale of our share capital into foreign currency and to remit such amounts outside Brazil.

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Under Resolution No. 2,689, non-Brazilian investors registered with the CVM may invest in almost all financial assets and engage in almost all transactions available to Brazilian investors in the Brazilian financial and capital markets without obtaining a separate Central Bank registration for each transaction, provided that certain requirements are fulfilled. Under Resolution No. 2,689, the definition of a non-Brazilian investor includes individuals, legal entities, mutual funds and other collective investment entities, domiciled or headquartered outside Brazil.

Pursuant to Resolution No. 2,689, non-Brazilian investors must:

appoint at least one representative in Brazil with powers to take action relating to its investments;

appoint an authorized custodian in Brazil for its investments, which must be a financial institution duly authorized by the Central Bank and CVM;

complete the appropriate foreign investor registration forms;

register as a non-Brazilian investor with the CVM;

register its investments with the Central Bank; and

obtain a taxpayer identification number from the Brazilian federal tax authorities.

The securities and other financial assets held by a non-Brazilian investor pursuant to Resolution No. 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM or be registered in registration, clearing and custody systems authorized by the Central Bank or by the CVM. In addition, the trading of securities held under Resolution No. 2,689 is restricted to transactions carried out on stock exchanges or through organized over-the-counter markets licensed by the CVM.

The offshore transfer or assignment of the securities or other financial assets held by non-Brazilian investors pursuant to Resolution No. 2,689 are prohibited, except for transfers resulting from a corporate reorganization effected abroad by a non-Brazilian investor, or occurring upon the death of an investor by operation of law or will.

***Law 4,131***

To obtain a certificate of foreign capital registration from the Central Bank under Law No. 4,131, a foreign direct investor must:

register as a foreign direct investor with the Central Bank;

obtain a taxpayer identification number from the Brazilian tax authorities;



appoint a tax representative in Brazil; and

appoint a representative in Brazil for service of process in respect of suits based on the Brazilian Corporation Law.

Foreign direct investors under Law No. 4,131 may sell their shares in either private or open market transactions, but these investors will generally be subject to less favorable tax treatment on gains with respect to our common or preferred shares. See Taxation Brazilian Tax Considerations.

### **Taxation**

The following discussion contains a description of the material Brazilian and U.S. federal income tax consequences of the acquisition, ownership and disposition of our common shares, preferred shares or ADSs. The

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following discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, hold or dispose of our common shares, preferred shares or ADSs. This discussion is based upon the tax laws of Brazil and the United States and regulations under these tax laws as currently in effect, which are subject to change.

Although there is at present no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had discussions that may culminate in such a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the U.S. holders of our common shares, preferred shares or ADSs.

Prospective purchasers of our common shares, preferred shares or ADSs should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of our common shares, preferred shares or ADSs in their particular circumstances.

***Brazilian Tax Considerations***

The following discussion contains a description of the material Brazilian tax consequences, subject to the limitations set forth herein, of the acquisition, ownership and disposition of our common shares, preferred shares or ADSs by a holder not deemed to be domiciled in Brazil for purposes of Brazilian taxation, or a Non-Brazilian Holder. This discussion is based on the tax laws of Brazil and regulations thereunder in effect on the date hereof, which are subject to change (possibly with retroactive effect). This discussion does not specifically address all of the Brazilian tax considerations that may be applicable to any particular Non-Brazilian Holder. Therefore, each Non-Brazilian Holder should consult its own tax advisor about the Brazilian tax consequences of an investment in our common shares, preferred shares or ADSs.

Individuals domiciled in Brazil and Brazilian companies are taxed in Brazil on the basis of their worldwide income which includes earnings of Brazilian companies' foreign subsidiaries, branches and affiliates. The earnings of branches of foreign companies and non-Brazilian residents, or nonresidents, in general are taxed in Brazil only on income derived from Brazilian sources.

***Dividends***

Dividends paid by a Brazilian corporation, such as Oi, including stock dividends and other dividends paid to a Non-Brazilian Holder of our common shares, preferred shares or ADSs, are currently not subject to income tax withholding in Brazil to the extent that such amounts are related to profits generated after January 1, 1996. Dividends paid from profits generated before January 1, 1996 may be subject to Brazilian income tax withholding at varying rates, according to the tax legislation applicable to each corresponding year.

***Interest on Shareholders' Equity***

Law No. 9,249, dated December 26, 1995, as amended, allows a Brazilian corporation, such as Oi, to make distributions to shareholders of interest on shareholders' equity, and treat those payments as a deductible expense for purposes of calculating Brazilian corporate income tax, and, since 1998, social contribution on net profit as well, as long as the limits described below are observed. These distributions may be paid in cash. For tax purposes, the deductible amount of this interest is limited to the daily pro rata variation of the TJLP, as determined by the Brazilian Central Bank from time to time, and the amount of the deduction may not exceed the greater of:

50% of net income (after the deduction of social contribution on net profit but before taking into account the provision for corporate income tax and the amounts attributable to shareholders as interest on shareholders equity) for the period in respect of which the payment is made; and

50% of the sum of retained profits and income reserves as of the date of the beginning of the period in respect of which the payment is made.

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Payment of interest on shareholders' equity to a Non-Brazilian Holder is subject to income tax withholding at the rate of 15%, or 25% if the Non-Brazilian Holder is domiciled in a country or location that is considered to be a tax haven jurisdiction for this purpose. For this purpose, the definition of tax haven encompasses countries and locations (1) that do not impose income tax, (2) that impose income tax at a rate of 20% or less, or (3) that impose restrictions on the disclosure of the ownership of investments, or of the identity of the ultimate beneficiary of earnings that are attributed to non-residents. See Interpretation of the Definition of Tax Haven Jurisdictions.

These payments of interest on shareholders' equity may be included, at their net value, as part of any mandatory dividend. To the extent payment of interest on net equity is so included, Oi is required to distribute to shareholders an additional amount to ensure that the net amount received by them, after payment of the applicable income tax withholding, is at least equal to the mandatory dividend.

Payments of interest on shareholders' equity are decided by Oi's shareholders, at its annual shareholders meeting, on the basis of recommendations of its board of directors. No assurance can be given that our board of directors will not recommend that future distributions of profits should be made by means of interest on shareholders' equity instead of by means of dividends.

*Taxation of Gains*

Under Law No. 10,833, enacted on December 29, 2003, the gain on the disposition or sale of assets located in Brazil by a Non-Brazilian Holder, whether to another non-Brazilian resident or to a Brazilian resident, may be subject to income tax withholding in Brazil.

With respect to the disposition of our common shares or preferred shares, as they are assets located in Brazil, the Non-Brazilian Holder should be subject to income tax on the gains assessed, following the rules described below, regardless of whether the transactions are conducted in Brazil or with a Brazilian resident.

With respect to our ADSs, although the matter is not entirely clear, arguably the gains realized by a Non-Brazilian Holder upon the disposition of ADSs to another non-Brazilian resident will not be taxed in Brazil, on the basis that ADSs are not assets located in Brazil for the purposes of Law No. 10,833. We cannot assure you, however, that the Brazilian tax authorities or the Brazilian courts will agree with this interpretation. As a result, gains on a disposition of ADSs by a Non-Brazilian Holder to a Brazilian resident, or even to a non-Brazilian resident, in the event that courts determine that ADSs would constitute assets located in Brazil, may be subject to income tax in Brazil according to the rules applicable to our common shares and preferred shares, described above.

As a general rule, gains realized as a result of a disposition of our common shares, preferred shares or ADSs are the positive difference between the amount realized on the transaction and the acquisition cost of our common shares, preferred shares or ADSs.

Under Brazilian law, however, income tax rules on such gains can vary depending on the domicile of the Non-Brazilian Holder, the type of registration of the investment by the Non-Brazilian Holder with the Central Bank and how the disposition is carried out, as described below.

Gains realized on a disposition of shares carried out on a Brazilian stock exchange (which includes the organized over-the-counter market) are:

exempt from income tax when realized by a Non-Brazilian Holder that (1) has registered its investment in Brazil with the Central Bank under the rules of Resolution 2,689 (a 2,689 Holder ), and (2) is not a resident in a country or location which is defined as a tax haven jurisdiction for this purposes (as described below); or

subject to income tax at a rate of up to 25% in any other case, including a case of gains assessed by a Non-Brazilian Holder that is not a 2,689 Holder, and is a resident of a country or location defined as a tax haven jurisdiction for this purpose (as described below). In these cases, a withholding income tax of 0.005% of the sale value will be applicable and can be later offset with the eventual income tax due on the capital gain. This 0.005% withholding income tax is not levied on day trade transactions.

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Any gains assessed on a disposition of our common shares or preferred shares that is not carried out on a Brazilian stock exchange are subject to income tax at the rate of 15%, or 25% in the case of a Non-Brazilian Holder which resides in a tax haven jurisdiction according to the definition applicable to this situation. In the case that these gains are related to transactions conducted on the Brazilian non-organized over-the-counter market with intermediation, income tax withholding of 0.005% will also be applicable and can be offset against the eventual income tax due on the capital gain. This 0.005% income tax withholding is not levied in day trade transactions.

In the case of 2,689 Holders, a country or location should only be defined as a tax haven jurisdiction when it (1) does not tax income, or (2) taxes income at a rate of 20% or less. In the case of gains realized by Non-Brazilian Holders other than 2,689 Holders, a country or location should be defined as a tax haven jurisdiction when it (a) does not tax income, (b) taxes income at a rate of 20% or less, or (c) imposes restrictions on the disclosure of shareholding composition, of the ownership of investments, or of the identity of the ultimate beneficiary of earnings that are attributed to non-residents. However, there is doubt as to the application of these criteria by the Brazilian tax authorities. See Interpretation of the Definition of Tax Haven Jurisdictions.

In the case of redemption of securities or capital reduction by a Brazilian corporation, such as Oi, the positive difference between the amount effectively received by the Non-Brazilian Holder and the corresponding acquisition cost is treated, for tax purposes, as capital gain derived from sale or exchange of shares not carried out on a Brazilian stock exchange market, and is therefore subject to income tax at the rate of 15% or 25%, as the case may be.

The deposit of our common or preferred shares in exchange for ADSs will be subject to Brazilian income tax if the acquisition cost of the shares is lower than (1) the average price per share on a Brazilian stock exchange on which the greatest number of such shares were sold on the day of deposit, or (2) if no shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of shares were sold in the 15 trading sessions immediately preceding such deposit. In such case, the difference between the acquisition cost and the average price of the shares calculated as above will be considered to be a capital gain subject to income tax withholding at the rate of 15% or 25%, as the case may be. In some circumstances, there may be arguments to claim that this taxation is not applicable in the case of a Non-Brazilian Holder that is a 2,689 Holder and is not a resident in a tax haven jurisdiction for this purpose. The availability of these arguments to any specific holder of our common shares or preferred shares will depend on the circumstances of such holder. Prospective holders of our common shares or preferred shares should consult their own tax advisors as to the tax consequences of the deposit of our common shares or preferred shares in exchange for ADSs.

Any exercise of preemptive rights relating to our common shares, preferred shares or ADSs will not be subject to Brazilian taxation. Any gain on the sale or assignment of preemptive rights relating to our common shares or preferred shares, including the sale or assignment carried out by the depository, on behalf of Non-Brazilian Holders of ADSs, will be subject to Brazilian income taxation according to the same rules applicable to the sale or disposition of our common shares or preferred shares.

*Interpretation of the Discussion on the Definition of Tax Haven Jurisdictions*

On June 24, 2008, Law No. 11,727 broadened the definition of tax haven jurisdiction for specific purposes, with effect as from January 1, 2009. However, the Brazilian tax authorities regularly issue a list of jurisdictions that are considered tax haven jurisdictions, and such list has not been updated after the modifications introduced by Law No. 11,727. We can offer no assurance that, when and if Brazilian tax authorities issue a new list, those authorities will not regard as tax haven jurisdictions countries or locations which do not meet the criteria provided for under applicable law, in each particular situation.

*Tax on Foreign Exchange Transactions (IOF/Exchange Tax)*

Brazilian law imposes the IOF/Exchange Tax on the conversion of *reais* into foreign currency and on the conversion of foreign currency into *reais*. Foreign exchange agreements entered into as from October 20, 2009 in

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connection with inflows of funds related to investments carried out by Non-Brazilian Holders in the Brazilian financial and capital markets are subject to the IOF/Exchange Tax at a rate of 2.0%. However, foreign exchange transactions related to outflows of funds in connection with investments made in the Brazilian financial and capital markets are subject to IOF/Exchange at a zero percent rate. This zero percent rate applies to payments of dividends and interest on shareholders' equity to Non-Brazilian Holders with respect to investments in the Brazilian financial and capital markets. Other than these transactions, the rate applicable to most foreign exchange transactions is 0.38%. Other rates may apply to particular transactions and the Brazilian government may increase the rate at any time up to 25.0% on the foreign exchange transaction amount. However, any increase in rates is only authorized to apply to future transactions.

*Tax on Transactions Involving Bonds and Securities (IOF/Bonds and Securities Tax)*

Brazilian law also imposes the IOF/Bonds Tax due on transactions involving bonds and securities, including those carried out on a Brazilian stock exchange. The rate of the IOF/Bonds and Securities Tax applicable to transactions involving our common shares or preferred shares is currently zero. However, the rate of the IOF/Bonds and Securities Tax applicable to the transfer of our common shares or preferred shares with the specific purpose of enabling the issuance of ADSs is currently 1.5%. This rate is applied on the product of (1) the number of shares which are transferred, multiplied by (2) the closing price for those shares on the date prior to the transfer or, if such closing price is not available on that date, the last available closing price for those shares. The Brazilian government may increase the rate of the IOF/Bonds and Securities Tax at any time up to 1.5% per day of the transaction amount, but only in respect of transactions carried out after the increase in rate enters into force.

*Other Brazilian Taxes*

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of our common shares, preferred shares or ADSs by a Non-Brazilian Holder except for gift and inheritance taxes levied by some states in Brazil. There are no Brazilian stamp, issue, registration, or similar taxes or duties payable by Non-Brazilian Holders of our common shares, preferred shares or ADSs.

***U.S. Federal Income Tax Considerations***

The following is a discussion of the material U.S. federal income tax consequences that may be relevant with respect to the ownership and disposition of the common shares, preferred shares or ADSs of Oi, which are evidenced by ADRs. This description addresses only the U.S. federal income tax considerations of U.S. Holders (as defined below) that are initial purchasers of the common shares, preferred shares or ADSs of Oi and that will hold such shares or ADSs as capital assets. This description does not address tax considerations applicable to holders that may be subject to special tax rules, such as banks, financial institutions, insurance companies, real estate investment trusts, grantor trusts, regulated investment companies, dealers or traders in securities or currencies, tax-exempt entities, pension funds, persons that received the common shares, preferred shares or ADSs of Oi pursuant to an exercise of employee stock options or rights or otherwise as compensation for the performance of services, persons that will hold the common shares, preferred shares or ADSs of Oi as a position in a straddle or as a part of a hedging, conversion or other risk reduction transaction for U.S. federal income tax purposes, persons that have a functional currency other than the U.S. dollar, persons that will own the common shares, preferred shares or ADSs of Oi through partnerships or other pass through entities, holders subject to the alternative minimum tax, certain former citizens or long-term residents of the United States or holders that own (or are deemed to own) 10% or more (by voting power) of the shares of Oi.



This description does not address any state, local or non-U.S. tax consequences of the ownership and disposition of the common shares, preferred shares or ADSs of Oi by U.S. Holders. Moreover, this description does not address the consequences of any U.S. federal tax other than income tax, including but not limited to the U.S. federal estate and gift taxes. This description is based on (1) the Internal Revenue Code of 1986, as amended (the Code), existing and temporary U.S. Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date of this annual report, as well as proposed Treasury Regulations available on the date of this annual report, and (2) in part, on the representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms. All of the foregoing is subject to change, which change could apply retroactively and could affect the

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tax consequences described below. Holders should consult their tax advisers to determine the particular tax consequences to such holders of the ownership and disposition of the common shares, preferred shares or ADSs of Oi, including the applicability and effect of U.S. state, local and non-U.S. tax laws.

As used herein, the term **U.S. Holder** means, for U.S. federal tax purposes, a beneficial owner of common shares, preferred shares or ADSs of Oi that is:

an individual citizen or resident of the United States;

a corporation organized under the laws of the United States, any state thereof or the District of Columbia;

an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust if (1) a court within the United States is able to exercise primary supervision over its administration, and (2) one or more United States persons have the authority to control all of the substantial decisions of such trust.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds the common shares, preferred shares or ADSs of Oi, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. A partnership or its partners should consult their tax advisor as to its tax consequences.

*Treatment of ADSs*

In general, for U.S. federal income tax purposes, a holder of an ADR evidencing an ADS will be treated as the beneficial owner of the common shares or preferred shares of Oi represented by the applicable ADS. The U.S. Treasury Department has expressed concern that depositaries for ADSs, or other intermediaries between the holders of shares of an issuer and the issuer, may be taking actions that are inconsistent with the claiming of U.S. foreign tax credits by U.S. Holders of such receipts or shares. Such actions include, for example, a pre-release of an ADS by a depositary. Accordingly, the analysis regarding the availability of a U.S. foreign tax credit for Brazilian taxes, the sourcing rules described below and the availability of the reduced tax rate for dividends received by certain non-corporate holders, each could be affected by future actions that may be taken by the U.S. Treasury Department.

*Taxation of Dividends*

Subject to the discussion below under **Passive Foreign Investment Company Rules**, in general, the gross amount of a distribution made with respect to a common share, preferred share or ADS of Oi (which for this purpose shall include distributions of interest attributable to shareholders' equity before any reduction for any Brazilian taxes withheld therefrom) will, to the extent made from the current or accumulated earnings and profits of Oi, as determined under U.S. federal income tax principles, constitute a dividend to a U.S. Holder for U.S. federal income tax purposes. Non-corporate U.S. Holders may be taxed on dividends from a qualified foreign corporation at the lower rates applicable to long-term capital gains (i.e., gains with respect to capital assets held for more than one year). A foreign corporation is treated as a qualified foreign corporation with respect to dividends received from that corporation on shares or ADSs that are readily tradable on an established securities market in the United States. U.S. Treasury

Department guidance indicates that the ADSs of Oi (which are listed on the NYSE), but not the common or preferred shares of Oi, are readily tradable on an established securities market in the United States. Thus, subject to the discussion below under Passive Foreign Investment Company Rules, dividends that Oi pays on the ADS, but not on the common shares or preferred shares of Oi, currently meet the conditions required for these reduced tax rates. However, there can be no assurance that the ADSs will be considered readily tradable on an established securities market in later years. Furthermore, a U.S. Holder's eligibility for such preferential rate is subject to certain holding period requirements and the non-existence of certain risk reduction transactions with respect to the ADSs. Such dividends will not be eligible for the dividends received deduction generally allowed to corporate U.S. Holders. Subject to the discussion below under Passive Foreign Investment Company Rules, if a distribution exceeds the amount of the current and accumulated earnings and profits of Oi, it will be treated as a non-taxable return of capital to the extent of the U.S. Holder's tax basis in the common share, preferred share or ADS of Oi on

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which it is paid and thereafter as capital gain. Oi does not maintain calculations of the earnings and profits of Oi under U.S. federal income tax principles. Therefore, U.S. Holders should expect that distributions by Oi generally will be treated as dividends for U.S. federal income tax purposes.

A dividend paid in reais will be includible in the income of a U.S. Holder at its value in U.S. dollars calculated by reference to the prevailing spot market exchange rate in effect on the day it is received by the U.S. Holder in the case of the common shares or preferred shares of Oi or, in the case of a dividend received in respect of ADSs of Oi, on the date the dividend is received by the depositary, whether or not the dividend is converted into U.S. dollars. Assuming the payment is not converted at that time, the U.S. Holder will have a tax basis in reais equal to that U.S. dollar amount, which will be used to measure gain or loss from subsequent changes in exchange rates. Any gain or loss realized by a U.S. Holder that subsequently sells or otherwise disposes of reais, which gain or loss is attributable to currency fluctuations after the date of receipt of the dividend, will be ordinary gain or loss. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

The gross amount of any dividend paid (which will include any amounts withheld in respect of Brazilian taxes) with respect to a common share, preferred share or ADS of Oi will be subject to U.S. federal income taxation as foreign source dividend income, which may be relevant in calculating a U.S. Holder's foreign tax credit limitation. Subject to limitations under U.S. federal income tax law concerning credits or deductions for foreign taxes and certain exceptions for short-term and hedged positions, any Brazilian withholding tax will be treated as a foreign income tax eligible for credit against a U.S. Holder's U.S. federal income tax liability (or at a U.S. Holder's election, may be deducted in computing taxable income if the U.S. Holder has elected to deduct all foreign income taxes for the taxable year). The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific baskets of income. For this purpose, the dividends should generally constitute passive category income, or in the case of certain U.S. Holders, general category income. The rules with respect to foreign tax credits are complex, and U.S. Holders are urged to consult their own tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

*Treatment of Preferred Stock*

Section 305 of the Code provides special rules for the tax treatment of preferred stock. According to the U.S. Treasury Regulations under that section, the term preferred stock generally refers to stock which enjoys certain limited rights and privileges (generally associated with specified dividend and liquidation priorities) but does not participate in corporate growth to any significant extent. While Oi's preferred shares have some preferences over its common shares, the preferred shares are not fixed as to dividend payments or liquidation value. Consequently, although the matter is not entirely clear, because the determination is highly factual in nature, it is more likely than not that the preferred shares of Oi will be treated as common stock within the meaning of section 305 of the Code. If the preferred shares are treated as common stock for purposes of section 305 of the Code, distributions to U.S. Holders of additional shares of such common stock or preemptive rights relating to such common stock with respect to their preferred shares or ADSs that are made as part of a pro rata distribution to all shareholders in most instances will not be subject to U.S. federal income tax. On the other hand, if the preferred shares are treated as preferred stock within the meaning of section 305 of the Code, and if a U.S. Holder receives a distribution of additional shares or preemptive rights as described in the preceding sentence, such distributions (including amounts withheld in respect of any Brazilian taxes), as discussed more fully below, will be treated as dividends to the same extent and in the same manner as distributions payable in cash. In that event, the amount of such distribution (and the basis of the new shares or preemptive rights so received) will equal the fair market value of the shares or preemptive rights on the date of distribution.

*Sale, Exchange or Other Disposition of the Common Shares, Preferred Shares or ADSs of Oi*

A deposit or withdrawal of common shares or preferred shares by a U.S. Holder in exchange for the ADS that represent such shares will not result in the realization of gain or loss for U.S. federal income tax purposes. Subject to the discussion below under **Passive Foreign Investment Company Rules**, a U.S. Holder generally will recognize capital gain or loss upon a sale, exchange or other disposition of a common share, preferred share or ADS of Oi held by the U.S. Holder or the depositary, as the case may be, in an amount equal to the difference between the U.S. Holder's adjusted basis in its common shares, preferred shares or ADSs of Oi (determined in U.S. dollars) and

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the U.S. dollar amount realized on the sale, exchange or other disposition. If a Brazilian tax is withheld on the sale, exchange or other disposition of a share, the amount realized by a U.S. Holder will include the gross amount of the proceeds of that sale, exchange or other disposition before deduction of the Brazilian tax. In the case of a non-corporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to capital gain generally will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income (other than, as discussed above, certain dividends) if such holder's holding period for such common share, preferred share or ADS of Oi exceeds one year (i.e., such gain is a long-term capital gain). Capital gain, if any, realized by a U.S. Holder on the sale or exchange of a common share, preferred share or ADS of Oi generally will be treated as U.S. source income for U.S. foreign tax credit purposes. Consequently, in the case of a disposition or deposit of a common share, preferred share or ADS of Oi that is subject to Brazilian tax, the U.S. Holder may not be able to use the foreign tax credit for that Brazilian tax unless it can apply the credit against U.S. tax payable on other income from foreign sources in the appropriate income category, or, alternatively, it may take a deduction for the Brazilian tax if it elects to deduct all of its foreign income taxes. The deductibility of capital losses is subject to limitations under the Code.

The initial tax basis of a U.S. Holder's common shares, preferred shares or ADSs of Oi will be the U.S. dollar value of the reais-denominated purchase price determined on the date of purchase. If the common shares, preferred shares or ADSs of Oi are treated as traded on an established securities market, a cash basis U.S. Holder, or, if it elects, an accrual basis U.S. Holder, will determine the dollar value of the cost of such common shares, preferred shares or ADSs by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. The conversion of U.S. dollars to reais and the immediate use of that currency to purchase common shares, preferred shares or ADSs generally will not result in taxable gain or loss for a U.S. Holder.

With respect to the sale or exchange of common shares, preferred shares or ADSs of Oi, the amount realized generally will be the U.S. dollar value of the payment received determined on (1) the date of receipt of payment in the case of a cash basis U.S. Holder, and (2) the date of disposition in the case of an accrual basis U.S. Holder. If the common shares, preferred shares or ADSs of Oi are treated as traded on an established securities market, a cash basis taxpayer, or, if it elects, an accrual basis taxpayer, will determine the U.S. dollar value of the amount realized by translating the amount received at the spot rate of exchange on the settlement date of the sale.

#### *Passive Foreign Investment Company Rules*

A Non-U.S. corporation will be classified as a passive foreign investment company, or a PFIC, for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules, either (1) at least 75 percent of its gross income is passive income, or (2) at least 50 percent of the average value of its gross assets is attributable to assets that produce passive income or is held for the production of passive income. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions. For purposes of the PFIC asset test, the aggregate fair market value of the assets of a publicly traded foreign corporation generally is treated as being equal to the sum of the aggregate value of the outstanding stock and the total amount of the liabilities of such corporation (the Market Capitalization).

Based on certain estimates of the gross income and gross assets of Oi, the nature of its business, the size of its investment in certain subsidiaries, and its anticipated Market Capitalization, Oi believes that it will not be classified as a PFIC for its taxable year ended December 31, 2012. Oi's status in future years will depend on its assets and activities in those years. Oi has no reason to believe that its assets or activities will change in a manner that would cause it to be classified as a PFIC for the taxable year ending December 31, 2013 or any future year, but there can be no assurance that Oi will not be considered a PFIC for any taxable year because its status will depend on its assets and activities in those years, as well as its actual Market Capitalization as determined at the end of each calendar quarter. Moreover, Oi has not obtained an opinion from counsel regarding the PFIC status of Oi for any taxable period. If Oi is or becomes a

PFIC (except as discussed below), any excess distribution (generally a distribution in excess of 125% of the average distribution over a three-year period or shorter holding period for Oi's common shares or preferred shares) and realized gain will be treated as ordinary income and will be subject to tax as if (1) the excess distribution or gain had been realized ratably over the U.S. Holder's holding period, (2) the amount deemed realized in each year had been subject to tax in each such year at the highest marginal rate for such year (other than income allocated to the current period or any taxable period before Oi became a PFIC, which would be subject to tax at the U.S. Holder's regular ordinary income rate for the current year and would not be subject to the

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interest charge discussed below), and (3) the interest charge generally applicable to underpayments of tax had been imposed on the taxes deemed to have been payable in those years. U.S. Holders should consult their own tax advisors regarding the tax consequences that would arise if Oi were treated as a PFIC.

If Oi were a PFIC, a U.S. Holder of the common shares, preferred shares or ADSs of Oi may be able to make certain elections that may alleviate certain of the tax consequences referred to above. Where a company that is a PFIC meets certain reporting requirements, a U.S. Holder can avoid certain adverse PFIC consequences described above by making a qualified electing fund, or QEF, election to be taxed currently on its proportionate share of the PFIC's ordinary income and net capital gains. However, Oi does not intend to comply with the necessary accounting and record keeping requirements that would allow a U.S. Holder to make a QEF election with respect to Oi.

If the common shares, preferred shares or ADSs of Oi are regularly traded on a qualified exchange, a U.S. Holder may make a mark-to-market election with respect to the common shares, preferred shares or ADSs of Oi, as the case may be. If a U.S. Holder makes the mark-to-market election, for each year in which Oi is a PFIC, the holder will generally include as ordinary income the excess, if any, of the fair market value of the common shares, preferred shares, or ADSs of Oi, as the case may be, at the end of the taxable year over their adjusted tax basis, and will be permitted an ordinary loss in respect of the excess, if any, of the adjusted tax basis of the common shares, preferred shares or ADSs of Oi, over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). If a U.S. Holder makes the election, the holder's tax basis in the common shares, preferred shares or ADSs of Oi, as the case may be, will be adjusted to reflect the amount of any such income or loss. Any gain recognized on the sale or other disposition of the common shares, preferred shares or ADSs of Oi will be treated as ordinary income. The common shares, preferred shares and ADSs of Oi will be considered marketable stock if they are traded on a qualified exchange, other than in de minimis quantities, on at least 15 days during each calendar quarter. The NYSE is a qualified exchange and the BM&FBOVESPA may constitute a qualified exchange for this purpose provided the BM&FBOVESPA meets certain trading volume, listing, financial disclosure, surveillance and other requirements set forth in applicable U.S. Treasury Regulations. However, Oi cannot be certain that the common shares, preferred shares or ADSs of Oi will continue to trade on the BM&FBOVESPA or the NYSE, respectively, or that the common shares, preferred shares or ADSs of Oi will be traded on at least 15 days in each calendar quarter in other than de minimis quantities. U.S. Holders should be aware, however, that if Oi were determined to be a PFIC, the interest charge regime described above could be applied to indirect distributions or gains deemed to be attributable to U.S. Holders in respect of any of its subsidiaries that also may be determined to be a PFIC, and the mark-to-market election generally would not be effective for such subsidiaries. Each U.S. Holder should consult its own tax advisor to determine whether a mark-to-market election is available and the consequences of making an election if Oi were characterized as a PFIC.

If a U.S. Holder owns common shares, preferred shares, or ADSs of Oi during any year in which Oi was a PFIC, such U.S. Holder generally must file IRS Form 8621 with respect to Oi, generally with the U.S. Holder's federal income tax return for that year.

### *Other Brazilian Taxes*

Any Brazilian IOF/Exchange Tax or IOF/Bonds and Securities Tax (as discussed under *Brazilian Tax Considerations* above) may not be treated as a creditable foreign tax for U.S. federal income tax purposes, although a U.S. Holder may be entitled to deduct such taxes if it elects to deduct all of its foreign income taxes. U.S. Holders should consult their tax advisors regarding the U.S. federal income tax consequences of these taxes.

### *3.8% Medicare Tax On Net Investment Income*



Certain U.S. Holders who are individuals, estates or trusts may be required to pay an additional 3.8% tax on, among other things, dividends and capital gains from the sale or other disposition of common shares, preferred shares, or ADSs of Oi.

*Information Reporting and Backup Withholding*

In general, information reporting will apply to dividends in respect of the common shares, preferred shares, or ADSs of Oi and the proceeds from the sale, exchange or redemption of the common shares, preferred shares, or

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ADSs of Oi that are paid to a U.S. Holder within the United States (and in certain cases, outside the United States) by a U.S. payor or U.S. middleman, unless such U.S. Holder is an exempt recipient such as a corporation. A backup withholding tax may apply to such payments if a U.S. Holder fails to provide a taxpayer identification number or certification of other exempt status or fail to report in full dividend and interest income.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against a U.S. Holder's U.S. federal income tax liability provided the required information is furnished to the Internal Revenue Service in a timely manner.

Certain U.S. Holders who are individuals are required to report information relating to an interest in the common shares, preferred shares, or ADSs of Oi, subject to certain exceptions (including an exception for common shares, preferred shares, or ADSs of Oi held in accounts maintained by U.S. financial institutions). U.S. Holders are urged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of common shares, preferred shares, or ADSs of Oi.

## **Documents on Display**

Statements contained in this annual report regarding the contents of any contract or other document filed as an exhibit to this annual report summarize their material terms, but are not necessarily complete, and each of these statements is qualified in all respects by reference to the full text of such contract or other document.

We are subject to the periodic reporting and other informational requirements of the Exchange Act applicable to a foreign private issuer. Accordingly, we are required to file with or furnish to the SEC reports and other information, including annual reports on Form 20-F and reports on Form 6-K.

As a foreign private issuer, we are exempt under the Exchange Act from, among other things, the rules prescribing the furnishing and content of proxy statements, and members of our board of directors and board of executive officers and our principal shareholders are exempt from reporting and short-swing profit recovery provisions contained in section 16 of the Exchange Act. In addition, as a foreign private issuer, we will not be required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act.

You may inspect and copy reports and other information that we file with or furnish to the SEC at the SEC's Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549. Copies of these materials may be obtained by mail from the SEC's Public Reference Room at prescribed rates. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. In addition, the SEC maintains an internet website at [www.sec.gov](http://www.sec.gov) from which you can electronically access these materials.

We also file financial statements and other periodic reports with the CVM, which are available for investor inspection at the CVM's offices located at Rua Sete de Setembro, 111, 2nd floor, Rio de Janeiro, RJ, and Rua Cincinato Braga, 340, 2nd, 3rd and 4th floors, São Paulo, SP. The telephone numbers of the CVM in Rio de Janeiro and São Paulo are +55-21-3554-8686 and +55-11-2146-2097, respectively.

Copies of our annual report on Form 20-F and documents referred to in this annual report and our by-laws are available for inspection upon request at our headquarters at Rua General Polidoro, No. 99, 5th floor/part Botafogo, 22280-001 Rio de Janeiro, RJ, Brazil. Our filings are also available to the public through the internet at our website at [www.oi.com.br/ir](http://www.oi.com.br/ir). The information included on our website or that might be accessed through our website is not included in this annual report and is not incorporated into this annual report by reference.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risks related to changes in exchange rates and interest rates. The principal market for our products and services is Brazil, and substantially all of our revenues are denominated in *reais*.

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We are exposed to foreign exchange risk because a significant portion of our equipment costs, such as costs relating to switching centers and software used for upgrading network capacity, are primarily denominated in foreign currencies or linked to foreign currencies, primarily the U.S. dollar. In 2012, approximately 16.0% of our capital expenditures were U.S. dollar-denominated or linked to the U.S. dollar. A hypothetical, instantaneous 10.0% depreciation of the *real* against the U.S. dollar as of December 31, 2011 would have resulted in an increase of R\$60 million in the cost of our capital expenditures in 2012, assuming that we would have incurred all of these capital expenditures notwithstanding the adverse change in the exchange rates.

Our financing cost and the amount of financial liabilities that we record are also exposed to exchange rate risk. As of December 31, 2012, R\$13,227 million, or 39.1%, of our total consolidated indebtedness was denominated in foreign currency. At December 31, 2012, we protected 97.0% of our indebtedness affected by exchange rate variation against significant variations in exchange rates (primarily U.S. dollars and euros) by using foreign currency swaps, non-deliverable forwards and foreign currency investments. The aggregate amount of our hedge position, including our U.S. dollar and euro cash positions, was US\$6,302 million as of December 31, 2012. The maturity of our swap contracts is coupled to the maturity of debt that is hedged by these swap contracts. Our swap contracts and non-deliverable forwards cover our exchange rate risks until March 2015. As of December 31, 2012, the fair value of our swap contracts and non-deliverable forwards was R\$475 million. As of December 31, 2012, the aggregate notional principal amount of our swap contracts and non-deliverable forwards was approximately US\$11,059 million, which mature in one to nine years.

In 2012, we experienced losses on foreign currency and monetary restatement due to the depreciation of the *real* against foreign currencies of R\$2,077 million, including losses recorded on our exchange rate swaps. The potential additional losses on foreign currency and monetary restatement during 2013 that would result from a hypothetical, instantaneous 10.0% depreciation of the *real* against the U.S. dollar and the euro as of December 31, 2012 would be approximately R\$1,284 million after giving effect to our results under our exchange rate swaps, assuming that the amount and composition of our debt instruments were unchanged. The potential increase in our total consolidated debt obligations that would result from a hypothetical, instantaneous 10.0% depreciation of the *real* against the U.S. dollar and the euro as of December 31, 2012 would be approximately R\$40 million, considering the net impact of the increase in our debt obligations and the decrease in our swap position. For further information about our swap agreements, see note 4 to our consolidated financial statements.

***Interest Rate Risk***

We are exposed to interest rate risk because a significant portion of our indebtedness bears interest at floating rates. As of December 31, 2012, our total outstanding indebtedness was R\$33,952 million, of which R\$22,197 million, or 65.4%, bore interest at floating rates, including R\$18,284 million of *real*-denominated indebtedness that bore interest at rates based on the CDI rate, TJLP rate or IPCA rate, and R\$3,913 million of foreign currency-denominated indebtedness that bore interest at rates based on LIBOR. As of December 31, 2012, we had interest rate swap agreements under which 70.3% of our consolidated indebtedness exposed to LIBOR was converted into CDI rates, matching the interest rate index of our investments. As of December 31, 2012, we did not have any outstanding derivative agreements to limit our exposure to variations in the CDI rate, TJLP rate or IPCA rate.

We invest our excess liquidity (R\$7,835 million as of December 31, 2012) mainly in (1) certificates of deposit issued by financial institutions with AAA and AA ratings from international rating agencies, (2) in short-term instruments denominated in *reais* that generally pay interest at overnight interest rates based on the CDI rate which partially mitigates our exposure to Brazilian interest rate risk, and (3) in investment funds created by top Brazilian asset

managers exclusively for us. The fund managers of the investment funds created for us are responsible for managing our funds, subject to the direction of our senior management and board of directors. Currently, these funds are comprised mainly of government bonds and other low-risk financial instruments linked to the CDI rate.

The potential additional interest expense during 2013 that would result from a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rates on January 1, 2013 would be approximately R\$239 million after giving effect to our results under our interest rate swaps, considering the impact in our debt obligations, but excluding the additional interest income that we would receive on our financial investments. This sensitivity

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analysis is based on the assumption of an unfavorable 100 basis points movement of the interest rates applicable to each homogeneous category of financial liabilities and sustained over a period of one year. A homogeneous category is defined according to the currency in which financial assets and liabilities are denominated and assumes the same interest rate movement within each homogeneous category (*e.g., reais*). As a result, our interest rate risk sensitivity model may overstate the impact of interest rate fluctuation for such financial instruments, as consistently unfavorable movements of all interest rates are unlikely.

***Hedging Policy***

We employ financial risk management strategies using cross-currency swaps, interest rate swaps, series swaps and non-deliverable forwards. Our financial risk management strategy is designed to protect us against devaluation of the *real* against foreign currencies and increases in foreign currency interest rates, according to our foreign-currency exposure in connection with our financings. We do not enter into derivatives transactions for speculative or any other purposes.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

The depositary collects its fees for the delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs or from intermediaries acting for them. The depositary also collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

Persons depositing or withdrawing shares must pay:

US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs) for the issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property;

US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs) for the cancellation of ADSs for the purpose of withdrawal, including in the event of the termination of the deposit agreement;

US\$0.02 (or less) per ADS (or portion thereof) for any cash distribution;

US\$0.02 (or less) per ADS (or portion thereof) per calendar year for depositary services;

in the event of distributions of securities (other than our Class A preferred shares), a fee equivalent to the fee for the execution and delivery of ADRs referred to above, which would have been charged, as a result of the deposit of such securities (treating such securities as Class A Preferred Shares for the purposes of this fee);

registration or transfer fees for the transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares;

expenses of the depositary for (1) cable, telex and facsimile transmissions (when expressly provided in the deposit agreement), and (2) converting foreign currency to U.S. dollars;

taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes, as necessary; and

any charges incurred by the depositary or its agents for servicing the deposited securities, as necessary.

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Subject to certain terms and conditions, the depositary has agreed to reimburse us for certain expenses it incurs that are related to establishment and maintenance expenses of the ADS program, including the standard out-of-pocket maintenance costs for the ADRs, which consist of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not necessarily tied to the amount of fees the depositary collects from investors.

During the year ended December 31, 2012, we received US\$3.2 million in fees and reimbursements from the depositary of our ADSs.



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**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable.

**ITEM 15. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

Our chief executive officer, or CEO, and our chief financial officer, or CFO, are responsible for establishing and maintaining our disclosure controls and procedures. These controls and procedures were designed to ensure that information that we are required to disclose in the reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms of the SEC, and that it is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. We performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2012 under the supervision of our CEO and our CFO. Based on our evaluation, our CEO and our CFO concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of December 31, 2012.

**Management's Annual Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm**

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting.

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our CEO and our CFO, our management conducted an assessment of our internal control over financial reporting as of December 31, 2012 based on the criteria established in Internal Control Integrated Framework issued by COSO.

As a result of the assessment described above, our management concluded that as of December 31, 2012, we did maintain effective internal control over financial reporting based on the criteria established in Internal Control Integrated Framework issued by COSO.

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Our independent registered public accounting firm, KPMG Auditores Independentes, has issued an audit report on the effectiveness of our internal control over financial reporting. That report is included elsewhere in this annual report.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal controls over financial reporting that occurred during the year ended December 31, 2012 that materially affected or could materially affect our internal control over financial reporting.

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our fiscal council currently includes an audit committee financial expert within the meaning of this Item 16A. Our fiscal council has determined that Sidnei Nunes is our fiscal council financial expert. Mr. Nunes's biographical information is included in Item 6. Directors, Senior Management and Employees. Mr. Nunes is independent, as that term is defined in Rule 303A.02 of the New York Stock Exchange's Listed Company Manual.

**ITEM 16B. CODE OF ETHICS**

We have adopted a code of ethics that applies to members of our board of directors, fiscal council and board of executive officers, as well as to our other employees. On April 25, 2012, we amended and restated our code of ethics to:

prohibit violations of domestic or foreign anti-bribery or anti-corruption laws, such as the US Foreign Corrupt Practices Act, including the solicitation or offer of bribes to any governmental entity or public leader for the purpose of obtaining or retaining business for or with Oi or for the benefit of the adherent or third parties;

provide that managers may be jointly responsible for code of ethics violations of their subordinates if they fail to act in light of such violations;

require that commercial transactions between employees take place outside the company's premises;

increase from R\$100 to R\$200 the amount above which gifts must be immediately returned to its donor; and

require that the persons to which our code of ethics is applicable accept its contents and detail the procedures for acknowledging such acceptance.

A copy of our code of ethics may be found on our website at [www.oi.com.br/ir](http://www.oi.com.br/ir). The information included on our website or that might be accessed through our website is not included in this annual report and is not incorporated into this annual report by reference.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES****Audit and Non-Audit Fees**

The following table sets forth the fees billed to us by our independent registered public accounting firms, KPMG Auditores Independentes during the fiscal year ended December 31, 2012 and Deloitte Touche Tohmatsu Auditores Independentes during the fiscal year ended December 31, 2011.

|                    | <b>Year ended December 31,</b> |                |
|--------------------|--------------------------------|----------------|
|                    | <b>2012</b>                    | <b>2011</b>    |
|                    | <b>(in millions of reais)</b>  |                |
| Audit fees (1)     | R\$ 4.0                        | R\$ 4.6        |
| Audit-related fees |                                |                |
| Tax fees           |                                |                |
| All other fees     |                                |                |
| <b>Total fees</b>  | <b>R\$ 4.0</b>                 | <b>R\$ 4.6</b> |

- (1) Audit fees consist of the aggregate fees billed by KPMG Auditores Independentes and Deloitte Touche Tohmatsu Auditores Independentes in connection with the audits of our annual financial statements, interim reviews of our quarterly financial information, issuance of comfort letters, review of financial statements and review of documents filed with the CVM and the SEC.

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**Pre-Approval Policies and Procedures**

Our fiscal council and board of directors have approved an Audit and Non-Audit Services Pre-Approval Policy that sets forth the procedures and the conditions pursuant to which services proposed to be performed by our independent auditors may be pre-approved. This policy is designed to (1) provide both general pre-approval of certain types of services through the use of an annually established schedule setting forth the types of services that have already been pre-approved for a certain year and, with respect to services not included in an annual schedule, special pre-approval of services on a case-by-case basis by our fiscal council and our board of directors, and (2) assess compliance with the pre-approval policies and procedures. Our management periodically reports to our fiscal council the nature and scope of audit and non-audit services rendered by our independent auditors and is also required to report to our fiscal council any breach of this policy of which our management is aware.

**ITEM 16D.EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

We are relying on the general exemption from the listing standards relating to audit committees contained in Rule 10A-3(c)(3) under the Exchange Act for the following reasons:

we are a foreign private issuer that has a fiscal council, which is a board of auditors (or similar body) established and selected pursuant to and as expressly permitted under Brazilian law;

Brazilian law requires our fiscal council to be separate from our board of directors;

members of our fiscal council are not elected by our management, and none of our executive officers is a member of our fiscal council;

Brazilian law provides standards for the independence of our fiscal council from our management;

our fiscal council, in accordance with its charter, makes recommendations to our board of directors regarding the appointment, retention and oversight of the work of any registered public accounting firm engaged (including, the intermediation of disagreements between our management and our independent auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for our company, as Brazilian law requires that our board of directors appoint, retain and oversee the work of our independent public accountants;

our fiscal council (1) has implemented procedures for receiving, retaining and addressing complaints regarding accounting, internal control and auditing matters, including the submission of confidential, anonymous complaints from employees regarding questionable accounting or auditing, and (2) has authority to engage independent counsel and other advisors as it determines necessary to carry out its duties; and

our company compensates our independent auditors and any outside advisors hired by our fiscal council and provides funding for ordinary administrative expenses incurred by the fiscal council in the course of its duties.

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We, however, do not believe that our reliance on this general exemption will materially adversely affect the ability of our fiscal council to act independently and to satisfy the other requirements of the listing standards relating to audit committees contained in Rule 10A-3 under the Exchange Act.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Not Applicable.

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not Applicable.

**ITEM 16G. CORPORATE GOVERNANCE**

On November 4, 2003, the SEC approved the final corporate governance rules established by the NYSE. According to these rules, foreign private issuers that are listed on the NYSE, such as Oi, are subject to a more limited set of corporate governance requirements than those imposed on U.S. domestic issuers. As a foreign private issuer, Oi must comply with the following four requirements imposed by the NYSE:

Oi must satisfy the audit committee requirements of Rule 10A-3 under the Exchange Act;

Oi's Chief Executive Officer must promptly notify the NYSE in writing if any executive officer of Oi becomes aware of any material non-compliance with any of the applicable NYSE corporate governance rules;

Oi must provide a brief description of any significant ways in which Oi's corporate governance practices differ from those required to be followed by U.S. domestic issuers under the NYSE corporate governance rules; and

Oi must submit an executed written affirmation annually to the NYSE and an interim written affirmation to the NYSE each time a change occurs to Oi's board of directors or any committees of Oi's board of directors that are subject to section 303A, in each case in the form specified by the NYSE.

**Significant Differences**

The significant differences between Oi's corporate governance practices and the NYSE's corporate governance standards are mainly due to the differences between the U.S. and Brazilian legal systems. Oi must comply with the corporate governance standards set forth under the Brazilian Corporation Law, the rules of the CVM and the applicable rules of the BM&FBOVESPA, as well as those set forth in Oi's by-laws.

The significant differences between OI's corporate governance practices and the NYSE's corporate governance standards are set forth below.

***Independence of Directors and Independence Tests***

In general, the NYSE corporate governance standards require listed companies to have a majority of independent directors and set forth the principals by which a listed company can determine whether a director is independent. However, under the NYSE corporate governance standards, a listed company (whether U.S or foreign) of which more than 50% of the voting power is held by another company (a controlled company), need not comply with the following NYSE corporate governance standards:

a controlled company need not have a majority of independent directors;



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a controlled company need not have a nominating/corporate governance committee composed of independent directors with a charter that complies with the NYSE corporate governance rules; and

a controlled company need not have a compensation committee composed of independent directors with a charter that complies with the NYSE corporate governance rules.

Because a majority of the voting power of Oi's capital stock is directly controlled by TmarPart, Oi is a controlled company, and would therefore not be required to have a majority of independent directors if it were a U.S. domestic issuer.

Although Brazilian Corporation Law and Oi's by-laws establish rules in relation to certain qualification requirements of its directors, neither Brazilian Corporation Law nor Oi's by-laws require that Oi have a majority of independent directors nor require Oi's board of directors or management to test the independence of Oi's directors before such directors are appointed.

***Executive Sessions***

The NYSE corporate governance standards require non-management directors of a listed company to meet at regularly scheduled executive sessions without management.

According to the Brazilian Corporation Law, up to 1/3 of the members of Oi's board of directors can be elected to management positions. The remaining non-management directors are not expressly empowered to serve as a check on Oi's management, and there is no requirement that those directors meet regularly without management.

Notwithstanding the foregoing, Oi's board of directors consists entirely of non-management directors; therefore Oi believes it would be in compliance with this NYSE corporate governance standard.

***Nominating/Corporate Governance and Compensation Committees***

The NYSE corporate governance standards require that a listed company have a nomination/corporate governance committee and a compensation committee, each composed entirely of independent directors and each with a written charter that addresses certain duties. However, as a controlled company, Oi would not be required to comply with these requirements if it were a U.S. domestic company.

Oi is not required under Brazilian law to have, and accordingly does not have, a nominating/corporate governance committee. Oi believes that, pursuant to its by-laws, the role of a nominating committee is generally performed by Oi's board of directors and the role of the corporate governance committee is generally performed by either its board of directors or its senior management.

Oi is not required under Brazilian law to have, and accordingly does not have, a compensation committee of its board of directors. Under Brazilian Corporation Law, Oi's shareholders establish the aggregate compensation of its directors and executive officers, including benefits and allowances, at a general shareholder's meeting based on the recommendation of Oi's board of directors.

***Audit Committee and Audit Committee Additional Requirements***

The NYSE corporate governance standards require that a listed company have an audit committee with a written charter that addresses certain specified duties and that is composed of at least three members, all of whom satisfy the independence requirements of Rule 10A-3 under the Exchange Act and section 303A.02 of the NYSE's Listed

Company Manual.

As a foreign private issuer that qualifies for the general exemption from the listing standards relating to audit committees set forth in section 10A-3(c)(3) under the Exchange Act, Oi is not subject to the independence requirements of the NYSE corporate governance standards. See Item 16D. Exemptions from the Listing Standards for Audit Committees.

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***Shareholder Approval of Equity Compensation Plans***

The NYSE corporate governance standards require that shareholders of a listed company must be given the opportunity to vote on all equity compensation plans and material revisions thereto, subject to certain exceptions.

Under Brazilian Corporation Law, shareholder pre-approval is required for the adoption and revision of any equity compensation plans, but this decision may be delegated to the board of directors.

***Corporate Governance Guidelines***

The NYSE corporate governance standards require that a listed company must adopt and disclose corporate governance guidelines that address certain minimum specified standards which include: (1) director qualification standards; (2) director responsibilities; (3) director access to management and independent advisors; (4) director compensation; (5) director orientation and continuing education; (6) management succession; and (7) annual performance evaluation of the board of directors.

Oi must comply with certain corporate governance standards set forth under Brazilian Corporation Law, CVM rules and the applicable rules of the BM&FBOVESPA for Level 1 companies. See Item 9. The Offer and Listing Regulation of Brazilian Securities Markets and Item 9. The Offer and Listing Trading on the BM&FBOVESPA BM&FBOVESPA Corporate Governance Standards. The Level 1 rules do not require Oi to adopt and disclose corporate governance guidelines covering the matters set forth in the NYSE's corporate governance standards. However, certain provisions of Brazilian Corporation Law that are applicable to Oi address certain aspects of director qualifications standards and director responsibilities.

***Code of Business Conduct and Ethics***

The NYSE corporate governance standards require that a listed company must adopt and disclose a code of business conduct and ethics for directors, officers and employees and promptly disclose any waivers of the code for directors or officers. Each code of business conduct and ethics should address the following items: conflicts of interest; corporate opportunities; confidentiality; fair dealing; protection and proper use of company assets; compliance with laws, rules and regulations (including insider trading laws); and encouraging the reporting of any illegal or unethical behavior.

Although the adoption of a code of ethics is not required by Brazilian law, Oi has adopted a code of ethics applicable to its directors, officers and employees, which addresses each of the items listed above. See Item 16B. Code of Ethics.

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not Applicable.

**Table of Contents****PART III****ITEM 17. FINANCIAL STATEMENTS**

We have responded to Item 18 in lieu of responding to this item.

**ITEM 18. FINANCIAL STATEMENTS**

Reference is made to Item 19 for a list of all financial statements filed as part of this annual report.

**ITEM 19. EXHIBITS**

(a) Financial Statements

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| Consolidated Balance Sheets of Oi S.A. (formerly Brasil Telecom S.A.) as of December 31, 2012 and 2011                                     | F-6  |
| Consolidated Income Statements of Oi S.A. (formerly Brasil Telecom S.A.) for the years ended December 31, 2012, 2011 and 2010              | F-8  |
| Consolidated Statement of Changes in Equity of Oi S.A. (formerly Brasil Telecom S.A.) for the years ended December 31, 2012, 2011 and 2010 | F-10 |
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(b) List of Exhibits

- 1.01 Bylaws of Oi S.A., as amended through November 7, 2012 (English translation) (incorporated by reference to Exhibit 2 to Form 6-K of Oi S.A. filed on November 8, 2012).
- 2.01 Form of Amended and Restated Deposit Agreement, among Oi S.A., The Bank of New York Mellon, as Depositary, and all Owners and Holders from time to time of American Depositary Shares issued thereunder (incorporated by reference to Exhibit 1 to Form F-6 of Oi S.A. filed on February 28, 2012).
- 2.02 Form of Amended and Restated Deposit Agreement, among Oi S.A., The Bank of New York Mellon, as Depositary, and all Owners and Holders from time to time of American Depositary Shares issued thereunder (incorporated by reference to Exhibit 1 to Form F-6 of Oi S.A. filed on February 28, 2012).
- 3.01 Shareholders Agreement of Telemar Participações S.A., dated as of April 25, 2008, among AG Telecom Participações S.A., L.F. Tel S.A., Fundação Atlântico de Seguridade Social, Asseca Participações S.A. and, as intervening parties, Telemar Participações S.A. and Andrade Gutierrez Investimentos em

Telecomunicações S.A. (English translation) (incorporated by reference to Exhibit 99.4 to Schedule 13D of Brasil Telecom S.A. filed on November 27, 2009).

- 3.02 Amendment to the Shareholders Agreement of Telemar Participações S.A., dated as of January 25, 2011, among AG Telecom Participações S.A., Luxemburgo Participações S.A., L.F. Tel S.A., Fundação Atlântico de Seguridade Social, and, as intervening party, Telemar Participações S.A. (English translation) (incorporated by reference to Exhibit 3.02 to Form 20-F of Brasil Telecom S.A. filed on May 2, 2011).
- 3.03 Private Shareholders Agreement of Telemar Participações S.A., dated as of April 25, 2008, among AG Telecom Participações S.A., L.F. Tel S.A., Asseca Participações S.A., BNDES Participações S.A. BNDESPar, Fiago Participações S.A., Fundação Atlântico de Seguridade Social, and, as intervening parties, Telemar Participações S.A., Caixa de Previdência dos Funcionários do Banco do Brasil PREVI, Fundação Petrobras de Seguridade Social PETROS, Fundação dos Economistas Federais FUNCEF and Andrade Gutierrez Investimentos em Telecomunicações S.A. (English translation) (incorporated by reference to Exhibit 99.3 to Schedule 13D of Brasil Telecom S.A. filed on November 27, 2009).
- 3.04 Amendment to Shareholders Agreement of Telemar Participações S.A., dated as of January 25, 2011, among AG Telecom Participações S.A., Luxemburgo Participações S.A., BNDES Participações S.A. BNDESPar,

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- Caixa de Previdência dos Funcionários do Banco do Brasil PREVI, Fundação Atlântico de Seguridade Social, Fundação dos Economistas Federais FUNCEF, Fundação Petrobras de Seguridade Social PETROS, L.F. Tel S.A., Bratel Brasil S.A. and, as intervening parties, Telemar Participações S.A. and Portugal Telecom, SGPS S.A. (English translation) (incorporated by reference to Exhibit 3.04 to Form 20-F of Brasil Telecom S.A. filed on May 2, 2011).
- 3.05 Shareholders Agreement of Pasa Participações S.A., dated as of January 25, 2011, between Andrade Gutierrez Telecomunicações Ltda., Bratel Brasil S.A. and, as intervening parties, Pasa Participações S.A., AG Telecom Participações S.A., Luxemburgo Participações S.A., La Fonte Telecom S.A., EDSP75 Participações S.A., LF Tel S.A. and Portugal Telecom, SGPS, S.A. (English translation) (incorporated by reference to Exhibit 3.05 to Form 20-F of Oi S.A. filed on April 27, 2012).
- 3.06 Shareholders Agreement of EDSP75 Participações S.A., dated as of January 25, 2011, between Jereissati Telecom (formerly known as La Fonte Telecom S.A.), Bratel Brasil S.A. and, as intervening parties, EDSP75 Participações S.A., LF Tel S.A., Pasa Participações S.A., Andrade Gutierrez Telecomunicações Ltda., AG Telecom Participações S.A., Luxemburgo Participações S.A., and Portugal Telecom, SGPS, S.A. (English translation). (incorporated by reference to Exhibit 3.06 to Form 20-F of Oi S.A. filed on April 27, 2012)
- 4.01 Protocol and Justification of Partial Split-Off of Telemar Norte Leste S.A. with Incorporation of the Portion Ceded by Coari Participações S.A. and Incorporação de Ações of Telemar Norte Leste S.A. by Coari Participações S.A. (*Protocolo e Justificação de Cisão Parcial da Telemar Norte Leste S.A. com Incorporação da Parcela Cindida pela Coari Participações S.A., e Incorporação de Ações da Telemar Norte Leste S.A. pela Coari Participações S.A.*), between Telemar Norte Leste S.A. and Coari Participações S.A., dated August 26, 2011 (English translation) (incorporated by reference to Exhibit 2.2 to Form F-4 of Brasil Telecom S.A. filed on September 1, 2011).
- 4.02 First Amendment, dated January 18, 2012, to Protocol of Merger and Instrument of Justification (*Protocolo e Justificação de Incorporação*), dated August 26, 2011, between Brasil Telecom S.A. and Coari Participações S.A. (English translation) (incorporated by reference to Exhibit 2.5 to Amendment No. 1 to Form F-4 of Brasil Telecom S.A. filed on January 18, 2012).
- 4.03 First Amendment, dated January 18, 2012, to Protocol of Merger and Instrument of Justification (*Protocolo e Justificação de Incorporação*), dated August 26, 2011, between Brasil Telecom S.A. and Tele Norte Leste Participações S.A. (English translation) (incorporated by reference to Exhibit 2.4 to Amendment No. 1 to Form F-4 of Brasil Telecom S.A. filed on January 18, 2012).
- 4.04 Concession Agreement for Local, Switched, Fixed-Line Telephone Service between ANATEL and Brasil Telecom S.A., No. 109/2011, dated June 30, 2011 (English translation) (incorporated by reference to Exhibit 10.5 to Form F-4 of Brasil Telecom S.A. filed on September 1, 2011).
- 4.05 Schedule of Omitted Concession Agreements for Local Switched, Fixed-Line Telephone Service (incorporated by reference to Exhibit 4.05 to Form 20-F of Oi S.A. filed on April 27, 2012).
- 4.06 Concession Agreement for Domestic Long-Distance, Switched, Fixed-Line Telephone Service between ANATEL and Brasil Telecom S.A., No. 143/2011, dated June 30, 2011 (English translation) (incorporated by reference to Exhibit 10.6 to Form F-4 of Brasil Telecom S.A. filed on September 1, 2011).
- 4.07 Schedule of Omitted Concession Agreement for Domestic Long-Distance, Switched, Fixed-Line Telephone Service (incorporated by reference to Exhibit 4.07 to Form 20-F of Oi S.A. filed on April 27, 2012).
- 4.08 Statement of Authorization for Personal Mobile Services between ANATEL and Brasil Telecom Celular S.A., No. 026/2002, dated December 18, 2002 (English translation) (incorporated by reference to Exhibit

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- 4.05 to Form 20-F of Brasil Telecom S.A. filed on July 13, 2009).
- 4.09 Schedule of Omitted Authorizations for Personal Mobile Services (incorporated by reference to Exhibit 4.09 to Form 20-F of Oi S.A. filed on April 27, 2012).
- 4.10 Instrument of Authorization for the Use of Radio Frequency Blocks for 2G services between ANATEL and 14 Brasil Telecom Celular S.A., No. 24/2004, dated May 3, 2004 (English translation) (incorporated by reference to Exhibit 4.07 to Brasil Telecom S.A. s annual report on Form 20-F filed on July 13, 2009).
- 4.11 Schedule of Omitted Instruments of Authorization for the Use of Radio Frequency Blocks for 2G services (incorporated by reference to Exhibit 4.11 to Form 20-F of Oi S.A. filed on April 27, 2012).
- 4.12 Instrument of Authorization for the Use of Radio Frequency Blocks for 3G services between ANATEL and 14 Brasil Telecom Celular S.A., No. 24/2008, dated April 29, 2008 (English translation) (incorporated by reference to Exhibit 4.09 to Brasil Telecom S.A. s annual report on Form 20-F filed on July 13, 2009).
- 4.13 Schedule of Omitted Instruments of Authorization for the Use of Radio Frequency Blocks for 3G services (incorporated by reference to Exhibit 4.13 to Form 20-F of Oi S.A. filed on April 27, 2012).
- 8.01 List of subsidiaries.

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12.01 Certification of the Chief Executive Officer of Oi S.A. pursuant to the Sarbanes-Oxley Act of 2002.

12.02 Certification of the Chief Financial Officer of Oi S.A. pursuant to the Sarbanes-Oxley Act of 2002.

13.01 Certifications of the Chief Executive Officer and the Chief Financial Officer of Oi S.A. pursuant to the Sarbanes-Oxley Act of 2002.

There are numerous instruments defining the rights of holders of long-term indebtedness of Oi S.A. and its consolidated subsidiaries, none of which authorizes securities that exceed 10% of the total assets of Oi S.A. and its subsidiaries on a consolidated basis. Oi S.A. hereby agrees to furnish a copy of any such agreements to the SEC upon request.



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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: April 30, 2013

**OI S.A.**

/s/ José Mauro Mettrau Carneiro da Cunha  
Name: José Mauro Mettrau Carneiro da Cunha  
Title: Chief Executive Officer

Date: April 30, 2013

/s/ Alex Waldemar Zornig  
Name: Alex Waldemar Zornig  
Title: Chief Financial Officer

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**MANAGEMENT'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING**

**Management's Annual Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm**

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting.

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our CEO and CFO, our management conducted an assessment of our internal control over financial reporting as of December 31, 2012 based on the criteria established in Internal Control Integrated Framework issued by COSO.

As a result of the assessment described above, our management concluded that as of December 31, 2012, we did maintain effective internal control over financial reporting based on the criteria established in Internal Control Integrated Framework issued by COSO.

Our independent registered public accounting firm, KPMG Auditores Independentes, has issued an audit report on the effectiveness of our internal control over financial reporting. That report is included in this annual report on Form 20-F.

April 25, 2013

/s/ José Mauro Mettrau Carneiro da Cunha  
Name: José Mauro Mettrau Carneiro da Cunha  
Title: Chief Executive Officer

/s/ Alex Waldemar Zornig  
Name: Alex Waldemar Zornig  
Title: Chief Financial Officer

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting**

To the Board of Directors and Shareholders of

Oi S.A.

Rio de Janeiro - RJ

We have audited Oi S.A.'s (the Company) internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Oi S.A.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financing Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financing Reporting Standards (IFRS), and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Oi S.A. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Oi S.A. and subsidiaries as of December 31, 2012, and the related

consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and our report dated April 25, 2013, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG Auditores Independentes

KPMG Auditores Independentes

Rio de Janeiro, Brazil

April 25, 2013

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**Report of Independent Registered Public Accounting Firm on consolidated financial statements**

To the Board of Directors and Shareholders of

Oi S.A.

Rio de Janeiro - RJ

We have audited the accompanying consolidated balance sheet of Oi S.A. and subsidiaries (the Company) as of December 31, 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oi S.A. and subsidiaries as of December 31, 2012, and the results of their operations and their cash flows for the year then ended, in conformity with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 25, 2013, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG Auditores Independentes

KPMG Auditores Independentes

Rio de Janeiro, Brazil

April 25, 2013

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM, ON CONSOLIDATED FINANCIAL STATEMENTS**

To the Board of Directors and Shareholders of

Oi S.A. (previously known as Brasil Telecom S.A.)

**Rio de Janeiro - RJ**

We have audited the accompanying consolidated balance sheets of Oi S.A. (previously known as Brasil Telecom S.A.) and subsidiaries (the Company) as of December 31, 2011, and the related consolidated statements of income, changes in equity, and cash flows for each of the two years in the period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Oi S.A. (previously known as Brasil Telecom S.A.) and subsidiaries as of December 31, 2011, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2011, in conformity with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

As mentioned in note 1 to the consolidated financial statements, the shareholders of the Company, Tele Norte Leste Participações S.A. (parent company of Telemar Norte Leste S.A.), Telemar Norte Leste S.A. (parent company of Coari Participações S.A.) and Coari Participações S.A. (parent company of the Company) approved at the extraordinary shareholders' meetings held on February 27, 2012 the corporate reorganization that consisted of the partial split-off of Telemar Norte Leste S.A. with the merger of the split-off portion by Coari Participações S.A. followed by the merger of Telemar Norte Leste S.A. shares by Coari Participações S.A. and the mergers of Coari Participações S.A. and Tele Norte Leste Participações S.A. with and into the Company and whose corporate name was changed to Oi S.A. (previous name of Brasil Telecom S.A.).

/s/ Deloitte Touche Tohmatsu Auditores Independentes

Rio de Janeiro, Brazil

April 27, 2012

**Table of Contents****Oi S.A. and Subsidiaries****Consolidated Balance Sheets as at December 31, 2012 and 2011****(In thousands of Brazilian reais - R\$, unless otherwise stated)**

|                                     | Note | 2012              | 2011              |
|-------------------------------------|------|-------------------|-------------------|
| <b>Current assets:</b>              |      |                   |                   |
| Cash and cash equivalents           | 9    | 4,413,042         | 6,004,506         |
| Short-term investments              | 9    | 2,425,907         | 1,084,027         |
| Derivative instruments              | 20   | 640,229           | 7,186             |
| Trade receivable, net               | 10   | 7,018,497         | 2,010,487         |
| Inventories, net                    |      | 385,165           | 12,671            |
| Current recoverable taxes           | 12   | 1,726,369         | 353,225           |
| Other taxes                         | 13   | 1,557,177         | 783,382           |
| Judicial deposits                   | 14   | 2,068,315         | 1,651,114         |
| Pension plan assets                 | 26   | 9,311             | 50,149            |
| Other assets                        |      | 900,774           | 288,826           |
| <b>Total current assets</b>         |      | <b>21,144,786</b> | <b>12,245,573</b> |
| <b>Non-current assets:</b>          |      |                   |                   |
| Related parties                     | 11   |                   | 2,217,682         |
| Long-term investments               | 9    | 63,692            | 13,327            |
| Derivative financial instruments    | 20   | 348,870           |                   |
| Deferred taxes                      | 12   | 8,210,906         | 4,982,322         |
| Other taxes                         | 13   | 738,019           | 178,636           |
| Available-for-sale financial asset  |      | 905,829           |                   |
| Judicial deposits                   | 14   | 9,722,731         | 4,955,025         |
| Pension plan assets                 | 26   | 101,114           | 142,614           |
| Held-for-sale assets                |      | 94,522            |                   |
| Other assets                        |      | 318,500           | 41,848            |
| Investments                         | 15   | 80,712            | 8,436             |
| Property, plant and equipment, net  | 16   | 23,110,061        | 5,793,711         |
| Intangible assets, net              | 17   | 4,237,152         | 1,084,857         |
| <b>Total non-current assets</b>     |      | <b>47,932,108</b> | <b>19,418,458</b> |
| <b>Total assets</b>                 |      | <b>69,076,894</b> | <b>31,664,031</b> |
| <b>Current liabilities:</b>         |      |                   |                   |
| Payroll, related taxes and benefits |      | 774,166           | 130,031           |
| Trade payables                      | 18   | 4,658,849         | 1,840,552         |
| Loans and financing                 | 19   | 3,113,621         | 1,143,537         |
| Derivatives instruments             | 20   | 309,555           | 25,698            |



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|  |    |                   |                   |
|--|----|-------------------|-------------------|
| Current income taxes payable                           | 12 | 1,065,754         | 179,194           |
| Taxes other than income tax                            | 13 | 2,248,075         | 1,445,362         |
| Dividends and interest on capital                      |    | 655,306           | 307,720           |
| Licenses and concessions payable                       | 21 | 1,058,881         | 131,984           |
| Tax financing program                                  | 22 | 99,732            | 39,238            |
| Provision for pension plan                             | 26 | 103,666           | 77,745            |
| Provisions   | 23 | 1,569,356         | 1,283,354         |
| Other payables   | 24 | 1,439,462         | 2,014,762         |
| <b>Total current liabilities</b>                       |    | <b>17,096,423</b> | <b>8,619,177</b>  |
| <b>Non-Current liabilities:</b>                        |    |                   |                   |
| Loans and financing                                    | 19 | 30,232,468        | 6,961,674         |
| Derivatives instruments                                | 20 | 204,742           |                   |
| Taxes other than income tax                            | 13 | 2,238,571         | 502,766           |
| Licenses and concessions payable                       | 21 | 1,099,116         | 544,497           |
| Tax financing program                                  | 22 | 985,367           | 407,190           |
| Provision for pension plan                             | 26 | 480,471           | 545,958           |
| Provisions   | 23 | 4,851,273         | 3,131,537         |
| Other payables   | 24 | 571,909           | 362,060           |
| <b>Total non-current liabilities</b>                   |    | <b>40,663,917</b> | <b>12,455,682</b> |
| <b>Equity attributable to controlling shareholders</b> | 25 |                   |                   |
| Share capital  |    | 7,308,753         | 3,731,059         |
| Share issue costs                                      |    | (56,609)          |                   |

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****Oi S.A. and Subsidiaries****Consolidated Balance Sheets as at December 31, 2012 and 2011****(In thousands of Brazilian reais - R\$, unless otherwise stated)**

|   |                   |                   |
|---|-------------------|-------------------|
| Capital reserves  | 4,302,535         | 4,367,576         |
| Income reserves   | 1,330,977         | 891,242           |
| Treasury shares   | (2,104,524)       | (149,642)         |
| Other comprehensive income                                | 140,184           |                   |
| Change in equity interest s percentage                    | 3,916             |                   |
| Reserve for additional dividends                          | 391,322           | 1,748,567         |
|   | 11,316,554        | 10,588,802        |
| <b>Equity attributable to noncontrolling shareholders</b> |                   | 370               |
| <b>Total equity</b>                                       | <b>11,316,554</b> | <b>10,589,172</b> |
| <b>Total equity and liabilities</b>                       | <b>69,076,894</b> | <b>31,664,031</b> |

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****Oi S.A. and Subsidiaries****Consolidated Income Statements****for the Years Ended December 31, 2012, 2011 and 2010****(In thousands of Brazilian reais - R\$, unless otherwise stated)**

|   | <b>Note</b> | <b>2012</b>  | <b>2011</b> | <b>2010</b> |
|---|-------------|--------------|-------------|-------------|
| <b>Net operating revenue</b>  | 4           | 25,169,230   | 9,245,255   | 10,263,292  |
| Cost of sales and services  | 5           | (12,673,253) | (4,586,565) | (4,732,081) |
| <b>Gross profit</b>   |             | 12,495,977   | 4,658,690   | 5,531,211   |
| <b>Operating income (expenses)</b>  |             |              |             |             |
| Selling expenses  | 5           | (4,847,297)  | (1,160,793) | (1,025,010) |
| General and administrative expenses   | 5           | (2,998,437)  | (1,444,627) | (1,538,941) |
| Other operating income  | 6           | 1,996,122    | 560,360     | 523,962     |
| Other operating expenses  | 6           | (1,886,226)  | (1,046,343) | (1,031,692) |
|   |             | (7,735,838)  | (3,091,403) | (3,071,681) |
| <b>Operating income (loss) before financial income (expenses) and taxes</b> |             | 4,760,139    | 1,567,287   | 2,459,530   |
| Financial income  | 7           | 2,275,372    | 1,405,870   | 979,455     |
| Financial expenses  | 7           | (4,490,899)  | (1,477,782) | (1,059,710) |
| <b>Financial income (expenses)</b>  | 7           | (2,215,527)  | (71,912)    | (80,255)    |
| <b>Income before taxes</b>  |             | 2,544,612    | 1,495,375   | 2,379,275   |
| Income tax and social contribution  |             |              |             |             |
| Current   | 8           | (934,079)    | (205,730)   | (149,117)   |
| Deferred  | 8           | 174,394      | (283,895)   | (259,298)   |
| <b>Net income for the year</b>  |             | 1,784,927    | 1,005,750   | 1,970,860   |
| Net income attributed to controlling shareholders                           |             | 1,784,890    | 1,005,731   | 1,971,023   |
| Net income (loss) attributed to noncontrolling shareholders                 |             | 37           | 19          | (163)       |
| <b>Basic and diluted earnings per share</b>                                 | 25(g)       |              |             |             |
| Common shares basic (R\$)   |             | 1.09         | 0.61        | 1.20        |
| Common shares diluted (R\$)   |             | 1.09         | 0.61        | 1.20        |
| Preferred shares basic (R\$)  |             | 1.09         | 0.61        | 1.20        |

|                  |               |      |      |      |
|------------------|---------------|------|------|------|
| Preferred shares | diluted (R\$) | 1.09 | 0.61 | 1.20 |
|------------------|---------------|------|------|------|

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****Oi S.A. and Subsidiaries****Consolidated Comprehensive Income****for the Years Ended December 31, 2012, 2011 and 2010****(In thousands of Brazilian reais - R\$, unless otherwise stated)**

|   | <b>2012</b>      | <b>2011</b>      | <b>2010</b>      |
|---|------------------|------------------|------------------|
| Net income for the year   | <b>1,784,927</b> | <b>1,005,750</b> | <b>1,970,860</b> |
| Increase due to corporate reorganization                          | 87,550           |                  |                  |
| Hedge accounting gain   | 52,634           |                  |                  |
| Total comprehensive income for the year                           | <b>1,925,111</b> | <b>1,005,750</b> | <b>1,970,860</b> |
| Comprehensive income attributable to controlling shareholders     | 1,925,074        | 1,005,731        | 1,971,023        |
| Comprehensive income attributable to non-controlling shareholders | 37               | 19               | (163)            |
| Statement of comprehensive income items are carried net of taxes. |                  |                  |                  |

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****Oi S.A. and Subsidiaries****Consolidated Statements of Changes in Equity for the Years Ended December 31, 2012, 2011 and 2010**

(In thousands of Brazilian reais - R\$, unless otherwise stated)

|                                    | Attributable to owners of the Company  |                                      |   |               |                 |         |             |                 | Reserve for additional dividends | Retained earnings |
|------------------------------------|--|--------------------------------------|---|---------------|-----------------|---------|-------------|-----------------|----------------------------------|-------------------|
|                                    | Capital reserves                       |                                      |   |               | Income reserves |         |             |                 |                                  |                   |
| Goodwill special reserve on merger | Net assets - special reserve on merger | Interest on construction in progress | Special monetary correction - Law 8200/1991 | Stock options | Other reserves  | Legal   | Investments | Treasury shares |                                  |                   |
| 2,967,829                          | 1,415,970                              | 745,756                              | 31,287                                      | 104           | 126,372         | 383,527 | 70,619      | (149,642)       |                                  | 1,971,020         |
|                                    |  |                                      |   |               |                 |         | 1,431,365   |                 |                                  | (1,431,365)       |
|                                    |  |                                      |   |               |                 |         |             |                 |                                  | (176,480)         |
|                                    |  |                                      |   |               |                 |         |             |                 |                                  | (363,170)         |
| 2,967,829                          | 1,415,970                              | 745,756                              | 31,287                                      | 104           | 126,372         | 383,527 | 1,501,984   | (149,642)       |                                  | 1,005,730         |
|                                    | (1,415,970)                            |                                      |   |               |                 |         |             |                 |                                  | (251,430)         |

|                  |                |               |            |                |                |                |                  |                  |          |
|------------------|----------------|---------------|------------|----------------|----------------|----------------|------------------|------------------|----------|
|                  |                |               |            |                |                | (994,269)      |                  | 1,748,567        | (754,29) |
| <b>2,967,829</b> | <b>745,756</b> | <b>31,287</b> | <b>104</b> | <b>126,372</b> | <b>383,527</b> | <b>507,715</b> | <b>(149,642)</b> | <b>1,748,567</b> |          |
| (492,285)        |                |               |            | (49,820)       |                |                | 149,642          |                  |          |
| (890,621)        | 2,309,296      |               |            | (76,552)       |                |                | (96,199)         |                  |          |
|                  |                |               | (104)      |                |                |                |                  |                  | 10       |
|                  |                |               |            |                |                |                |                  | (1,748,567)      |          |
| (492,285)        |                |               |            |                |                |                |                  |                  |          |
|                  |                |               |            |                |                | (507,715)      |                  |                  |          |
|                  |                |               |            |                |                |                |                  | (2,008,325)      |          |

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947,450

**1,092,638    2,309,296    745,756    31,287                    383,527    947,450    (2,104,524)    391,322**

**4,302,535    1,330,977                    (2,104,524)                    391,322**

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**Table of Contents****Oi S.A. and Subsidiaries****Consolidated Statements of Cash Flows****for the Years Ended December 31, 2012 and 2011****(In thousands of Brazilian reais - R\$, unless otherwise stated)**

|   | <b>2012</b> | <b>2011</b> | <b>2010</b> |
|---|-------------|-------------|-------------|
| <b>Cash flows from operating activities</b>                         |             |             |             |
| <b>Income (loss) before taxes</b>                                   | 2,544,612   | 1,495,375   | 2,379,275   |
| Items not affecting cash  |             |             |             |
| Charges, interest income, and inflation adjustment (i)              | 4,045,769   | 127,521     | 299,175     |
| Depreciation and amortization                                       | 3,228,100   | 1,044,226   | 1,056,740   |
| Provision for doubtful accounts                                     | 502,509     | 332,808     | 351,535     |
| Provisions  | 400,595     | 570,672     | 405,093     |
| Provision for pension plan  | 8,118       | 7,237       | 14,221      |
| Loss on disposal of permanent assets                                | 267,273     | 12,693      | 81,135      |
| Income from asset sales   | (389,128)   |             |             |
| Provision for concession fee  | 121,430     | 49,019      | 56,759      |
| Employee and management profit sharing                              | 387,380     | 27,449      | 102,555     |
| Derivative transactions   | (942,021)   | 49,251      | 8,899       |
| Inflation adjustment on related parties and private debentures (ii) | (48,233)    | (306,548)   | (236,385)   |
| Inflation adjustment on provisions (iii)                            | 233,017     | 167,087     | 254,038     |
| Inflation adjustment on tax refinancing program (iv)                | 81,371      | 46,299      | 41,627      |
| Inflation adjustment estimate of judicial deposit (iii)             |             | 198,853     |             |
| Expired dividends   | (74,732)    | (50,330)    | (27,350)    |
| Other   | 1,376,661   | 204,319     | 226,653     |
| Changes in assets and liabilities:                                  |             |             |             |
| Trade receivables   | (1,723,305) | (274,193)   | (430,742)   |
| Inventories   | (234,494)   | 8,102       | 11,614      |
| Taxes   | 581,295     | 152,874     | 397,194     |
| Held-for-trading short and long term investments                    | (8,885,812) | (3,811,531) | (1,664,381) |
| Redemptions of held-for-trading short and long term investments     | 8,963,131   | 3,641,371   | 1,271,121   |
| Trade payables  | (760,098)   | (185,429)   | (51,722)    |
| Payroll, related taxes and benefits                                 | 65,322      | (69,200)    | (50,855)    |
| Provisions  | (771,125)   | (365,042)   | (457,522)   |
| Provision for pension plan  | (100,526)   | (96,148)    | (104,534)   |
| Other assets and liabilities  | (1,319,020) | (324,575)   | 124,346     |
| Financial charges paid  | (2,502,884) | (496,843)   | (459,094)   |

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|   |                  |                  |                  |
|---|------------------|------------------|------------------|
| Income tax and social contribution paid - Company       | (992,820)        | (205,326)        | (90,231)         |
| Income tax and social contribution paid - third parties | (286,538)        | (110,690)        | (93,438)         |
| Dividends received                                      | 83,087           |                  |                  |
| <b>Cash flows from operating activities</b>             | <b>3,858,934</b> | <b>1,839,301</b> | <b>3,415,726</b> |

The accompanying notes are an integral part of these consolidated financial statements.

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**Table of Contents****Oi S.A. and Subsidiaries****Consolidated Statements of Cash Flows****for the Years Ended December 31, 2012, 2011 and 2010****(In thousands of Brazilian reais - R\$, unless otherwise stated)****(continued)**

|   | <b>2012</b>        | <b>2011</b>        | <b>2010</b>        |
|---|--------------------|--------------------|--------------------|
| <b>Cash flows from investing activities</b>                     |                    |                    |                    |
| Purchase of property, plant and equipment and intangible assets | (5,329,827)        | (883,611)          | (754,515)          |
| Due from related parties and debentures - receipts              | 133,023            |                    |                    |
| Proceeds from sale of property, plant and equipment             | 716,475            | 21,438             | 2,308              |
| Judicial deposits   | (2,409,166)        | (1,467,182)        | (1,136,319)        |
| Redemption of Judicial deposits                                 | 747,489            | 243,535            | 328,085            |
| Available-for-sale financial asset                              | (250,186)          |                    |                    |
| Acquisition on non-controlling interests                        | (35,032)           |                    |                    |
| Other   | (11,969)           | (3,066)            |                    |
| <b>Cash flows from investing activities</b>                     | <b>(6,439,193)</b> | <b>(2,088,886)</b> | <b>(1,560,441)</b> |
| <b>Cash flows from financing activities</b>                     |                    |                    |                    |
| Loans and financing, net of debt issuance cost                  | 7,067,093          | 4,586,555          | 1,040,255          |
| Repayment of principal of loans, financing and derivatives      | (4,980,381)        | (1,095,808)        | (1,279,033)        |
| Cash and cash equivalents acquired by merger                    | 4,930,186          |                    |                    |
| Licenses and concessions  | (319,667)          | (79,926)           | (114,726)          |
| Tax refinancing program   | (153,227)          | (29,887)           | (940)              |
| Payment of dividends and interest on capital                    | (2,405,419)        | (462,223)          | (1,345)            |
| Share reimbursement   | (2,008,325)        |                    |                    |
| Bonus shares  | (1,155,811)        |                    |                    |
| <b>Cash flows from financing activities</b>                     | <b>974,449</b>     | <b>2,918,711</b>   | <b>(355,789)</b>   |
| Foreign exchange differences on cash equivalents                | 14,346             | 118,443            |                    |
| <b>Cash flows for the year</b>                                  | <b>(1,591,464)</b> | <b>2,787,569</b>   | <b>1,499,496</b>   |
| <b>Cash and cash equivalents</b>                                |                    |                    |                    |
| Cash and cash equivalents at end of year                        | 4,413,042          | 6,004,506          | 3,216,937          |
| Cash and cash equivalents at beginning of year                  | 6,004,506          | 3,216,937          | 1,717,441          |
| <b>Increase in cash and cash equivalents</b>                    | <b>(1,591,464)</b> | <b>2,787,569</b>   | <b>1,499,496</b>   |

- (i) Includes: (1) inflation adjustment on provision for pension plans that are adjusted by estimated inflation rate based on actuarial assumptions (see note 26) and (2) inflation adjustment on licenses and concessions payable that are adjusted by Telecommunications Service Index (IST) plus 1% p.m. and General Price Index - Domestic Availability (IGP-DI) plus 1% p.m.;
- (ii) Adjusted for inflation by reference to the 4% p.y. compound DI rate variation;
- (iii) Adjusted for inflation in accordance with the specific indexes defined by the respective courts or legislation in force;
- (iv) Adjusted for inflation by Special System for Settlement and Custody Rate Selic variation 7,25% p.y.

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**Table of Contents****Oi S.A. and Subsidiaries****Consolidated Statements of Cash Flows****for the Years Ended December 31, 2012, 2011 and 2010****(In thousands of Brazilian reais - R\$, unless otherwise stated)****Additional disclosures relating to the statement of cash flows****Noncash transactions**

|  | <b>2012</b> | <b>2011</b> | <b>2010</b> |
|--|-------------|-------------|-------------|
| Acquisition of property, plant and equipment and intangible assets (incurring liabilities) | 1,146,565   | 413,460     | 134,042     |
| Dividends and interest on capital declared and not paid                                    | 446,222     | 251,433     | 539,658     |
| Redeemable bonus shares  | 99,967      | 1,501,984   |             |
| Offset of judicial deposits against provisions   | 378,693     | 254,693     | 338,225     |
| Offset of judicial deposits against taxes  |             | 158,281     |             |

**Corporate reorganization**

The assets acquired and the liabilities assumed on February 27, 2012 after the corporate reorganization commented in Note 1 are summarized below.

|                               |                  |
|-------------------------------|------------------|
| Cash and cash equivalents     | 4,930,186        |
| Recoverable taxes             | 5,084,467        |
| Investments                   | 60,307           |
| Property, plant and equipment | 15,011,937       |
| Intangible assets             | 2,693,297        |
| Loans and financing           | (21,101,747)     |
| Taxes payable                 | (2,288,777)      |
| Other assets and liabilities  | (243,635)        |
| <b>Merged net assets</b>      | <b>4,146,035</b> |

**Table of Contents****Oi S.A. and Subsidiaries****Notes to the Consolidated Financial Statements****for the Years Ended December 31, 2012 and 2011****(Amounts in thousands of Brazilian reais, unless otherwise stated)****1. GENERAL INFORMATION**

Oi S.A. ( Company or Oi ), former Brasil Telecom S.A. or BrT , is a Switched Fixed-line Telephony Services ( STFC concessionaire, operating since July 1998 in Region II of the General Concession Plan ( PGO ), which covers the Brazilian states of Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Goiás, Paraná, Santa Catarina and Rio Grande do Sul, and the Federal District, in the provision of STFC as a local and intraregional long-distance carrier. Since January 2004, the Company also provides domestic and international long-distance services in all Regions and local services outside Region II started to be provided in January 2005. These services are provided under concessions granted by Agência Nacional de Telecomunicações ANATEL (National Telecommunications Agency), the regulator of the Brazilian telecommunications industry.

The Company is headquartered in Brazil, in the city of Rio de Janeiro, at Rua Humberto de Campos, 425 8 floor.

The Company also holds: (i) through its wholly-owned subsidiary Telemar Norte Leste S.A. ( TMAR ) a concession to provide fixed telephone services in Region I and nationwide International Long-distance services; (ii) through its indirect subsidiary TNL PCS S.A. ( TNL PCS ) a license to provide mobile telephony services in Regions I and III; (iii) through its wholly-owned subsidiary 14 Brasil Telecom Celular S.A. ( BrT Celular ) a license to provide mobile telephony services in Region II.

The terms of the concession agreements and licenses above are disclosed in Note 17.

The Company is registered with the Brazilian Securities and Exchange Commission ( CVM ) and the U.S. Securities and Exchange Commission ( SEC ). Its shares are traded on the São Paulo Mercantile and Stock Exchange ( BM&FBOVESPA ) and its American Depositary Receipts ( ADRs ) are traded on the New York Stock Exchange ( NYSE ).

The Company s financial statements were analyzed and approved by the Board of Directors, and authorized for issuance at the meeting held on April 25, 2013.

The interests held in Company subsidiaries, less treasury shares, are as follows:

| <b>Company</b>                                    | <b>Business</b>            | <b>Direct<br/>2012</b> | <b>Indirect<br/>2012</b> | <b>Direct<br/>2011</b> | <b>Indirect<br/>2011</b> |
|---|----------------------------|------------------------|--------------------------|------------------------|--------------------------|
| 14 Brasil Telecom Celular S.A.<br>( BrT Celular ) | Mobile telephony Region II | 100%                   |                          | 100%                   |                          |

|  |  |        |      |        |      |
|--|--|--------|------|--------|------|
| Brasil Telecom Comunicação Multimídia Ltda. ( BrT Multimídia ) | Data traffic                           | 99.99% | 100% | 90.46% | 100% |
| BrT Card Serviços Financeiros Ltda. ( BrT Card )               | Financial services                     | 100%   |      | 100%   |      |
| Vant Telecomunicações S.A. (i)                                 | Multimedia communication               |        |      | 99.99% | 100% |
| Brasil Telecom Call Center S.A. ( BrT Call Center )            | Call center and telemarketing services | 100%   |      | 100%   |      |
| BrT Serviços de Internet S.A. ( BrTI )                         | Holding company                        | 100%   |      | 100%   |      |
| Agência O Jornal da Internet Ltda. ( JINT ) (i)                | Internet                               |        |      | 30%    |      |
| iG Participações S.A. ( iG Part ) (ii)                         | Holding company                        |        |      | 0.16%  | 100% |
| Internet Group do Brasil S.A. ( iG Brasil )                    | Internet                               |        | 100% | 13.64% | 100% |
| Nova Tarrafa Participações Ltda. ( NTPA ) (ii)                 | Holding company                        |        |      | 100%   |      |

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**Table of Contents****Oi S.A. and Subsidiaries****Notes to the Consolidated Financial Statements****for the Years Ended December 31, 2012 and 2011****(Amounts in thousands of Brazilian reais, unless otherwise stated)**

|   |                                    |        |      |        |      |
|---|------------------------------------|--------|------|--------|------|
| Brasil Telecom Cabos Submarinos Ltda.<br>( BrT CS )                           | Data traffic                       | 99.99% | 100% | 99.99% | 100% |
| Brasil Telecom Subsea Cable Systems<br>(Bermuda) Ltd. ( BrT SCS Bermuda ) (1) | Data traffic                       |        | 100% |        | 100% |
| Brasil Telecom of America Inc. ( BrT of<br>America ) (2)                      | Data traffic                       |        | 100% |        | 100% |
| Brasil Telecom de Venezuela, S.A. ( BrT<br>Venezuela ) (3)                    | Data traffic                       |        | 100% |        | 100% |
| Brasil Telecom de Colombia, Empresa<br>Unipersonal ( BrT Colombia ) (4)       | Data traffic                       |        | 100% |        | 100% |
| Oi Paraguay Comunicaciones SRL ( Oi<br>Paraguay ) (5)                         | Data traffic                       |        | 100% |        | 100% |
| Sumbe Participações S.A. ( Sumbe )  | Property Investments               |        |      | 100%   |      |
| Rio Alto Participações S.A.   | Property Investments               | 100%   |      | 100%   |      |
| Copart 5 Participações S.A. ( Copart 5 )                                      | Property Investments               | 100%   |      | 100%   |      |
| Telemar Norte Leste S.A. ( TMAR )   | Fixed-line telephony Region I      | 100%   |      |        |      |
| TNL PCS S.A. ( TNL PCS )  | Mobile Telephony Regions I and III |        | 100% |        |      |
| Paggo Empreendimentos S.A. ( Paggo )  | Payment and credit systems         |        | 100% |        |      |
| Paggo Acquirer Gestão de Meios de<br>Pagamentos Ltda. ( Paggo Acquirer )      | Payment and credit systems         |        | 100% |        |      |
| Paggo Administradora de Crédito Ltda.<br>( Paggo Administradora )             | Payment and credit systems         |        | 100% |        |      |
| Oi Serviços Financeiros S.A.  | Property Investments               | 99.87% | 100% |        |      |
| Copart 4 Participações S.A. ( Copart 4 )                                      | Property Investments               |        | 100% |        |      |
| Telemar Internet Ltda. ( Oi Internet )  | Internet                           |        | 100% |        |      |
| Dommo Empreendimentos Imobiliários<br>S.A. ( Dommo )                          | Purchase and sale of real estate   |        | 100% |        |      |
| SEREDE Serviços de Rede S/A ( Serede )  | Network services                   |        | 100% |        |      |
| Pointer Networks S.A. ( Pointer )   | Wi-Fi internet                     |        | 100% |        |      |
| VEX Wifi Tec España S.L (6)   | Wi-Fi internet                     |        | 100% |        |      |
| VEX Venezuela C.A (3)   | Wi-Fi internet                     |        | 100% |        |      |
| VEX Wifi S.A. (7)   | Wi-Fi internet                     |        | 100% |        |      |
| VEX Ukraine LLC (8)   | Wi-Fi internet                     |        | 100% |        |      |
| VEX USA Inc (2)   | Wi-Fi internet                     |        | 100% |        |      |
| VEX Bolivia (9)   | Wi-Fi internet                     |        | 100% |        |      |
|   | Wi-Fi internet                     |        | 100% |        |      |



|  |                            |      |
|--|----------------------------|------|
| Pointer Networks S.A. SUC Argentina (10) |                            |      |
| VEX Wifi Canada Ltd (11)                 | Wi-Fi internet             | 100% |
| VEX Chile Networks Serv Tec Ltda. (12)   | Wi-Fi internet             | 100% |
| VEX Colombia Ltda (4)                    | Wi-Fi internet             | 100% |
| VEX Paraguay S.A. (5)                    | Wi-Fi internet             | 100% |
| Pointer Peru S.A.C. (13)                 | Wi-Fi internet             | 100% |
| VEX Portugal S.A. (14)                   | Wi-Fi internet             | 100% |
| VEX Panama S.A. (15)                     | Wi-Fi internet             | 100% |
| Oi Brasil Holdings Cooperatief UA (16)   | Payment and credit systems | 100% |
| Circuito das Águas Telecom S.A.          | Property Investments       | 100% |
| Caryopoceae Participações S.A.           | Property Investments       | 100% |
| Bryophyta SP Participações S.A.          | Property Investments       | 100% |

- (i) Subsidiary merged as disclosed in this Note, in the topic Other mergers conducted in 2012.
- (ii) Subsidiary merged as disclosed in this Note, in the topic iG Group Corporate Reorganization in October 2012.
- All Company subsidiaries are headquartered in Brazil except for the following:

- 1) Headquartered in the Bermuda

**Table of Contents****Oi S.A. and Subsidiaries****Notes to the Consolidated Financial Statements****for the Years Ended December 31, 2012 and 2011****(Amounts in thousands of Brazilian reais, unless otherwise stated)**

- 2) Headquartered in the United States of America
- 3) Headquartered in Venezuela
- 4) Headquartered in Colombia
- 5) Headquartered in Paraguay
- 6) Headquartered in Spain
- 7) Headquartered in Uruguay
- 8) Headquartered in Ukraine
- 9) Headquartered in Bolivia
- 10) Headquartered in Argentina
- 11) Headquartered in Canada
- 12) Headquartered in Chile
- 13) Headquartered in Peru
- 14) Headquartered in Portugal
- 15) Headquartered in Panama
- 16) Headquartered in The Netherlands

The interests in joint ventures are as follows:

| <b>Company</b>   | <b>Business</b>   | <b>Direct<br/>2012</b> | <b>Indirect<br/>2012</b> | <b>Direct<br/>2011</b> | <b>Indirect<br/>2011</b> |
|--|-------------------|------------------------|--------------------------|------------------------|--------------------------|
| Companhia AIX de Participações<br>( AIX )                      | Data traffic      |                        | 50%                      |                        |                          |
| Paggo Soluções e Meios de<br>Pagamento S.A. ( Paggo Soluções ) | Financial company |                        | 50%                      |                        |                          |

The assets and liabilities of jointly controlled entities have been combined on a per line item basis in the Company's financial statements by the proportionate consolidation method, as follows:

| <b>AIX</b>              | <b>2012</b> | <b>2011</b> |
|-------------------------|-------------|-------------|
| Current assets          | 6,707       |             |
| Non-current assets      | 60,012      |             |
| Current liabilities     | 1,640       |             |
| Non-current liabilities | 2,895       |             |
| Equity                  | 62,184      |             |

|          |          |
|----------|----------|
| Revenue  | 23,837   |
| Expenses | (24,112) |

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| <b>Paggo Soluções</b>              | <b>2012</b> | <b>2011</b> |
|------------------------------------|-------------|-------------|
| Current assets                     | 1,281       |             |
| Non-current assets                 | 38,264      |             |
| Current liabilities                | 2,847       |             |
| Equity                             | 36,698      |             |
| Revenue                            | 306         |             |
| Expenses                           | (15,579)    |             |
| <b>Amendment of Company Bylaws</b> |             |             |

The Company's Extraordinary Shareholders' Meeting held on November 7, 2012 approved the amendment to the Company's Bylaws to adapt them to the new rules of BM&F/BOVESPA's (São Paulo Stock Exchange) Level 1 of Corporate Governance Listing Regulations to allow the Company to enter said corporate governance level.

**Corporate Reorganizations in 2012****Corporate Reorganization of the Oi Group undertaken in February 2012**

The shareholders of the Oi companies (Tele Norte Leste Participações S.A. ( TNL ), TMAR, Coari Participações S.A. ( Coari ) and Oi) approved at the shareholders' meetings held on February 27, 2012 the corporate reorganization that consisted of the partial split-off of TMAR with the merger of the split-off portion by Coari followed by the merger of TMAR shares by Coari and the mergers of Coari and TNL with and into Oi, the company that now concentrates all the shareholdings in Oi companies and is the only Oi company listed in a stock exchange, and whose corporate name was changed to Oi S.A. at the time of the same shareholders' meetings.

As a result, 395,585,453 new common shares and 798,480,405 new preferred shares of Oi S.A. (former Brasil Telecom S.A.) were issued, and its subscribed, fully paid-in capital increased to R\$6,816,468, represented by 599,008,629 common shares and 1,198,077,775 preferred shares, all registered and without par value.

The simplified organization chart below shows the corporate structure before and after the corporate reorganization:

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**Oi S.A. and Subsidiaries**

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**(Amounts in thousands of Brazilian reais, unless otherwise stated)**

The purpose of the corporate reorganization was to definitely simplify the corporate structure and the corporate governance of the Oi companies, resulting in the creation of value for the shareholders by, but not limited to:

simplify the corporate structure, which previously included three publicly-held companies with seven different classes of publicly traded shares, by consolidating our shareholder bases in one public company with two classes of shares that will be traded in Brazil and abroad;

reduce operational, administrative and financial costs following the consolidation of the general management of the Oi companies, the simplification of their capital structure, and the improvement of their ability to attract investments and access the capital markets;

align the interests of the shareholders of TNL, TMAR and Oi;

enhance the liquidity of the shares issued by Oi; and

eliminate the costs of separate listings of the shares of TNL, TMAR and Oi, as well as costs arising from separately complying with the public disclosure requirements applicable to TNL, TMAR and Oi.

Oi's Extraordinary Shareholders Meeting held on February 27, 2012 also approved the Oi redeemable bonus preferred shares proposal attributed exclusively to BrT shareholders prior to the merger, totaling R\$1.5 billion. The base date of the bonuses payable to shareholders whose shares are traded on the BM&FBOVESPA and shareholders whose shares are traded on the NYSE was

**Table of Contents****Oi S.A. and Subsidiaries****Notes to the Consolidated Financial Statements****for the Years Ended December 31, 2012 and 2011****(Amounts in thousands of Brazilian reais, unless otherwise stated)**

March 29, 2012 (deadline to exercise withdrawal rights). Accordingly, beginning March 30, 2012, these shares were traded ex-bonus on the stock exchange. On April 9, 2012, the redemption amount of the redeemable shares was paid proportionally to the each shareholder's interest in share capital social and on the same date the reimbursement amount was paid to any withdrawing TNL and TMAR shareholders, which totaled R\$1,999,300. The amount of the redeemed shares above was deducted from the calculation of the approved share exchange ratios.

The table below shows the exchange ratios resulting from the mergers of TNL and Coari with and into Oi:

| <b>Original share/Replacement share</b> | <b>Exchange ratio</b> |
|---|-----------------------|
| TNLP3 / BRTO3                           | 2.3122                |
| TNLP4 / BRTO4                           | 2.1428                |
| TNLP4 / BRTO3                           | 1.8581                |
| TMAR3 / BRTO3                           | 5.1149                |
| TMAR5 and TMAR6 / BRTO4                 | 4.4537                |
| TMAR5 and TMAR6 / BRTO3                 | 3.8620                |

The common and preferred shares of Oi S.A. started to be traded, under their new tick code OIBR3 and OIBR4, respectively, on April 9, 2012.

In addition to the relevant corporate approvals, the corporate reorganization was approved by the ANATEL on October 27, 2011. In addition, the shares to be issued by Oi S.A. in this context were registered with the SEC, and we obtained the consent of Oi companies' creditors to implement the corporate reorganization, where applicable.

The impacts of all stages of the corporate reorganization were prospectively accounted for based on the book net assets of each company. The resulting increase in the Company's equity and its consolidated financial statements amounts to R\$4,146,035.

The Company has accounted for the Coari merger and the TNL merger using the carry-over basis of our own assets and liabilities and of the assets and liabilities assumed of TNL, Telemar, and Coari as from the date of the reorganization. The carry-over basis of the assets and liabilities were determined at the lowest level entity in the group (i.e., the effects of the purchase accounting relating to Coari's acquisition of Brasil Telecom (now Oi S.A.) will not be reflected in the assets and liabilities of Oi S.A. in its consolidated financial statements as a result of the TNL merger). Additionally, the Company's historical financial statements have not been restated to reflect the impacts of the corporate reorganization on a retrospective basis. Due to the limited guidance in IFRS as issued by the IASB and BR GAAP regarding restructurings of entities under common control, the Company made a formal request for

consultation with the CVM regarding the accounting policy to be applied to these common-control mergers. On April 24, 2013, the Board of Directors of the CVM unanimously decided that the accounting policy to use our carry-over basis of the Company's own assets and liabilities is the most adequate policy given the fact pattern, and would provide more relevant and reliable information for the investor.

As a result, the financial statements for the year ended December 31, 2012, which were previously filed with the CVM, were restated to reflect said change in accounting policy.

As a result of the corporate reorganization, the balance sheet and income statement of the Company and its consolidated financial statements have been affected as from the date the transaction was approved, on February 27, 2012, and with respect to income statement as from February 28, 2012, when it started to include the balances and transactions arising from the operations of TMAR and its subsidiaries.

### **Corporate Reorganization of the iG Group undertaken in October 2012**

On October 24, 2012, our Board of Directors approved the corporate reorganization of the iG Group's subsidiaries by undertaking the following steps: (i) BrTI capital increase, by the Company, amounting to R\$51,828, paid in by transferring our stakes in NTPA (99.99%), iG Part (0.16%), and iG Brasil (13.64%); (ii) BrTI capital reduction, amounting to R\$48,807, by transferring the investment held in BrT Multimídia to the Company, and (iii) mergers of iG Part with and into iG Brasil and NTPA with and into BrTI, at their carrying amounts. As a result iG Brasil became a wholly-owned subsidiary of BrTI.

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**Oi S.A. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**for the Years Ended December 31, 2012 and 2011**

**(Amounts in thousands of Brazilian reais, unless otherwise stated)**

**Other mergers undertaken in 2012**

During October, November and December 2012, several mergers were undertaken involving Oi Group holding companies and dormant companies to streamline the corporate structure. The equity of the merged companies was valued at their carrying amounts.

- i. Merger of Vant with and into BrT Multimídia on October 30, 2012;
- ii. Merger of TNL.Net, TNL Trading, TNL Exchange, and JINT with and into BrTI on November 1, 2012;
- iii. Merger of Tomboa, Tete, and Carpi with and into TMAR on November 30, 2012;
- iv. Merger of Blackpool with and into Oi Internet on December 1, 2012; and
- v. Merger of TNCP (wholly-owned subsidiary) with and into TMAR on December 31, 2012.



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**Oi S.A. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

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**(Amounts in thousands of Brazilian reais, unless otherwise stated)**

**2. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies detailed below have been consistently applied in all fiscal years presented in these Individual and Consolidated financial statements, and have been consistently applied both by the Company and its subsidiaries.

**(a) Reporting basis**

The financial statements have been prepared based on the historic cost, except for certain financial instruments measured at their fair values, as described in the accounting policies in (b) below.

The preparation of financial statements requires the use of certain critical accounting estimates and the exercise of judgment by the Company's management in the application of the Group's accounting policies. Those areas that involve a higher degree of judgment or complexity or areas where assumptions and estimates are significant are disclosed in note (c) below.

**Consolidated Financial Statements**

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

**(b) Significant accounting policies**

**Consolidation criteria of subsidiaries by the full consolidation method**

Full consolidation was prepared in accordance with IAS 27 *Consolidated Financial Statements* and incorporates the financial statements of the Company's direct and indirect subsidiaries. The main consolidation procedures are as follows:

the balances of assets, liabilities, income and expenses, according to their accounting nature, are added up;

intragroup assets and liabilities and material income and expenses are eliminated;

investments and related interests in the equity of subsidiaries are eliminated;

non-controlling interest in equity and income statement for the year are separately stated; and

exclusive investment funds (Note 9) are consolidated.

**Consolidation criteria of jointly controlled entities by the proportionate consolidation method**

The Company elected to recognize interests held in joint ventures by the proportionate consolidation method, in accordance with IAS 31 Joint Ventures. The method used consists of consolidating the Company's interests in each joint venture's assets, liabilities, income and expenses, on a per line item basis, in its financial statements.

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**Oi S.A. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

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**(Amounts in thousands of Brazilian reais, unless otherwise stated)**

**Foreign currency translation**

**Functional and presentation currency**

The Company and its subsidiaries operate mainly as telecommunications industry operators in Brazil, respectively, and engage in activities typical of this industry (see Note 1), and the Brazilian real (R\$) is the currency used in their transactions.

To define its functional currency, management considered the currency that influences:

the sales prices of its goods and services;

the costs of services and sales;

the cash flows arising from receipts from customers and payments to suppliers;

interest, investments and financing.

Consequently, the functional currency of the Company and its subsidiaries is the Brazilian real (R\$), the same currency used in the presentation of these financial statements.

**Transactions and balances**

Foreign currency-denominated transactions are translated into the functional currency using the exchange rate prevailing on the transaction date. The foreign exchange differences resulting on translation is recognized in the income statement.

**Group companies**

The Company holds investments in companies with registered head offices abroad, none of which uses a functional currency other than the Brazilian real (R\$).

The Company has a subsidiary in Venezuela whose economy is considered a hyperinflationary economy under IAS 29.

The Company's management analyzed the effect of hyperinflation of the consolidated financial statements and concluded that the impact of inflation adjustment for the period is immaterial, as this subsidiary's equity (equity deficiency) (base for the hyperinflationary effects) as at December 31, 2012, is R\$(2,563) (R\$2,658 in 2011).

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**Oi S.A. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**for the Years Ended December 31, 2012 and 2011**

**(Amounts in thousands of Brazilian reais, unless otherwise stated)**

**Non-monetary items indexed to a foreign currency**

The Company and its subsidiaries do not have non-monetary items indexed to a foreign currency (other than the functional and presentation currency) as foreign subsidiaries are an extension of the operations of their Brazilian parent.

**Segment information**

Reporting on operating segments is consistent with the internal report provided to the chief operating decision maker of the Company, its management. All operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the management include items directly attributable to the segment and those that can be allocated on a reasonable basis.

Capital expenditures by segment are the total costs incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

**Business combinations**

The Company elected to adopt the exemption from the remeasurement of business combinations undertaken before the date of transition to IFRSs January 1, 2009 pursuant to IFRS 1. The excess amounts paid, therefore, are measured and classified using their original bases. The Company depreciates amounts recognized based on the appreciation of the acquired assets, according to the useful lives of the underlying assets, and tests such assets to determine any asset impairment losses when there is evidence of impairment; on the other hand, the Company tests goodwill for impairment on an annual basis.

**Cash and cash equivalents**

Comprise cash and imprest cash fund, banks, and highly liquid short-term investments (usually maturing within less than three months), immediately convertible into a known cash amount, and subject to an immaterial risk of change in value, which are stated at fair value at the end of the reporting period and which do not exceed their market value, and whose classification is determined as shown below.

**Short and long term investments**

Classified according to their purpose as: (i) held for trading securities; (ii) held to maturity; and (iii) available for sale.

Trading securities are measured at fair value and their effects are recognized in income statement. Held-to-maturity investments are measured at cost plus income earned, less the allowance for adjustment to probable recoverable amount, when applicable, and its effects are recognized in income statement. Available-for-sale investments are measured at fair value and their effects are recognized in valuation adjustments to equity, when applicable.

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**(Amounts in thousands of Brazilian reais, unless otherwise stated)**

**Trade receivables**

Receivables from telecommunications services provided are stated at the tariff or service amount on the date they are provided and do not differ from their fair values.

These receivables also include receivables from services provided and not billed by the end of the reporting period and receivables related to handset, SIM cards, and accessories. The provision for doubtful accounts estimate is recognized in an amount considered sufficient to cover possible losses on the realization of these receivables. The provision for doubtful accounts estimate is prepared based on a history of default.

**Inventories**

Inventories are segregated and classified as described below:

Maintenance material inventories classified in current assets in accordance with the period in which they will be used are stated at average cost, not exceeding replacement cost.

Inventories for expansion, classified in property, plant and equipment, are stated at average cost and are used to expand the telephone plant.

Inventories of merchandise for resale classified in current assets are stated at average cost and are basically represented by handsets and accessories. Adjustments to net realizable value are recognized for handsets and accessories purchased for amounts that exceed their sales prices. Impairment losses are recognized for obsolete inventories.

**Available-for-sale financial asset**

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or that are not classified as (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through profit or loss. The Company initially records available-for-sale financial assets at their fair value plus any costs directly attributable to the transaction. After their initial recognition, they are measured at fair value and any changes, other than impairment losses and foreign currency differences on translating available-for-sale debt instruments, are recognized in other comprehensive income and presented as part of equity. When an investment is

derecognized, the gains or losses accumulated in other comprehensive income are transferred to income statement.

**Investments**

Investments are carried at cost, less an allowance for write-down to realizable value, when applicable.

**Property, plant and equipment**

Property, plant and equipment are stated at cost of purchase or construction, less accumulated depreciation. Historical costs include expenses directly attributable to the acquisition of assets. They also include certain costs on facilities, when it is probable that the future economic benefits related to such costs will flow into the Company, and asset dismantlement, removal and restoration costs. Financial charges on obligations financing assets and construction works in progress are capitalized.



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Subsequent costs are added to the carrying amount as appropriate, when, and only when, these assets generate future economic benefits and can be reliably measured. The residual balance of the replaced asset is written off. Maintenance and repair costs are recorded in the income statement for the period when they are incurred, and they are capitalized when, and only when, they clearly represent an increase in installed capacity or the useful lives of assets.

Assets under finance leases are recorded in property, plant and equipment at the lower of fair value or the present value of the minimum lease payments, from the initial date of the agreement.

Depreciation is calculated on a straight-line basis, based on the estimated useful lives of the assets, which are annually reviewed by the Company.

**Intangible assets**

Separately acquired intangible assets with finite useful lives are carried at cost less accumulated amortization and impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, and the effect of any changes in estimates is accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Software licenses purchased are capitalized based on the costs incurred to purchase the software and make it ready for use.

Software maintenance costs are recognized as expenses when incurred. The development costs that are directly attributable to the project and the tests of identifiable and exclusive software, controlled by the Company, are recognized as intangible assets when the following criteria are met:

Completing the software so that it will be available for use is technically feasible.

Management has the intention to complete the software and use or sell it.

The Company has the ability to use or sell the software.

It can be demonstrated that the software will generate probable future economic benefits.

There are adequate technical, financial and other resources available to complete the development and to use or sell the software.

The expenditure attributable to the software during its development can be measure reliably. Directly attributable costs that are capitalized as part of software include the costs on the employees allocated to software development and an adequate portion of the applicable direct expenditure. Costs also include loans costs incurred during the software development period.

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Other development expenditure that does not meet these criteria is recognized as expenses, when incurred. Development costs previously recognized as expenses are not recognized as assets in a subsequent period.

**Impairment of long-lived assets**

Assets are tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets might be impaired. Long-lived assets may be identified as assets which have indefinite useful lives and assets subject to depreciation and amortization (property, plant and equipment and intangible assets). Impairment losses, if any, are recognized in the amount by which the carrying amount of an asset exceeds its recoverable value. Recoverable value is the higher of fair value less cost to sell and the value in use. In order to be tested for impairment, assets are grouped into the smallest identifiable group for which there are cash-generating units (CGUs), and projections are made based on discounted cash flows, supported by expectations on the Company's operations.

The CGUs are the Company's operating segments as they are the smallest separable cash-generating units.

Net Present Value (NPV) projections for the CGUs are prepared taking into consideration the following assumptions:

Entity-specific inputs: evidence of obsolescence or damage, discontinuation plans, performance reports, etc.;

External sources of inputs: market prices of the assets, technologic environment, market environment, economic environment, regulatory environment, legal environment, interest rates, return rates on investments, market value of Company shares, etc.

Said projections support the recovery of assets with indefinite useful lives. Additionally, Company tests did not show any evidences of impairment that would result in the realization of projections for assets with finite useful lives.

**Discount to present value**

The Company values its financial assets and financial liabilities to identify instances of applicability of the discount to present value. Leased assets are discounted to present value.

Generally, when applicable, the discount rate used is the average return rate on investments for financial assets or interest charged on Company loans for financial liabilities. The balancing item is the asset or liability that has

originated the financial instrument, when applicable, and the deemed borrowing costs are allocated to the Company's profits over the transaction term.

The Company believes that none of the assets and liabilities as at December 31, 2012 and 2011 is subject to the discount to present value, in view of the following factors: (i) their nature; (ii) short-term realization of certain balances and transactions; (iii) absence of monetary assets and monetary liabilities with observable or unobservable embedded interest. Financial instruments measured at the amortized costs are adjusted for inflation using relevant contractual indices.

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**Impairment of financial assets**

The Company assesses at the yearend whether there is objective evidence that financial assets or a group of financial assets is impaired. A financial asset or group of financial assets is considered impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of the asset, that its recoverable amount has been reduced and when the estimated future cash flows have been impacted.

In the case of equity investments classified as available for sale, a significant or prolonged decline in their fair value below cost is also objective evidence of impairment.

**Loans and financing**

Carried at amortized cost, plus inflation adjustment or foreign exchange differences and interest incurred through the end of the reporting period.

Transaction costs incurred are measured at amortized cost and recognized in liabilities, as a reduction to the balance of loans and financing, and are expensed over the relevant agreement term.

**Derivative financial instruments**

Derivative instruments are contracted to mitigate exposure to market risks arising from changes in exchange rates on foreign currency-denominated debts and short-term investments held abroad, and also from changes in the floating rates of debt.

Derivatives are initially recognized at cost at the inception of the derivative contract and are subsequently measured at fair value. Changes in the fair value of any of these derivatives are recorded directly in the income statement.

**Financial liabilities and equity instruments**

Debt or equity instruments issued the Company and its subsidiaries are classified as financial liabilities or equity instruments, according to the contractual substance of the transaction. Financial liabilities, including dividends and interest on capital declared, are derecognized when the financial liability is considered extinguished. Gains arising from the extinguishment of the original liability are recorded in income.

Beginning February 27, 2012, the Company started to adopt hedge accounting for its derivative financial instruments, which had been adopted by subsidiary TMAR since January 1, 2011. The purpose of this practice is to reduce the

volatility of the gains or losses recognized due to changes in the fair values of these derivative financial instruments. Derivative financial instruments that qualify for hedge accounting are submitted to periodic prospective and retrospective effectiveness tests using the dollar offset method.

Derivative instruments contracted and designated for hedge accounting are formally identified through initial designation documentation prepared in accordance with the requirements of IAS 39. Derivative financial instruments classified as cash flows hedges were designated for hedge accounting.

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The effective portion, as defined in IAS 39, is recognized as an equity line item called Other comprehensive income, net of taxes, and is reclassified to financial income (expenses) using the effective rate. The ineffective portion, measured after the quarterly effectiveness tests, is recognized in financial income (expenses) in the same period it occurs.

Changes in the fair values of derivative financial instruments that are not designated for purposes of hedge accounting are accounted as financial income or expenses in the income statement for the period they occur.

The hedge relationship expires and the designation is removed when:

- (i) The derivative contract is exercised, terminated or settled, or if the Company or its subsidiary TMAR voluntarily removes the designation, according to the criteria set out in IAS 39. If the hedged item continues to exist, the balances accumulated in other comprehensive income related to the changes in the fair value of the derivative are allocated to profit or loss for the period in which the hedged interest expenses and foreign exchange fluctuations are allocated.
- (ii) The debt is prepaid or extinguished. In this case, the balance accumulated in other comprehensive income is immediately allocated to financial income or expenses in profit or loss for the period their designation is terminated.

The required information on derivative instruments and the effects recognized by the Company and its subsidiary TMAR for the year ended December 31, 2012 are described in Note 3.

**Provisions**

The amount recognized as provision is the best estimate of the disbursement required to settle the present obligation at the end of the reporting period, based on the opinion of the management and its in-house and external legal counsel, and the amounts are recognized based on the cost of the expected outcome of ongoing lawsuits.

The increase in the obligation as a result of the passage of time is recognized as financial expenses.

**Employee benefits**

Pension plans: private pension plans and other postretirement benefits sponsored by the Company and its subsidiaries for the benefit of their employees are managed by two foundations. Contributions are determined based on actuarial calculations, when applicable, and charged to the income statement on the accrual basis. The Company and its subsidiaries have defined benefit and defined contribution plans.

In the defined contribution plan, the sponsor makes fixed contributions to a fund managed by a separate entity. The contributions are recognized as employee benefit expenses as incurred.



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The sponsor does not have the legal or constructive obligation of making additional contributions, in the event the fund lacks sufficient assets to pay all employees the benefits related to the services provided in the current year and prior years.

The defined benefit plan recognized gains and losses under the corridor approach. The defined benefit is annually calculated by independent actuaries, who use the projected unit credit method. The present value of the defined benefit is determined by discounting the estimated future cash outflows, using the projected inflation rate plus long-term interest. The obligation recognized in the balance sheet as regards the defined benefit pension plans presenting a deficit, corresponds to the present value of the benefits defined at the balance sheet date, less the fair value of the plan's assets.

The asset recognized in balance sheet corresponds to the present value of available economic benefits, consisting of refunds or reductions in future contributions to the plan.

Stock option plan: the Company had a stock option plan for its management and employees, and options granted are settled in shares. The fair value of the services received from employees in exchange for stock options is determined based on the fair value of the stock options, established on grant date.

Employee profit sharing: the accrual includes the employee profit sharing plan is accounted for on the accrual basis and involves all eligible employees, proportionately to the period of time worked in the year, according to the Plan's rules. The amount, which is paid by April of the year subsequent to the year profit sharing is accrued, is determined based on the target program established with the employees' unions, under a specific collective bargaining agreement.

**Revenue recognition**

Revenues correspond basically to the amount of the payments received or receivable from sales of services in the regular course of the Company's and its subsidiaries' activities.

Revenue is recognized when it can be reliably measured, it is probable that future economic benefits will be transferred to the Company, the transaction costs incurred can be measured, the risks and rewards have been substantially transferred to the buyer, and certain specific criteria of each of the Company's activities have been met.

Service revenue is recognized when services are provided. Local and long distance calls are charged based on time measurement according to the legislation in effect. The services charged based on monthly fixed amounts are calculated and recorded on a straight-line basis. Prepaid services are recognized as unearned revenues and recognized in revenue as services are used by customers.

Revenue from sales of handsets and accessories is recognized when these items are delivered and accepted by the customers. Discounts on services provided and sales of cell phones and accessories are taken into consideration in the recognition of the related revenue. Revenues involving transactions with multiple elements are identified in relation to each one of their components and the recognition criteria are applied on an individual basis. Revenue is not recognized when there is significant uncertainty as to its realization.

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Revenue from sales of payphone cards Public Use Telephony (TUP) is recognized when the credits are effectively consumed by the customers.

Customer loyalty program ( Oi Pontos )  
The subsidiaries BrT Celular and TNL PCS implemented a customer loyalty program ( Oi Pontos ), under which mobile telephony customers accumulate points related to the amounts paid for mobile telephony, fixed telephony, internet and pay TV services, which can be exchanged for mobile telephony service packages, handset discounts, events available at Oi experiences and/or transferred to the Multiplus Fidelidade Program (partner of said subsidiaries) to be exchanged for several other awards of this program, such as air tickets, fuel in gas stations, etc.

The Company accounts for the points awarded under the program as a separately identifiable component of the sales transaction in which they are granted. The fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale. The consideration allocated to the points is measured by reference to their fair value, i.e., the amount for which the award credits could be sold separately. This amount is deferred and the related revenue is recognized when, and only when, the points are redeemed or transferred to partner programs. Revenue recognition is based on the number of points that have been redeemed in exchange for awards relative to the total number expected to be redeemed. This program began its effective operations in the first quarter of 2011 and its balance is recognized in liabilities, in line item Unearned revenues .

**Expense recognition**

Expenses are recognized on the accrual basis, considering their relation with revenue realization. Prepaid expenses attributable to future years are deferred over the related periods.

**Financial income and expenses**

Financial income is recognized on the accrual basis and comprises interest on receivables settled after due date, gains on Short and long term investments and gains on derivative instruments. Financial expenses represent interest effectively incurred and other charges on loans, financing, derivative contracts, and other financial transactions.

Includes income and expense arising from inflation adjustments relating to assets and liabilities that are inflation indexed in accordance with the respective contractual terms, law or judicial decision.

**Current and deferred income tax and social contribution on profit**

Income tax and social contribution on profit are recorded on the accrual basis. Said taxes attributed to temporary differences and tax loss carryforwards are recorded in assets or liabilities, as applicable, only under the assumption of future realization or payment. The Company prepares technical studies that consider the future generation of taxable income, according to management expectations, considering the continuity of the companies as going concerns. The Company writes

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down the carrying amount of deferred tax assets when it is not longer probable that sufficient taxable income will be available to allow the utilization of the whole or part of the deferred tax assets.

Any write-down to deferred tax assets is reversed when it is probable that sufficient taxable income will be available. The technical studies are updated annually, approved by the Board of Directors and reviewed by the Supervisory Board, and the tax credits are adjusted based on the results of these reviews. Deferred tax assets and liabilities are measured using the tax rates applicable for the period in which the liability is expected to be settled or the asset is expected to be realized, based on the tax rates set forth in the tax law prevailing at the end of each reporting period, or when new legislation has been substantially approved. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of each reporting period, to recover or settle the carrying amount of these assets and liabilities.

**Government grants and government assistance**

Government grants are initially recognized as deferred revenue at fair value when there is reasonable assurance that they will be received and that the Company will comply with the conditions attaching to them. Government grants received as compensation for Company's expenses incurred are recognized as income on a systematic basis in the same periods when such expenses are recognized, and grants received as compensation for the cost on an asset are recognized as income on a systematic basis over the useful life of the asset.

**Earnings per share**

Basic earnings per share are calculated using net income for the period attributable to the owners of the Company and non-controlling interests and the weighted average number of common and preferred shares outstanding in the period. Diluted earnings per share are calculated using said weighted average number of outstanding shares adjusted by potentially dilutive convertible instruments in the reporting periods, pursuant to IAS 33.

**Statements of cash flows**

The statement of cash flows is prepared in accordance with IAS 7, under the indirect method. The Company classifies in line item "Cash and cash equivalents" the balances amounts immediately convertible into cash and highly-liquid investments (usually with maturities of less than three months) subject to an immaterial risk of change in value.

Cash flows are classified in the statements of cash flows, depending of their nature, as (i) operating activities; (ii) investing activities; and (iii) financing activities. Cash flows arising from operating activities basically comprise trade receivables, trade payables, personnel expenses, financial charges, and losses on lawsuits. Cash flows arising

from investing activities basically comprise the acquisition and disposal of investments, judicial deposits and withdrawals, and cash payments and cash receipts from the purchase and sale of property, plant and equipment, intangibles and other long-term assets. Cash flows arising from financing activities basically comprise cash payments and cash proceeds related to loans and financing, loans, derivatives, and dividends and interest on capital.

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**(c) Estimates and critical accounting judgments**

In preparing the financial statements, the Company's management uses estimates and assumptions based on historical experience and other factors, including expected future events, which are considered reasonable and relevant. The use of estimates and assumptions frequently requires judgments related to matters that are uncertain with respect to the outcomes of transactions and the amount of assets and liabilities. Actual results of operations and the financial position may differ from these estimates. The estimates that represent a significant risk of causing material adjustments to the carrying amounts of assets and liabilities are as follows:

**Revenue recognition and trade receivables**

The Company's revenue recognition policy is significant as it is a material component of operating results. Pricing undertaken by management, collection ability, and the right to receive certain network usage revenue are based on judgment related to the nature of the tariff collected for the services provided, the price of certain products, and the right to collect this revenue. If changes in conditions cause management to conclude that such criteria are not met in certain operations, the amount of trade receivables might be affected. In addition, the Company depends on guidelines to measure certain revenue set by the ANATEL (Brazilian telecommunications industry regulator).

**Provision for doubtful accounts**

The provision for doubtful accounts is set to recognize probable losses on receivables, as described in note 2, taking into account the actions taken to restrict the provision of services to and collect default customers.

The Company's management includes government entities, corporate customers, and other providers of telecommunications services in the base to calculate the allowance. There are cases of agreements with certain customers to collect past-due receivables, including agreements that allow customers to settle their debts in installments. The actual amounts not received may be different from the allowance recognized, and additional accruals might be required.

**Depreciation and amortization of assets with finite useful lives**

Property, plant and equipment items and intangible assets with finite useful lives are depreciated and amortized, respectively, on a straight-line basis, over the useful lives of the related asset. The depreciation and amortization rates of the most significant assets are shown in Notes 16 and 17, respectively.

The useful lives of certain assets may vary as they are used in the fixed-line or mobile telephony segments. The Company reviews the useful lives of assets on annual basis.





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**Impairment of long-lived assets**

The Company tests property, plant and equipment items and intangible assets for impairment either in light of decisions to discontinue activities where such assets are used or when there are evidences that the future operating revenue will not be sufficient to assure their realization.

Assets with finite useful lives are tested for impairment whenever events or changes in circumstances indicate that the asset might be impaired. The Company tests assets with indefinite useful lives (goodwill) for impairment annually in accordance with the accounting policy described in note 2 (b).

The recoverable amounts of assets are determined by comparing the calculations of their value in use and their sales prices. These calculations require the use of judgments and assumptions. The determination of fair values and discounted future operating cash flows requires that the Company makes certain assumptions and estimates with respect to projected cash inflows and cash outflows related to future revenue, costs and expenses. These assumptions and estimates may be influenced by different external and internal factors, such as economic trends, industry trends and interest rates, changes in business strategies, and changes in the type of services and products sold by the Company to the market. The use of different assumptions can significantly change our financial statements.

**Provisions**

The Company recognizes provisions for losses in labor, tax and civil lawsuits, as administrative proceedings, as presented in note 23. The recognition of a provision for contingent liabilities is based on the assessment of the risk of loss made for each proceeding, which includes assessing available evidences and recent decisions, and reflects a reasonable estimate as assessed by management, the General Counsel, and the outside legal counsel. It is possible that the assumptions used to estimate the provision for contingent liabilities change, which can, therefore, result in changes in future provisions for contingent liabilities.

**Derivative financial instruments**

Derivative financial instruments are recognized at fair value based on future cash flow estimates associated to each instrument contracted. The estimates presented may not necessarily be indicative of the amounts that could be obtained in the current market. The use of different assumptions to measure the fair value could have a material effect on the amounts obtained and not necessarily be indicative of the cash amounts that the Company would receive or to settle such transactions.

**Deferred income tax and social contribution**

The Company recognizes and settles taxes on income based on the results of operations determined in accordance with the Brazilian corporate law, taking into consideration the provisions of the tax law, which are materially different from the amounts calculated for IFRS purposes. Pursuant to IAS 12, the Company recognizes deferred tax assets and liabilities based on the differences between the carrying amounts and the taxable bases of the assets and liabilities.

The Company regularly tests deferred tax assets for impairment and recognizes an allowance for impairment losses when it is probable that these assets may not be realized, based on the history of taxable income, the projection of future taxable income, and the time estimated for the reversal of existing temporary differences. These calculations require the use of estimates and assumptions. The use of different estimates and assumptions could result in the recognition of an allowance for impairment losses for the entire or a significant portion of the deferred tax assets.

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**Employee benefits**

The actuarial valuation is based on assumptions and estimates related to interest rates, return on investments, inflation rates for future periods, mortality indices, and an employment level projection related the pension fund benefit liabilities. The accuracy of these assumptions and estimates will determine the creation of sufficient reserves for the costs of accumulated pensions and healthcare plans, and the amount to be disbursed annually on pension benefits. These assumptions and estimates are subject to significant fluctuations due to different internal and external factors, such as economic trends, social indicators, and our capacity to create new jobs and retain our employees. All assumptions are reviewed at the end of the reporting period. If these assumptions and estimates are not accurate, there may be the need to revise the reserves for pension benefits, which could significantly impact Company results.

**(d) New and revised standards and interpretations**

**New standards that became effective in 2012 but that did not affect the consolidated financial statements**

The adoption of new and revised IFRSs that became effective in 2012 had no impact, individually or in aggregate, on the amounts reported and/or disclosed for the current and prior years; however, they could affect the accounting of future transactions or arrangements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income (iii): permit presenting the income statement and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

Amendments to IAS 12 Clarifies the tax treatment of investment property values at fair value.

**Standards and interpretations not yet effective and not yet adopted**

IFRS 9 *Financial Instruments* (iii): introduces new requirements for the classification, measurement and derecognition of financial assets. The most significant effect of the new standard relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through income statement) attributable to changes in the credit risk of that liability. Thus, the amount of change in the fair value of the financial liability that is attributable to changes

in the credit risk of that liability is presented in Other comprehensive income , unless the recognition of the effects of changes in the liability s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

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IFRS 10 *Consolidated Financial Statements* (i): replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. SIC-12 *Consolidation - Special Purpose Entities* has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control.

IFRS 11 *Joint Arrangements* (i): replaces IAS 31 *Interests in Joint Ventures* and deals with how a joint arrangement of which two or more parties have joint control should be classified. In June 2012, the IASB revised the transition guidelines to limit the comparative application requirement only for the immediately previous year.

IFRS 12 *Disclosure of Interests in Other Entities* (i): is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards. In June 2012, the IASB revised the transition guidelines to limit the comparative application requirement only for the immediately previous year.

IFRS 13 *Fair Value Measurement* (i): establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. In June 2012, the IASB revised the transition guidelines to limit the comparative application requirement only for the immediately previous year.

Amendments to IAS 19 *Employee Benefits* (i): the amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The revised standard eliminates the possibility of using the corridor approach to recognize actuarial gains and losses of defined benefit plans and prescribes that actuarial gains and losses shall be recognized directly in equity (other comprehensive income). The Company estimates that the new standard will have a negative impact on its consolidated equity (other comprehensive income) by R\$314,056, on December 31, 2012.

Amendments to IAS 27 *Separate Financial Statements* (i): the amendments reflect the changes in the accounting for non-controlling interests (minority interests) and relate primarily to accounting for increases and decreases in ownership interests in subsidiaries after control is obtained, accounting for loss of control of subsidiaries, and the allocation of profit or loss to controlling and non-controlling interests in a subsidiary.

Amendments to IAS 28 *Investments in Associates and Joint Ventures* (i): the objective of the amendment to IAS 28 was to clarify that: (a) an investment in an associate is treated as a single asset for impairment testing in accordance with IAS 36 *Impairment of Assets*; (b) any impairment recognized is not allocated to any specific assets (notable goodwill); (c) reversed impairment losses are recognized as an adjustment to the carrying amount of the associate provided and to the extent that the recoverable amount of the investment increases; and (d) transition from

proportionate consolidate to the equity method to account for joint ventures. The company estimates that applying this standard will reduce by immaterial amounts the assets, liabilities, revenue and expenses presented in the consolidated financial statements.

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Amendments to IFRS 7 *Financial Instruments: Disclosure* (i) and IAS 32 *Financial Instruments: Recognition* (ii): the amendments require more extensive disclosures on the financial items that are presented net amounts in the balance sheet.

Amendments to IFRS 1 *First Time Adoption of IFRSs* (i): The amendments do not impact the Company.

- (i) Effective for annual periods beginning on or after January 1, 2013.
- (ii) Effective for annual periods beginning on or after January 1, 2014.
- (iii) Effective for annual periods beginning on or after January 1, 2015.

**3. DERIVATIVE FINANCIAL INSTRUMENTS AND RISK ANALYSIS**

**Financial risk management**

The Company's and its subsidiaries' activities expose them to several financial risks, such as: market risk (including currency fluctuation risk, interest rate risk on fair value, interest rate risk on cash flows, and price risk), credit risk, and liquidity risk. The Company and its subsidiaries use derivative financial instruments to protect them against certain exposures to these risks.

Risk management is carried out by the Company's treasury officer, in accordance with the policies approved by management.

The Financial Risk Management Policy (the Policy), approved by the Board of Directors, documents the management of exposures to market risk factors generated by the financial transactions of the Oi Group companies. Under the Policy, market risks are identified based on the features of financial transactions contracted and to be contracted during the year. Several scenarios are then simulated for each of the risk factors using statistical models, used as basis to measure the impacts on Group's financial income (expenses). Based on this analysis, the Executive Committee annually agrees with the Board of Directors the Risk Guideline to be followed in each financial year. The Risk Guideline is equivalent to the worst expected impact of financial income (expenses) on the Group's net income, with 95% of level of confidence. To ensure a proper risk management, according to the Risk Guideline, the treasury can contract hedging instruments, including derivative transactions such as swaps and currency forwards. The Company and its subsidiaries do not use derivative financial instruments for other purposes.

With the approval of the Policy, a Financial Risk Management Committee that meets monthly was created, currently consisting of the CEO, the CFO, the Regulatory Affairs Officer, the Planning and Development Officer, the Tax Officer, the General Controller, and the Treasury Officer, and the Internal Audit Officer as observer.

According to their nature, financial instruments may involve known or unknown risks, and it is important to assess to the best judgment the potential of these risks.

**(a) Fair value of financial instruments**

The Company and its subsidiaries have measured their financial assets and financial liabilities at their market or actual realizable values (fair value) using available market inputs and valuation



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techniques appropriate for each situation. The interpretation of market inputs for the selection of such techniques requires considerable judgment and the preparation of estimates to obtain an amount considered appropriate for each situation. Accordingly, the estimates presented may not necessarily be indicative of the amounts that could be obtained in an active market. The use of different assumptions for the calculation of the fair value may have a material impact on the amounts obtained.

The method used for calculation of the fair value of derivative instruments was the future cash flows associated to each instrument contracted, discounted at market rates prevailing at December 31, 2012.

The fair value of securities traded in active markets is equivalent to the amount of the last closing quotation available at the end of the reporting period, multiplied by the number of outstanding securities.

For the remaining contracts, the Company carries out an analysis comparing the current contractual terms and conditions with the terms and conditions effective for the contract when they were originated. When terms and conditions are dissimilar, fair value is calculated by discounting future cash flows at the market rates prevailing at yearend, and when similar, fair value is similar to the carrying amount on the reporting date.

**Fair value measurement hierarchy**

IFRS 7 defines fair value as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on measurement date. The standard clarifies that the fair value must be based on the assumptions that market participants would consider in pricing an asset or a liability, and establishes a hierarchy that prioritizes the information used to build such assumptions. The fair value measurement hierarchy attaches more importance to available market inputs (i.e., observable data) and a less weight to inputs based on data without transparency (i.e., unobservable data). Additionally, the standard requires that an entity consider all nonperformance risk aspects, including the entity's credit, when measuring the fair value of a liability.

IFRS 7 establishes a three-level hierarchy to measure and disclose fair value. The classification of an instrument in the fair value measurement hierarchy is based on the lowest level of input significant for its measurement. We present below a description of the three-level hierarchy:

Level 1 inputs are determined using quoted prices in an active market for identical assets or liabilities on measurement date. Additionally, an entity must have the possibility of trading in such active market and the quoted price cannot be adjusted by the entity.

Level 2 Inputs other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability or that can support the observed market inputs by correlation or otherwise for substantially all the asset or liability.

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Level 3 unobservable inputs are inputs based on little or no market activity. These inputs represent management's best estimates of how market participants could attribute a price to an asset or liability. Generally, Level 3 assets and liabilities are measured using pricing models, discounted cash flows, or similar methodologies that require significant judgment or estimates.

Under IFRS 7, the Company measures its cash equivalents, short and long term investments, derivative financial instruments and the available-for-sale financial asset at their fair values. Cash equivalents, short and long term investments, and derivative financial instruments are classified as Level 2 since they are measured using market prices for similar instruments. The available-for-sale financial asset is classified as Level 1.

There were no transfers between levels and/or allocations to Level 3 between December 31, 2011 and December 31, 2012.

The table below summarizes our financial assets and financial liabilities carried at fair value at December 31, 2012 and 2011. We also show the corresponding hierarchy levels for financial assets and financial liabilities recognized at fair value:

|  | Accounting measurement | Fair value measurement hierarchy | 2012 Carrying amount | 2012 Fair value |
|--|------------------------|----------------------------------|----------------------|-----------------|
| <b>Assets</b>                                |                        |                                  |                      |                 |
| Cash equivalents                             | Fair value             | Level 2                          | 4,066,168            | 4,066,168       |
| Short and long term investments              | Fair value             | Level 2                          | 2,489,599            | 2,489,599       |
| Accounts receivable (iv)                     | Amortized cost         |                                  | 7,018,497            | 7,018,497       |
| Derivative financial instruments             | Fair value             | Level 2                          | 989,099              | 989,099         |
| Dividends and interest on capital receivable | Amortized cost         |                                  |                      |                 |
| Due from related parties                     | Amortized cost         |                                  |                      |                 |
| Available-for-sale financial asset (i)       | Fair value             | Level 1                          | 905,829              | 905,829         |
| <b>Liabilities</b>                           |                        |                                  |                      |                 |
| Trade payables (iv)                          | Amortized cost         |                                  | 4,658,849            | 4,658,849       |
| <b>Loans and financing</b>                   |                        |                                  |                      |                 |
| Loans and financing (iii)                    | Amortized cost         |                                  | 25,169,701           | 25,807,878      |

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|                                       |                |         |           |           |
|---------------------------------------|----------------|---------|-----------|-----------|
| Debentures                            | Amortized cost |         | 8,176,388 | 8,457,517 |
| Derivative financial instruments      | Fair value     | Level 2 | 514,297   | 514,297   |
| Dividends and interest on capital     | Amortized cost |         | 655,306   | 655,306   |
| Licenses and concessions payable (ii) | Amortized cost |         | 2,157,997 | 2,157,997 |
| Tax refinancing program (ii)          | Amortized cost |         | 1,085,099 | 1,085,099 |

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|   | Accounting<br>measurement | Fair value<br>measurement<br>hierarchy | 2011<br>Carrying<br>amount | 2011<br>Fair value |
|---|---------------------------|--|----------------------------|--------------------|
| <b>Assets</b>                                   |                           |  |                            |                    |
| Cash equivalents                                | Fair value                | Level 2                                | 5,868,374                  | 5,868,374          |
| Short and long term investments                 | Fair value                | Level 2                                | 1,097,354                  | 1,097,354          |
| Accounts receivable (iv)                        | Amortized cost            |  | 2,010,487                  | 2,010,487          |
| Derivative financial instruments                | Fair value                | Level 2                                | 7,186                      | 7,186              |
| Dividends and interest on capital<br>receivable | Amortized cost            |  |                            |                    |
| Due from related parties                        | Amortized cost            |  | 2,217,682                  | 2,331,243          |
| <b>Liabilities</b>                              |                           |  |                            |                    |
| Trade payables (iv)                             | Amortized cost            |  | 1,840,552                  | 1,840,552          |
| Loans and financing                             |                           |  |                            |                    |
| Loans and financing (iii)                       | Amortized cost            |  | 3,996,588                  | 3,926,816          |
| Debentures                                      | Amortized cost            |  | 4,108,623                  | 4,145,270          |
| Derivative financial instruments                | Fair value                | Level 2                                | 25,698                     | 25,698             |
| Dividends and interest on capital               | Amortized cost            |  | 307,720                    | 307,720            |
| Licenses and concessions payable (ii)           | Amortized cost            |  | 676,481                    | 676,481            |
| Redeemable bonus shares                         | Amortized cost            |  | 1,501,984                  | 1,501,984          |
| Tax refinancing program (ii)                    | Amortized cost            |  | 446,428                    | 446,428            |

(i) On March 4, 2011, TMAR initiated the process to acquire equity interest in PT - Portugal Telecom, as disclosed in the Material Fact Notice of January 25, 2011. On March 31, 2012, TMAR held a 7.4% stake in PT's capital for which it had paid a total of R\$1,366,910, already including transaction costs and taxes totaling R\$157,735.

After successive acquisitions during April and May 2012, TMAR completed the acquisition of a 10% stake in PT, for which it paid R\$250,186, included in the transactions costs, and taxes totaling R\$951.

Management considers that (i) TMAR's 10% stake in PT's capital and (ii) its two (2) representatives appointed on April 6, 2011 to PT's Board of Directors do not grant it a significant influence on the financial, operating, and strategic policies of PT. Accordingly, this investment was recognized as an available-for-sale financial asset, as required by IAS 32 and 39.

In the year ended December 31, 2012, TMAR recognized a negative adjustment to the fair value of PT shares the impact on the Company's consolidated amounting to R\$82,991, or R\$54,774 net of taxes.

Because of its materiality and in accordance with IAS 32 and 39, direct subsidiary TMAR recognized the financial expense loss.

(ii) There is no market for licenses and concessions payable and the tax refinancing program, and, therefore, they are not adjusted to fair value.

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(iii) A significant portion of this balance consists of loans and financing granted by the BNDES, export credit agencies, and other related parties, which correspond to exclusive markets and, therefore, their fair values are similar to their carrying amounts.

(iv) The balances of trade receivables and trade payables have near terms and, therefore, they are not adjusted to fair value.

**(b) Measurement of financial assets and financial liabilities at amortized cost**

We concluded that the discount to present value of financial assets and financial liabilities under the amortized cost method does not apply, based on the valuation made for this purpose, for the following main reasons:

Trade receivables: near-term maturity of bills.

Trade payables, dividends and interests on capital: all obligations are due to be settled in the short term.

Loans and financing: all transactions are adjusted for inflation based on contractual indices.

Licenses and concessions payable: all obligations arising from licenses are adjusted for inflation based on contractual indices.

**(c) Foreign exchange risk**

**Assets**

Foreign currency-denominated cash equivalents and short and long term investments are basically maintained in investment funds exclusively managed for the Company and its subsidiaries, and time deposits.

The risk associated to these assets arises from the possible exchange rate fluctuations that may reduce the balance of these assets. The Company's and its subsidiaries' assets subject to this risk represent approximately 6.71% (26.5% in

2011) of our total cash and cash equivalents and short and long term investments.

Additionally, subsidiary TMAR has an available-for-sale financial asset related to the investment in Portugal Telecom s shares.

These assets are presented in the balance sheet as follows:

|                                    | 2012            |            | 2011            |            |
|------------------------------------|-----------------|------------|-----------------|------------|
|                                    | Carrying amount | Fair value | Carrying amount | Fair value |
| <b>Assets</b>                      |                 |            |                 |            |
| Cash equivalents                   | 449,791         | 449,791    | 1,299,466       | 1,299,466  |
| Short-term investments             | 13,246          | 13,246     |                 |            |
| Available-for-sale financial asset | 905,829         | 905,829    |                 |            |

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The Company and its subsidiaries have foreign currency-denominated loans and financing. The risk associated with these liabilities is related to the possibility of fluctuations in foreign exchange rates that could increase the balance of such liabilities. The Company's and subsidiaries' loans and financing exposed to this risk represent approximately 39.1% (0.01% in 2011) of total liabilities from loans and financing, less the currency hedging transactions contracted. In order to minimize this type of risk, we enter into foreign exchange hedges with financial institutions. Out of the consolidated foreign currency-denominated debt, 97% (100% in 2011) is protected by exchange *swaps*, currency forwards, and short-term investments in foreign currency. The unrealized gains or losses on hedging transactions are measured at fair value, as described in (a) above.

As at December 31, 2012 and 2011, the amounts shown below were recorded as gain or loss on derivatives (see note 7):

|                               | <b>2012</b>    | <b>2011</b>     |
|-------------------------------|----------------|-----------------|
| Gain/(loss) on currency swaps | 458,774        | (2,434)         |
| Currency forwards             | 467,041        | (46,817)        |
| <b>Total</b>                  | <b>925,815</b> | <b>(49,251)</b> |

As at December 31, 2012, we recognized the changes below in other comprehensive income referring to foreign exchanges hedges designated for hedge accounting treatment:

| <b>Table of changes in hedge accounting effects in other comprehensive income</b> |          |
|---|----------|
| <b>Balance at 2011</b>  |          |
| Corporate reorganization:   |          |
| . Gain on designated hedges   | 119,907  |
| . Deferred taxes on hedge accounting  | (40,768) |
| . Share of subsidiary's hedge accounting  | 15,307   |
| . Deferred taxes on share of subsidiary's hedge accounting                        | (5,204)  |
| Loss on designated hedges   | 47,872   |
| Transfer on ineffective portion to profit or loss                                 | 1,055    |
| Amortization of hedges to profit or loss at effective rate                        | 9,990    |

|   |                |
|---|----------------|
| Deferred taxes on hedge accounting                        | (20,032)       |
| Share of subsidiary s hedge accounting after Feb 27, 2012 |                |
| <b>Balance at 2012</b>                                    | <b>128,127</b> |

Swap derivative financial instruments are summarized as follows:

| <b>Derivatives not designated for hedge accounting</b> |              |                 |                        | <b>Fair value<br/>Amounts</b> |                             |
|--|--------------|-----------------|------------------------|-------------------------------|-----------------------------|
|  | <b>Index</b> | <b>Maturity</b> | <b>Notional amount</b> |                               | <b>(payable)/receivable</b> |
|  |              |                 | <b>2012</b>            | <b>2011</b>                   | <b>2012</b>                 |
|  |              |                 |                        |                               | <b>2011</b>                 |
| Cross currency swap contracts US\$/R\$ (i)             |              |                 |                        |                               |                             |
|  | US\$2.21% to | Jul 2015 to     |                        |                               |                             |
| Asset position   | 5.50%        | Mar 2021        | 1,703,023              |                               | 1,916,017                   |
|  |              | Jul 2015 to     |                        |                               |                             |
| Liability position                                     | CDI 70.40%   | Mar 2021        | (1,703,023)            |                               | (1,632,472)                 |
|  | to 103.52%   |                 |                        |                               |                             |
| <b>Net amount</b>                                      |              |                 |                        |                               | <b>283,545</b>              |

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|                    |              |          |             |               |
|--------------------|--------------|----------|-------------|---------------|
|                    | US\$3.32% to |          |             |               |
| Asset position     | 5.50%        | Oct 2020 | 1,430,450   | 1,610,742     |
|                    | R\$6.15% to  |          |             |               |
| Liability position | 12.82%       | Oct 2020 | (1,430,450) | (1,536,258)   |
| <b>Net amount</b>  |              |          |             | <b>74,484</b> |

**Cross currency swap contracts US\$/R\$ (iii)**

|                    |            |             |             |                |
|--------------------|------------|-------------|-------------|----------------|
|                    | 6M US\$    |             |             |                |
|                    | LIBOR +    | Feb 2016 to |             |                |
|                    | 1.07% to   |             |             |                |
| Asset position     | 2.50%      | Aug 2020    | 1,836,024   | 1,865,155      |
|                    |            | Feb 2016 to |             |                |
|                    | CDI 88.65% |             |             |                |
| Liability position | to 109.54% | Aug 2020    | (1,836,024) | (1,678,765)    |
| <b>Net amount</b>  |            |             |             | <b>186,390</b> |
| Counterparty:      |            |             |             |                |

(i) - Deutsche, Goldman Sachs, JP Morgan, Merrill Lynch, Morgan Stanley, Santander, Itaú BBA and Citibank

(ii) - Goldman Sachs, Merrill Lynch and Morgan Stanley

(iii) - Credit Agricole, JP Morgan, Merrill Lynch, Morgan Stanley, Santander, BNP Paribas and HSBC.

**Derivatives designated for hedge accounting**

|              |                 |   |                   |
|--------------|-----------------|---|-------------------|
|              |                 |   | <b>Fair value</b> |
|              |                 |   | <b>Amounts</b>    |
|              |                 | <b>Notional amount (payable)/receivable</b> |                   |
| <b>Index</b> | <b>Maturity</b> |   |                   |

|   |           |             | 2 012     | 2011 | 2012           | 2011 |
|---|-----------|-------------|-----------|------|----------------|------|
| <b>Cross currency swap contracts US\$/R\$ (i)</b> |           |             |           |      |                |      |
|   | US\$3.00% |             |           |      |                |      |
|   | to        | Nov 2014 to |           |      |                |      |
| Asset position                                    | 5.58%     | Feb 2016    | 307,203   |      | 340,674        |      |
|   | CDI       |             |           |      |                |      |
|   | 100.00%   | Nov 2014 to |           |      |                |      |
|   | to        |             |           |      |                |      |
| Liability position                                | 110.00%   | Feb 2016    | (307,203) |      | (344,928)      |      |
| <b>Net amount</b>                                 |           |             |           |      | <b>(4,254)</b> |      |

|  |              |          |           |  |                 |  |
|--|--------------|----------|-----------|--|-----------------|--|
| <b>Cross currency swap contracts R\$/US\$ (ii)</b> |              |          |           |  |                 |  |
|  | CDI          |          |           |  |                 |  |
| Asset position                                     | 100.00%      | Feb 2016 | 197,318   |  | 200,162         |  |
|  | US\$4.13% to |          |           |  |                 |  |
| Liability position                                 | 4.68%        | Feb 2016 | (197,318) |  | (218,733)       |  |
| <b>Net amount</b>                                  |              |          |           |  | <b>(18,571)</b> |  |
| Counterparty:                                      |              |          |           |  |                 |  |

(i) - Citibank, Deutsche and Santander

(ii) - Merrill Lynch

#### **Cross currency swap contracts (plain vanilla)**

US\$/R\$: Refer to foreign exchange swaps to protect its US dollar-denominated debt payments. Under these contracts, the asset position is in US dollars plus a fixed interest rate or in US LIBOR plus a fixed interest rate, and the liability position a percentage of interbank deposit rate (CDI) or a fixed rate in real. The main risk of loss in the asset position of these instruments is the US dollar exchange rate fluctuation; however, such losses would be fully offset by the US dollar-denominated debt s maturities.

R\$/US\$: Refer to foreign exchange swaps to reverse swap contracts. Under these contracts, the asset position is in US dollar plus a fixed rate and the liability position is a percentage of CDI. The main risk of loss in the liability position of these instruments is the US dollar exchange rate fluctuation; however, such possible losses would be fully offset by the maturities of the reversed US dollar-denominated swaps.

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The amounts of NDF derivative financial instruments are summarized as follows:

|                     |       |           |             | Notional amount  |                | Fair value<br>Amounts (payable)/<br>receivable |                 |
|---------------------|-------|-----------|-------------|------------------|----------------|--|-----------------|
|                     | Index | Forward   | Maturity    | 2012             | 2011           | 2012   | 2011            |
|                     |       | 2.0476 to | Jan 2013 to |                  |                |  |                 |
| US\$/R\$ NDFs (i)   | US\$  | 2.1314    | Mar 2013    |                  |                |  |                 |
| <b>Net position</b> |       |           |             | <b>5,076,987</b> | <b>642,963</b> | <b>(106,416)</b>                               | <b>(18,512)</b> |
|                     |       | 2.7041 to | Jan 2013 to |                  |                |  |                 |
| EUR/R\$ NDFs (ii)   | EUR   | 2.7554    | Feb 2013    |                  |                |  |                 |
| <b>Net position</b> |       |           |             | <b>2,020,500</b> |                | <b>(3,721)</b>                                 |                 |
| Counterparty:       |       |           |             |                  |                |  |                 |

(i)-BNP, Bradesco, Goldman Sachs, HSBC, Itaú, Merrill Lynch, Morgan Stanley and Santander

(ii)-HSBC, Itaú, Merrill Lynch e Santander, BES, Deutsche and Morgan Stanley.

**Non-deliverable forwards (NDFs)**

US\$/R\$: Refer to future US dollar sales transactions using NDFs to protect against a depreciation of the Brazilian real in relation to the US dollar. The main strategy for these contracts is to set the foreign exchange rate for the contract period at a fixed amount, thus mitigating the risk of adverse fluctuations on US dollar-denominated debt. In order to extend the hedging period, we can roll over these instruments by selling US dollars for the period equivalent to the short-term NDF in the portfolio and simultaneously purchase US dollars for longer positions.

Euro/R\$: Refer to future Euro dollar sales transactions using NDFs to protect against a depreciation of the Brazilian real in relation to the US dollar. The main strategy for these contracts is to set the foreign exchange rate for the contract period at a fixed amount, thus mitigating the risk of adverse fluctuations on Euro-denominated debt. In order to extend the hedging period, we can roll over these instruments by selling Euro for the period equivalent to the short-term NDF in the portfolio and simultaneously purchase Euro for longer positions.

**Foreign exchange risk sensitivity analysis**

As at December 31, 2012, management estimated the depreciation scenarios of the Brazilian real in relation to other currencies at yearend. The rates used for the probable scenario were the rates prevailing at the end of December 2012. The probable rates were then depreciated by 25% and 50% and used as benchmark for the possible and remote scenarios, respectively.

| <b>Description</b>       | <b>2012</b> | <b>Rate<br/>Depreciation</b> |
|--------------------------|-------------|------------------------------|
| <i>Probable scenario</i> |             |                              |
| US dollar                | 2.0435      | 0%                           |
| Euro                     | 2.6954      | 0%                           |
| <i>Possible scenario</i> |             |                              |
| US dollar                | 2.5544      | 25%                          |
| Euro                     | 3.3693      | 25%                          |

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|                        |        |     |
|------------------------|--------|-----|
| <i>Remote scenario</i> |        |     |
| US dollar              | 3.0653 | 50% |
| Euro                   | 4.0431 | 50% |

As at December 31, 2012, management estimated the future outflows for the payment of interest and principal of its debt pegged to exchange rates based on the interest rates prevailing at the end of the annual reporting period and the exchange rates above, also assuming that all interest and principal payments would be made on the scheduled maturity dates.

The impact of hypothetical depreciations of the Brazilian real in relation to other currencies can be measured by the difference in the future flows in the possible and remote scenarios compared to the probable scenario, where there is no estimate of depreciation. Such sensitivity analysis considers payment outflows in future dates. Thus, the sum of the amounts for each scenario is not equivalent to the fair values or even the present values of liabilities.

As at December 31, 2011, the Company basically held assets represented by cash equivalents and short-term investments exposed to US dollar fluctuation against the Brazilian real. To reduce its foreign exchange exposure of the US dollar-denominated asset the Company contracted a non-deliverable forward (NDF) to protect for the Brazilian real appreciation against the US dollar that would result in a decrease of its asset.

The sensitivity analysis took into consideration 25% and 50% depreciations of the US dollar in relation to the Brazilian real (exchange rate US\$1 = R\$1.8758). Management believes that the 25% depreciation (exchange rate US\$1 = R\$2.3448) represented a possible exchange fluctuation scenario and that the 50% depreciation (exchange rate US\$1 = R\$2.8137) represented a remote exchange fluctuation scenario.

A 25% and 50% appreciation of the Brazilian real against the US dollar would have an adverse impact on the Company's profit of approximately R\$128,792 and R\$214,653, respectively.

The impacts of foreign exchange exposure, in the sensitivity scenarios estimated by the Company, are shown in the table below:

| Description              | Individual risk     | 2012         |              |              |              | Total      |
|--------------------------|---------------------|--------------|--------------|--------------|--------------|------------|
|                          |                     | Up to 1 year | 1 to 3 years | 3 to 5 years | Over 5 years |            |
| <i>Probable scenario</i> |                     |              |              |              |              |            |
| US dollar debt           | Dollar appreciation | 1,084,310    | 2,508,170    | 2,118,580    | 9,168,287    | 14,879,347 |

|  |                     |                    |                  |                  |                  |                  |
|--|---------------------|--------------------|------------------|------------------|------------------|------------------|
| Derivative financial instruments (net position - US\$) | Dollar depreciation | (5,567,976)        | (1,208,188)      | (888,380)        | (3,444,664)      | (11,109,208)     |
| US dollar cash   | Dollar depreciation | (462,700)          |                  |                  |                  | (462,700)        |
| Euro debt  | Euro appreciation   | 51,954             | 103,908          | 2,131,383        |                  | 2,287,245        |
| Derivative financial instruments (net position - euro) | Euro depreciation   | (2,005,849)        |                  |                  |                  | (2,005,849)      |
| Euro cash  | Euro depreciation   | (337)              |                  |                  |                  | (337)            |
| <b>Total pegged to exchange rate</b>                   |                     | <b>(6,900,598)</b> | <b>1,403,890</b> | <b>3,361,583</b> | <b>5,723,623</b> | <b>3,588,498</b> |
| <b><i>Possible scenario</i></b>                        |                     |                    |                  |                  |                  |                  |
| US dollar debt   | Dollar appreciation | 1,355,388          | 3,135,213        | 2,648,225        | 11,460,359       | 18,599,185       |
| Derivative financial instruments (net position - US\$) | Dollar depreciation | (6,959,970)        | (1,510,235)      | (1,110,475)      | (4,305,830)      | (13,886,510)     |

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|  |                     |                    |                  |                  |                  |                  |
|--|---------------------|--------------------|------------------|------------------|------------------|------------------|
| US dollar cash   | Dollar depreciation | (578,375)          |                  |                  |                  | (578,375)        |
| Euro debt  | Euro appreciation   | 64,943             | 129,885          | 2,664,229        |                  | 2,859,057        |
| Derivative financial instruments (net position - euro) | Euro depreciation   | (2,507,311)        |                  |                  |                  | (2,507,311)      |
| Euro cash  | Euro depreciation   | (421)              |                  |                  |                  | (421)            |
| <b>Total pegged to exchange rate</b>                   |                     | <b>(8,625,746)</b> | <b>1,754,863</b> | <b>4,201,979</b> | <b>7,154,529</b> | <b>4,485,625</b> |

**Remote scenario**

|  |                     |                     |                  |                  |                  |                  |
|--|---------------------|---------------------|------------------|------------------|------------------|------------------|
| US dollar debt   | Dollar appreciation | 1,626,465           | 3,762,255        | 3,177,870        | 13,752,431       | 22,319,021       |
| Derivative financial instruments (net position - US\$) | Dollar depreciation | (8,351,964)         | (1,812,282)      | (1,332,570)      | (5,166,996)      | (16,663,812)     |
| US dollar cash   | Dollar depreciation | (694,050)           |                  |                  |                  | (694,050)        |
| Euro debt  | Euro appreciation   | 77,931              | 155,862          | 3,197,075        |                  | 3,430,868        |
| Derivative financial instruments (net position - euro) | Euro depreciation   | (3,008,774)         |                  |                  |                  | (3,008,774)      |
| Euro cash  | Euro depreciation   | (506)               |                  |                  |                  | (506)            |
| <b>Total pegged to exchange rate</b>                   |                     | <b>(10,350,898)</b> | <b>2,105,835</b> | <b>5,042,375</b> | <b>8,585,435</b> | <b>5,382,747</b> |

**Impacts****Possible scenario - probable scenario**

|           |             |         |         |           |         |
|-----------|-------------|---------|---------|-----------|---------|
| US dollar | (1,236,591) | 324,996 | 307,550 | 1,430,906 | 826,861 |
| Euro      | (488,557)   | 25,977  | 532,846 |           | 70,266  |

**Remote scenario - probable scenario**

|           |             |         |           |           |           |
|-----------|-------------|---------|-----------|-----------|-----------|
| US dollar | (2,473,183) | 649,991 | 615,100   | 2,861,812 | 1,653,720 |
| Euro      | (977,117)   | 51,954  | 1,065,692 |           | 140,529   |

The impact on the fair value of financial instruments subject to the foreign exchange risk, in the estimated scenarios, is as follows:

## Foreign exchange exposure on:

| Description  | Risk                | Balance at 2012 |
|--|---------------------|-----------------|
| <b><i>Probable scenario</i></b>                        |                     |                 |
| US dollar debt   | Dollar appreciation | 11,249,360      |
| Derivative financial instruments (net position - US\$) | Dollar depreciation | (10,410,964)    |
| US dollar cash   | Dollar depreciation | (462,700)       |
| Euro debt  | Euro appreciation   | 2,027,505       |
| Derivative financial instruments (net position - euro) | Euro depreciation   | (2,003,706)     |
| Euro cash  | Euro depreciation   | (337)           |
| <b>Total pegged to exchange rate</b>                   |                     | <b>399,158</b>  |
| <b><i>Possible scenario</i></b>                        |                     |                 |
| US dollar debt   | Dollar appreciation | 14,061,700      |
| Derivative financial instruments (net position - US\$) | Dollar depreciation | (13,013,705)    |
| US dollar cash   | Dollar depreciation | (578,375)       |
| Euro debt  | Euro appreciation   | 2,534,381       |
| Derivative financial instruments (net position - euro) | Euro depreciation   | (2,504,633)     |
| Euro cash  | Euro depreciation   | (421)           |
| <b>Total pegged to exchange rate</b>                   |                     | <b>498,947</b>  |
| <b><i>Remote scenario</i></b>                          |                     |                 |
| US dollar debt   | Dollar appreciation | 16,874,040      |
| Derivative financial instruments (net position - US\$) | Dollar depreciation | (15,616,446)    |
| US dollar cash   | Dollar depreciation | (694,050)       |
| Euro debt  | Euro appreciation   | 3,041,258       |
| Derivative financial instruments (net position - euro) | Euro depreciation   | (3,005,559)     |

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|                                      |                   |                |
|--------------------------------------|-------------------|----------------|
| Euro cash                            | Euro depreciation | (506)          |
| <b>Total pegged to exchange rate</b> |                   | <b>598,737</b> |

***Estimated impacts on fair value of financial instruments*****Possible scenario - probable scenario** **99,789**

|           |        |
|-----------|--------|
| US dollar | 93,924 |
| Euro      | 5,865  |

**Remote scenario - probable scenario** **199,579**

|           |         |
|-----------|---------|
| US dollar | 187,848 |
| Euro      | 11,731  |

**(d) Interest rate risk****Assets**

Cash equivalents and short and long term investments in local currency are substantially maintained in financial investment funds exclusively managed for the Company and its subsidiaries, and investments in private securities issued by prime financial institutions.

The interest rate risk linked to these assets arises from the possibility of decreases in these rates and consequent decrease in the return on these assets.

These assets are presented in the balance sheet as follows:

|               | 2012            |              | 2011            |              |
|---------------|-----------------|--------------|-----------------|--------------|
|               | Carrying amount | Market value | Carrying amount | Market value |
| <b>Assets</b> |                 |              |                 |              |

|                                 |           |           |           |           |
|---------------------------------|-----------|-----------|-----------|-----------|
| Cash equivalents                | 3,616,377 | 3,616,377 | 5,868,374 | 5,868,374 |
| Short and long term investments | 2,476,353 | 2,476,353 | 1,097,354 | 1,097,354 |
| Due from related parties (*)    |           |           | 2,217,682 | 2,331,243 |

(\*)Refer to private debentures issued by TMAR that pay interest pegged to the CDI (Note 11).

### Liabilities

The Company and its subsidiaries have loans and financing subject to floating interest rates, based on the Long-term Interest Rate (TJLP) or the CDI, in the case of real-denominated debt, and on the LIBOR, in the case of U.S. dollar-denominated debt.

As at December 31, 2012, approximately 65.4% (76.7% at December 31, 2011) of the incurred debt, less adjustment for derivative transactions, was subject to floating interest rates. After the derivative, approximately 70.3% (76.7% in 2011) of the consolidated debt was subject to floating interest rates. The most material exposure of Company's and its subsidiaries' debt after the hedging transactions is to CDI. Therefore, a continued increase in this interest rate would have an adverse impact on future interest payments and hedging adjustments. However, as the Company's and its subsidiaries' cash is invested mainly in securities pegged to the CDI fluctuation, the net exposure to CDI of current liabilities does not constitute a material risk for the Company and its subsidiaries.

We continuously monitor these market rates to assess the possible contracting of instruments to hedge against the risk of fluctuation of these rates.

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As at December 31, 2012 and 2011, the amounts shown below were recorded as gain or loss on derivative instruments: (see Note 7)

|                                   | <b>2012</b>   | <b>2011</b> |
|-----------------------------------|---------------|-------------|
| Gain/(loss) on interest rate swap | 16,206        |             |
| <b>Total</b>                      | <b>16,206</b> |             |

As at December 31, 2012, we recognized the changes below in other comprehensive income referring to interest rate hedges designated for hedge accounting treatment:

| <b>Table of changes in hedge accounting effects in other comprehensive income</b> |               |
|---|---------------|
| <b>Balance at 2011</b>  |               |
| Corporate reorganization:   |               |
| Gain on designated hedges   | (2,151)       |
| Deferred taxes on hedge accounting  | 731           |
| Share of subsidiary's hedge accounting  | (412)         |
| Deferred taxes on share of subsidiary's hedge accounting                          | 140           |
| Loss on designated hedges   | 22,472        |
| Transfer on ineffective portion to profit or loss                                 | 2             |
| Amortization of hedges to profit or loss at effective rate                        | (1,642)       |
| Deferred taxes on hedge accounting  | (7,083)       |
| Share of subsidiary's hedge accounting after Feb 27, 2012                         |               |
| <b>Balance at 2012</b>  | <b>12,057</b> |

The amounts of contracted derivatives to hedge against floating interest rates on outstanding debt are summarized below:

## Derivatives designated for hedge accounting

|  | Index                       | Maturity | Notional amount |      | Fair value<br>Amounts<br>(payable)/receivable |      |
|--|-----------------------------|----------|-----------------|------|---|------|
|  |                             |          | 2012            | 2011 | 2012  | 2011 |
| <b>Fixed rate/DI swaps (i)</b>               |                             |          |                 |      |   |      |
|  | Fixed<br>11.30%             |          |                 |      |   |      |
| Asset position                               | to 12.35%                   | Oct 2020 | 368,885         |      | 430,848                                       |      |
|  | CDI<br>103.35%              |          |                 |      |   |      |
| Liability position                           | to 113.70%                  | Oct 2020 | (368,885)       |      | (389,659)                                     |      |
| <b>Net amount</b>                            |                             |          |                 |      | <b>41,189</b>                                 |      |
| <b>US\$ LIBOR/US\$ fixed rate swaps (ii)</b> |                             |          |                 |      |   |      |
|  | 6M US\$<br>LIBOR +<br>0.80% | Jul 2015 | 167,195         |      | 168,120                                       |      |
|  | US\$3.62%<br>to             |          |                 |      |   |      |
| Liability position                           | 3.82%                       | Jul 2015 | (167,195)       |      | (174,899)                                     |      |
| <b>Net amount</b>                            |                             |          |                 |      | <b>(6,779)</b>                                |      |

Counterparty:

(i)-Goldman Sachs and Morgan Stanley

(ii)-Itaú BBA.

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|   | Index                       | Maturity                | Derivatives not designated for hedge accounting |                 | Fair value           |         |
|---|-----------------------------|-------------------------|---|-----------------|----------------------|---------|
|   |                             |                         | Notional amount                                 | Notional amount | (payable)/receivable | Amounts |
|   |                             |                         | 2012  | 2011            | 2012                 | 2011    |
| <b>CDI + spread/CDI swaps (i)</b>             |                             |                         |   |                 |                      |         |
| Asset position                                | CDI + 0.55%                 | Mar 2013                | 270,000   |                 | 276,646              |         |
| Liability position                            | CDI 103.80%                 | Mar 2013                | (270,000)                                       |                 | (276,258)            |         |
| <b>Net amount</b>                             |                             |                         |   |                 | <b>388</b>           |         |
| <b>Fixed rate/DI swaps (ii)</b>               |                             |                         |   |                 |                      |         |
| Asset position                                | Fixed 11.00%<br>to 12.82%   | Oct 2020                | 375,160   |                 | 440,315              |         |
| Liability position                            | CDI 99.70%<br>to 102.50%    | Oct 2020                | (375,160)                                       |                 | (382,869)            |         |
| <b>Net amount</b>                             |                             |                         |   |                 | <b>57,446</b>        |         |
| <b>US\$ LIBOR/US\$ fixed rate swaps (iii)</b> |                             |                         |   |                 |                      |         |
| Asset position                                | 6M US\$<br>LIBOR +<br>3.00% | Feb 2016 to<br>Feb 2022 | 3,910,458                                       |                 | 6,663,293            |         |
| Liability position                            | US\$1.58%<br>to 5.88%       | Feb 2016 to<br>Feb 2022 | (3,910,458)                                     |                 | (6,801,646)          |         |
| <b>Net amount</b>                             |                             |                         |   |                 | <b>(138,353)</b>     |         |
| <b>US\$ fixed rate/US\$ LIBOR swaps (iv)</b>  |                             |                         |   |                 |                      |         |
| Asset position                                | US\$5.88%                   | Feb 2022                | 3,045,500                                       |                 | 5,931,629            |         |
| Liability position                            | 6M US\$<br>LIBOR +<br>3.00% | Feb 2022                | (3,045,500)                                     |                 | (5,822,175)          |         |

**Net amount** **109,454**

Counterparty:

(i) - Citibank S.A.

(ii) - Merrill Lynch and Morgan Stanley

(iii) - Citibank S.A., Merrill Lynch, Morgan Stanley and Société General

(iv) - Morgan Stanley

**Interest rate swaps**

US\$ LIBOR/US\$ fixed rate: Refer to interest rate swaps to protect debt payments pegged to US dollar floating rates from exchange fluctuation. Under these contracts, the asset position in US dollar LIBOR and the liability position is a fixed rate. The risk of loss in the asset position of these instruments is, therefore, the fluctuation of the US dollar LIBOR; however, such possible losses would be fully offset by maturities of US dollar-denominated debt pegged to LIBOR.

US\$ fixed rate/US\$ LIBOR: Refers to the interest rate swap transaction that changes US dollar-denominated debt payments from fixed rate to floating rate. Under this contract, the asset position is a US dollar fixed rate and a LIBOR liability position to reduce the cost of the backing debt, as part of the Company's onerous liability management strategy.



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CDI + spread/CDI: Refer to interest rate swaps to protect payments of Brazilian-real denominated debentures pegged to CDI plus spread. Under such contract, the asset position is in CDI plus spread and a liability position is a percentage of CDI.

R\$ fixed rate/CDI: Refer to interest rate swaps to convert a foreign exchange swap liability position at a fixed rate into R\$ to a liability subject to a DI percentage. This transaction is intended to swap the exchange peg of a certain dollar-denominated debt to a floating DI position, cancelling the debt's current fixed rate position.

**Interest rate fluctuation risk sensitivity analysis**

Management believes that the most significant risk related to interest rate fluctuations arises from its liabilities pegged to the TJLP, the USD LIBOR, and mainly the CDI. This risk is associated to an increase in those rates.

As at December 31, 2012, management estimated the fluctuation scenarios of the rates DI, TJLP, and USD LIBOR. The rates used for the probable scenario were the rates prevailing at the end of the reporting period. These rates have been stressed by 25 and 50 percent, and used as benchmark for the possible and remote scenarios. Note that the TJLP remained stable at 6% per year from July 2009 to June 2012, and in July 2012 it was reduced to 5.5% per year, and was maintained at this level through December 2012, when it was once again reduced, this time to 5.0% per year.

| 2012                    |      |                    |                   |       |                    |                 |       |                    |
|-------------------------|------|--------------------|-------------------|-------|--------------------|-----------------|-------|--------------------|
| Interest rate scenarios |      |                    |                   |       |                    |                 |       |                    |
| Probable scenario       |      |                    | Possible scenario |       |                    | Remote scenario |       |                    |
| CDI                     | TJLP | 6M<br>USD<br>LIBOR | CDI               | TJLP  | 6M<br>USD<br>LIBOR | CDI             | TJLP  | 6M<br>USD<br>LIBOR |
| 6.90%                   | 5.5% | 0.50825%           | 8.63%             | 6.88% | 0.63531%           | 10.35%          | 8.25% | 0.76238%           |

| 2011                    |       |                   |       |                 |       |
|-------------------------|-------|-------------------|-------|-----------------|-------|
| Interest rate scenarios |       |                   |       |                 |       |
| Probable scenario       |       | Possible scenario |       | Remote scenario |       |
| CDI                     | TJLP  | CDI               | TJLP  | CDI             | TJLP  |
| 10.87%                  | 6.00% | 13.59%            | 7.50% | 16.31%          | 9.00% |

As at December 31, 2012, management estimated the future outflows for the payment of interest and principal of its debt pegged to CDI, TJLP and USD LIBOR based on the interest rates above, also assuming that all interest and principal payments would be made on the scheduled maturity dates. The outflows for repayment of Oi Group related party debt were not considered. The impact of hypothetical increases of interest rates can be measured by the difference in the future flows in the possible and remote scenarios compared to the probable scenario, where there is no estimate of increase. Such sensitivity analysis considers payment outflows in future dates. Thus, the aggregate of the amounts for each scenario is not equivalent to the fair values, or even the present values of these liabilities. The fair values of these liabilities, should the Company's credit risk remain unchanged, would not be impacted in the event of fluctuations in interest rates, as the interest rates used to estimate future cash outflows would be the same rates that discount such flows to present value.

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Additionally, the Company has cash equivalents and short and long term investments in floating rate securities whose yield would also increase in the possible and remote scenarios, thus offsetting part of the impact of the increase of interest rates on debt payment outflows. However, as the estimated maturities are different from the maturities of financial liabilities, the impact of the scenarios on such assets has not been considered. The balances of cash equivalents and short and long term investments are disclosed in Note 9.

The impacts of exposure to interest rates, in the sensitivity scenarios estimated by the Company, are shown in the table below:

| <b>Transaction</b>                                      | <b>Individual risk</b> | <b>2012<br/>Up to 1<br/>year</b> | <b>1 to 3<br/>years</b> | <b>3 to 5<br/>years</b> | <b>Over 5<br/>years</b> | <b>Total</b>     |
|---|------------------------|----------------------------------|-------------------------|-------------------------|-------------------------|------------------|
| <b><i>Probable scenario</i></b>                         |                        |                                  |                         |                         |                         |                  |
| CDI pegged debt   | CDI increase           | 801,054                          | 1,147,068               | 712,831                 | 191,797                 | 2,852,750        |
| Derivative financial instruments (net position - CDI)   | CDI increase           | 286,075                          | 520,237                 | 343,335                 | 305,977                 | 1,455,624        |
| TJLP pegged debts                                       | TJLP increase          | 451,620                          | 630,369                 | 388,084                 | 173,445                 | 1,643,518        |
| US LIBOR pegged debts                                   | US LIBOR increase      | 83,280                           | 118,403                 | 45,198                  | 15,854                  | 262,735          |
| Derivative financial instruments (net position - LIBOR) | Drop in US LIBOR       | (47,078)                         | (58,382)                | (25,159)                | (8,637)                 | (139,256)        |
| <b>Total pegged to interest rates</b>                   |                        | <b>1,574,951</b>                 | <b>2,357,695</b>        | <b>1,464,289</b>        | <b>678,436</b>          | <b>6,075,371</b> |
| <b><i>Possible scenario</i></b>                         |                        |                                  |                         |                         |                         |                  |
| CDI pegged debt   | CDI increase           | 928,321                          | 1,383,751               | 860,611                 | 232,443                 | 3,405,126        |
| Derivative financial instruments (net - position CDI)   | CDI increase           | 333,114                          | 632,229                 | 426,987                 | 381,011                 | 1,773,341        |
| TJLP pegged debts                                       | TJLP increase          | 481,837                          | 695,430                 | 470,192                 | 266,148                 | 1,913,607        |
| US LIBOR pegged debts                                   | US LIBOR increase      | 84,594                           | 122,557                 | 46,993                  | 16,559                  | 270,703          |
| Derivative financial instruments (net position - LIBOR) | Drop in US LIBOR       | (48,027)                         | (61,375)                | (26,276)                | (8,973)                 | (144,651)        |

|   |                   |                  |                  |                  |                  |                  |
|---|-------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Total pegged to interest rates</b>                           |                   | <b>1,779,839</b> | <b>2,772,592</b> | <b>1,778,507</b> | <b>887,188</b>   | <b>7,218,126</b> |
| <b>Remote scenario</b>  |                   |                  |                  |                  |                  |                  |
| CDI pegged debt   | CDI increase      | 1,054,538        | 1,618,829        | 1,007,488        | 273,101          | 3,953,956        |
| Derivative financial instruments (net - position CDI)           |                   |                  |                  |                  |                  |                  |
|   | CDI increase      | 379,729          | 743,521          | 510,010          | 455,445          | 2,088,705        |
| TJLP pegged debts   | TJLP increase     | 493,495          | 747,971          | 571,476          | 405,933          | 2,218,875        |
| US LIBOR pegged debts   | US LIBOR increase | 85,909           | 126,711          | 48,789           | 17,264           | 278,673          |
| Derivative financial instruments (net position - LIBOR)         |                   |                  |                  |                  |                  |                  |
|   | Drop in US LIBOR  | (48,976)         | (64,367)         | (27,393)         | (9,309)          | (150,045)        |
| <b>Total pegged to interest rates</b>                           |                   | <b>1,964,695</b> | <b>3,172,665</b> | <b>2,110,370</b> | <b>1,142,434</b> | <b>8,390,164</b> |
| <b>Estimated impacts on fair value of financial instruments</b> |                   |                  |                  |                  |                  |                  |
| <b>Possible scenario</b>  |                   |                  |                  |                  |                  |                  |
| <b>probable scenario</b>  |                   | <b>204,888</b>   | <b>414,897</b>   | <b>314,218</b>   | <b>208,752</b>   | <b>1,142,755</b> |
| CDI   |                   | 174,306          | 348,675          | 231,432          | 115,680          | 870,093          |
| TJLP  |                   | 30,217           | 65,061           | 82,108           | 92,703           | 270,089          |
| US LIBOR  |                   | 365              | 1,161            | 678              | 369              | 2,573            |
| <b>Remote scenario - probable scenario</b>                      |                   |                  |                  |                  |                  |                  |
| CDI   |                   | 347,138          | 695,045          | 461,332          | 230,772          | 1,734,287        |
| TJLP  |                   | 41,875           | 117,602          | 183,392          | 232,488          | 575,357          |
| US LIBOR  |                   | 731              | 2,323            | 1,357            | 738              | 5,149            |

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| Transaction   | Individual risk   | 2011<br>Up to 1<br>year | 1 to 3<br>years  | 3 to 5<br>years  | Over 5<br>years | Total            |
|---|-------------------|-------------------------|------------------|------------------|-----------------|------------------|
| <b>Probable scenario</b>  |                   |                         |                  |                  |                 |                  |
| CDI pegged debt   | CDI increase      | 477,923                 | 819,228          | 790,141          | 444,167         | 2,531,459        |
| TJLP pegged debts   | TJLP increase     | 180,677                 | 192,199          | 85,887           | 26,253          | 485,016          |
| US LIBOR pegged debts   | US LIBOR increase | 5                       | 1                |                  |                 | 6                |
| <b>Total pegged to interest rates</b>                           |                   | <b>658,605</b>          | <b>1,011,428</b> | <b>876,028</b>   | <b>470,420</b>  | <b>3,016,481</b> |
| <b>Possible scenario</b>  |                   |                         |                  |                  |                 |                  |
| CDI pegged debt   | CDI increase      | 567,315                 | 999,980          | 965,403          | 545,765         | 3,078,463        |
| TJLP pegged debts   | TJLP increase     | 186,132                 | 221,545          | 109,833          | 53,036          | 570,546          |
| US LIBOR pegged debts   | US LIBOR increase | 5                       | 1                |                  |                 | 6                |
| <b>Total pegged to interest rates</b>                           |                   | <b>753,452</b>          | <b>1,221,526</b> | <b>1,075,236</b> | <b>598,801</b>  | <b>3,649,015</b> |
| <b>Remote scenario</b>  |                   |                         |                  |                  |                 |                  |
| CDI pegged debt   | CDI increase      | 655,666                 | 1,179,229        | 1,139,222        | 647,284         | 3,621,401        |
| TJLP pegged debts   | TJLP increase     | 191,563                 | 251,299          | 134,846          | 81,781          | 659,489          |
| US LIBOR pegged debts   | US LIBOR increase | 5                       | 1                |                  |                 | 6                |
| <b>Total pegged to interest rates</b>                           |                   | <b>847,234</b>          | <b>1,430,529</b> | <b>1,274,068</b> | <b>729,065</b>  | <b>4,280,896</b> |
| <b>Estimated impacts on fair value of financial instruments</b> |                   |                         |                  |                  |                 |                  |
| <b>Possible scenario - probable scenario</b>                    |                   |                         |                  |                  |                 |                  |
| CDI   |                   | 94,847                  | 210,098          | 199,208          | 128,381         | 632,534          |
| TJLP  |                   | 89,392                  | 180,752          | 175,262          | 101,598         | 547,004          |
|   |                   | 5,455                   | 29,346           | 23,946           | 26,783          | 85,530           |
| <b>Remote scenario - probable scenario</b>                      |                   |                         |                  |                  |                 |                  |
| CDI   |                   | 188,629                 | 419,101          | 398,040          | 258,645         | 1,264,415        |
| TJLP  |                   | 177,743                 | 360,001          | 349,081          | 203,117         | 1,089,942        |
|   |                   | 10,886                  | 59,100           | 48,959           | 55,528          | 174,473          |

**(e) Credit risk**

The concentration of credit risk associated to trade receivables is immaterial due to the diversification of the portfolio. Doubtful receivables are adequately covered by a provision for doubtful accounts.

Transactions with financial institutions (short-term investments and loans and financing) are made with prime entities, avoiding the concentration risk. The credit risk of financial investments is assessed by setting caps for investment in the counterparts, taking into consideration the ratings released by the main international risk rating agencies for each one of such counterparts.

**(f) Liquidity risk**

The liquidity risk also arises from the possibility of the Company being unable to discharge its liabilities on maturity dates and obtain cash due to market liquidity restrictions.

Management uses its resources mainly to fund capital expenditures incurred on the expansion and upgrading of the network, invest in new businesses, pay dividends, and refinance its debt.

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Conditions are met with internally generated cash flows, short and long-term debt, and third-party financing. These sources of funds, coupled with the Company's solid financial position, will continue to ensure the compliance with established capital requirements.

The Oi Group has two revolving credit facilities that increases short-term liquidity and increases the cash management efficiency, and is consistent with its capital cost reduction strategic focus. The revolving credit facilities were contracted in November and December 2011 with a syndicates consisting of several global banks.

**(g) Risk of acceleration of maturity of loans and financing**

Under some debt instruments of the Company, default events can trigger the accelerated maturity of other debt instruments. The impossibility to incur in new debt might prevent such companies from investing in their business and incur in required or advisable capital expenditures, which would reduce future sales and adversely impact their profitability. Additionally, the funds necessary to meet the payment commitments of the loans raised can reduce the amount of funds available for capital expenditures.

The risk of accelerated maturity arising from noncompliance of financial covenants associated to the debt is detailed in Note 19, Covenants .

**(h) Contingent liabilities**

Contingent liabilities are assessed according to the likelihood of disbursement and are classified in provisions and contingent liabilities, as prescribed by IAS 37. Provisions include contingencies assessed as a probable risk, recognized in liabilities in view of the existing present obligation as a result of a past event, and because it is probable that a disbursement of funds will be required to settle the obligation. Details on these risks are presented in Note 23.

**(i) Regulatory risk**

Even though telecommunications services regulations in general are quite comprehensive, they are still quite restrictive when it comes to utility services, as defined by the General Telecommunications Law (LGT), as the case of STFC. As a result, most of the regulatory risks and obligations refer to this service, which is material for the Company's activities.

**Concession agreements**

The Company has entered into local and domestic long-distance STFC concession arrangements with ANATEL, effective from January 1, 2006 to December 31, 2025. These concession agreements, which provide for reviews on a five-year basis, in general have a higher degree of intervention in the management of the business than the licenses to provide private services, and also include several consumer protection provisions, as perceived by the regulator.

The main features are:

- (i) the price (fee) of the public service concession is defined as two percent of annual revenue net of taxes, paid every two years, starting 2006, and the first payment was made on April 30, 2007. Under this calculation method, the concession fee is one percent of net revenue net of taxes for each financial year;



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**Notes to the Consolidated Financial Statements**

**for the Years Ended December 31, 2012 and 2011**

**(Amounts in thousands of Brazilian reais, unless otherwise stated)**

- (ii) the imposition of universal access targets that can be revised every five years, as provided for by said concession arrangements. The imposition of new targets that result in additional expenses for the Company must always be accompanied by an indication of the sources of the related funds. On June 30, 2011, the company entered into with ANATEL and the Ministry of Communications revisions to the STFC concession agreements effective for the period 2011-2015;
- (iii) possibility of the Regulator imposing alternative mandatory offer plans;
- (iv) introduction of the Regulator's right to intervene in and change the concessionaire's agreements with third parties;
- (v) inclusion of parent company's, subsidiary's, associate's and third parties' assets, indispensable to the concession, as returnable assets;
- (vi) creation of a users' board in each concession; and
- (vii) network usage tariffs are defined as a percentage of the public local and domestic long distance tariff until the effective implementation of cost model by service/modality, as prescribed by the General Regulation Updating Plan ( PGR ).

**(j) Capital management**

The Company manages its equity structure according to best market practices.

The objective of capital management is to ensure that liquidity levels and financial leverage that allow the sustained growth of the Group, the compliance with the strategic investment plan, and returns to our shareholders.

The Company may change its capital structure, according to existing economic and financial conditions, to optimize its financial leverage and debt management.

The indicators used to measure capital structure management are: gross debt to gross debt to accumulated twelve-month EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization), net debt (total debt less

cash and cash equivalents and short and long term investments) to accumulated twelve-month EBITDA, and the interest coverage ratio, as follows:

|                             |                   |
|-----------------------------|-------------------|
| Gross debt to EBITDA        | from 2x to 4.5x   |
| Net debt to EBITDA          | from 1.4x to 3x   |
| Interest coverage ratio (*) | greater than 1.75 |

(\*) Measures the Company's ability to settle its future interest obligations.

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|                                      | <b>2012</b>         | <b>2011</b>        | <b>2010</b>        |
|--------------------------------------|---------------------|--------------------|--------------------|
| <b>Gross operating revenue</b>       | <b>39,910,417</b>   | <b>16,406,661</b>  | <b>17,619,050</b>  |
| <b>Deductions from gross revenue</b> | <b>(14,741,187)</b> | <b>(7,161,406)</b> | <b>(7,355,758)</b> |
| Taxes                                | (8,832,581)         | (3,331,372)        | (3,645,824)        |
| Other deductions                     | (5,908,606)         | (3,830,034)        | (3,709,934)        |
| <b>Net operating revenue</b>         | <b>25,169,230</b>   | <b>9,245,255</b>   | <b>10,263,292</b>  |

**5. EXPENSES BY NATURE**

|  | <b>2012</b>         | <b>2011</b>        | <b>2010</b>        |
|--|---------------------|--------------------|--------------------|
| Third-part services                                | (7,340,882)         | (2,260,112)        | (2,120,354)        |
| Depreciation and amortization                      | (3,228,100)         | (1,044,226)        | (1,056,740)        |
| Interconnection                                    | (3,914,543)         | (1,711,219)        | (1,981,928)        |
| Personnel (i)                                      | (1,854,819)         | (882,866)          | (755,344)          |
| Rents and insurance                                | (1,602,474)         | (450,915)          | (402,342)          |
| Telecommunications Inspection Fund (FISTEL)<br>fee | (627,896)           | (130,424)          | (116,239)          |
| Costs of handsets and other                        | (507,465)           | (23,831)           | (47,760)           |
| Provision for doubtful accounts                    | (502,509)           | (332,808)          | (351,535)          |
| Advertising and publicity                          | (442,993)           | (148,157)          | (151,847)          |
| Materials  | (144,879)           | (65,803)           | (108,543)          |
| Concession Agreement Extension Fee - ANATEL        | (121,430)           | (49,019)           | (56,759)           |
| Other costs and expenses                           | (230,997)           | (92,605)           | (146,641)          |
| <b>Total</b>                                       | <b>(20,518,987)</b> | <b>(7,191,985)</b> | <b>(7,296,032)</b> |

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|                                     |                     |                    |                    |
|-------------------------------------|---------------------|--------------------|--------------------|
| Cost of sales and/or services       | (12,673,253)        | (4,586,565)        | (4,732,081)        |
| Selling expenses                    | (4,847,297)         | (1,160,793)        | (1,025,010)        |
| General and administrative expenses | (2,998,437)         | (1,444,627)        | (1,538,941)        |
| <b>Total</b>                        | <b>(20,518,987)</b> | <b>(7,191,985)</b> | <b>(7,296,032)</b> |

- (i) Takes into consideration employee training expenses amounting to R\$22,157 (R\$20,245 in 2011).

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|  | <b>2012</b>        | <b>2011</b>        | <b>2010</b>        |
|--|--------------------|--------------------|--------------------|
| <b>Other operating income</b>                  |                    |                    |                    |
| Tax recoveries and recovered expenses (i)      | 692,915            | 156,633            | 152,257            |
| Rental of operational infrastructure and other | 398,158            | 120,363            | 90,042             |
| Income from asset sales                        | 389,876            | 21,438             | 54,015             |
| Fines  | 239,686            | 90,537             | 91,523             |
| Technical and administrative services          | 110,627            | 66,659             | 64,492             |
| Expired dividends                              | 74,732             | 50,330             | 27,350             |
| Other income                                   | 90,128             | 54,400             | 44,283             |
| <b>Total</b>                                   | <b>1,996,122</b>   | <b>560,360</b>     | <b>523,962</b>     |
| <b>Other operating expenses</b>                |                    |                    |                    |
| Taxes  | (893,805)          | (308,581)          | (276,261)          |
| Provisions/reversals                           | (400,595)          | (570,672)          | (405,093)          |
| Employee and management profit sharing         | (387,380)          | (27,449)           | (102,555)          |
| Write-off of property, plant and equipment     | (52,698)           | (28,039)           | (83,387)           |
| Court fees                                     | (62,074)           | (50,118)           | (51,024)           |
| Fines  | (19,075)           | (21,520)           | (34,845)           |
| Provisions for pension and related funds       | (8,118)            | (7,237)            | (14,221)           |
| Other expenses                                 | (62,481)           | (32,727)           | (64,306)           |
| <b>Total</b>                                   | <b>(1,886,226)</b> | <b>(1,046,343)</b> | <b>(1,031,692)</b> |

- (i) The 2011 balance includes the recognition of recovered postemployment benefit costs (pension plans) related to the surplus pension plan PBS-A, administrated by Sistel, amounting to R\$71 million, against line item Pension plan assets .

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|   | <b>2012</b>        | <b>2011</b>      | <b>2010</b>      |
|---|--------------------|------------------|------------------|
| <b>Financial income</b>   |                    |                  |                  |
| Interest and inflation adjustment on other assets                           | 719,517            | 677,683          | 408,106          |
| Exchange differences on translating foreign short and long term investments | 650,487            |                  |                  |
| Investments yield   | 514,876            | 383,628          | 286,523          |
| Dividends received (i)  | 99,181             |                  |                  |
| Interest and inflation adjustment on intragroup loans                       | 48,233             | 306,548          | 236,385          |
| Other income  | 243,078            | 38,011           | 48,441           |
| <b>Total</b>  | <b>2,275,372</b>   | <b>1,405,870</b> | <b>979,455</b>   |
| <b>Financial expenses and other charges</b>                                 |                    |                  |                  |
| <b>a) Loans and financing costs</b>   |                    |                  |                  |
| Inflation adjustment and exchange differences on third-party loans          | (2,076,652)        |                  | (1,977)          |
| Interest on intragroup loans  | (1,313,059)        | (266,148)        | (285,547)        |
| Interest on debentures  | (753,185)          | (182,154)        | (141,776)        |
| Interest and inflation adjustment on intragroup loans                       |                    | (43,819)         | (3)              |
| Derivative transactions   | 942,021            | (49,251)         | (8,899)          |
| <b>Subtotal:</b>  | <b>(3,200,875)</b> | <b>(541,372)</b> | <b>(438,202)</b> |
| <b>b) Other charges</b>   |                    |                  |                  |
| Interest and inflation adjustment on other liabilities                      | (488,068)          | (427,733)        | (272,571)        |
| Tax on transactions and bank fees   | (249,103)          | (5,707)          | (2,859)          |
| Inflation adjustment of provisions  | (233,017)          | (167,087)        | (254,038)        |
| Interest on taxes in installments - tax financing program                   | (81,371)           | (46,299)         |                  |
| Reversals of inflation adjustment of judicial deposit (i)                   |                    | (198,853)        |                  |
| Other expenses  | (238,465)          | (90,731)         | (92,040)         |
| <b>Subtotal:</b>  | <b>(1,290,024)</b> | <b>(936,410)</b> | <b>(621,508)</b> |

|                                    |                    |                    |                    |
|------------------------------------|--------------------|--------------------|--------------------|
| <b>Total</b>                       | <b>(4,490,899)</b> | <b>(1,477,782)</b> | <b>(1,059,710)</b> |
| <b>Financial income (expenses)</b> | <b>(2,215,527)</b> | <b>(71,912)</b>    | <b>(80,255)</b>    |

- (i) Refers basically to dividends received by subsidiary TMAR and paid by PT on May 25, 2012 of 0.435 per share, totaling 38,998 (R\$97,749).
- (ii) In the first quarter of 2011, the Company reviewed the calculation of the inflation adjustment estimate on judicial deposits, resulting in the reversal of inflation adjustment presented in the table above.

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Income taxes encompass the income tax and the social contribution. The income tax rate is 25% and the social contribution rate is 9%, generating aggregate nominal tax rate of 34%.

The provision for income tax and social contribution is broken down as follows:

|   | <b>2012</b>      | <b>2011</b>      | <b>2010</b>      |
|---|------------------|------------------|------------------|
| <b>Income tax and social contribution</b> |                  |                  |                  |
| Current taxes                             | (934,079)        | (205,730)        | (149,117)        |
| Deferred taxes                            | 174,394          | (283,895)        | (259,298)        |
| <b>Total</b>                              | <b>(759,685)</b> | <b>(489,625)</b> | <b>(408,415)</b> |

|  | <b>2012</b>      | <b>2011</b>      | <b>2010</b>      |
|--|------------------|------------------|------------------|
| <b>Income before taxes</b>   | <b>2,544,612</b> | <b>1,495,375</b> | <b>2,379,275</b> |
| <b>Income of companies not subject to income tax and social contribution calculation</b> | <b>(8,348)</b>   | <b>(13,235)</b>  | <b>2,800</b>     |
| <b>Total taxed income</b>  | <b>2,536,264</b> | <b>1,482,140</b> | <b>2,382,075</b> |

**Income tax and social contribution**

|  |           |           |           |
|--|-----------|-----------|-----------|
| Income tax and social contribution on taxed income | (862,330) | (503,928) | (809,906) |
| Share of profits of subsidiaries                   |           |           |           |
| Tax effects of interest on capital                 | (4,406)   |           | 123,480   |
| Tax incentives (basically, operating income) (i)   | 155,662   |           |           |
| Permanent deductions (additions) (ii)              | (16,883)  | 14,280    | 122,959   |
| Utilization of tax loss carryforwards              | 613       |           | 24,332    |
| Unrecognized deferred tax assets (iii)             | (41,022)  |           | (5,304)   |
| Recognized deferred tax assets (iv)                | 8,681     | 23        | 136,024   |

**Income tax and social contribution effect on income statement**

|  |                  |                  |                  |
|--|------------------|------------------|------------------|
|  | <b>(759,685)</b> | <b>(489,625)</b> | <b>(408,415)</b> |
|--|------------------|------------------|------------------|



- (i) Refers to the exploration income recognized in the indirect subsidiary's income statement pursuant to Law 11638/2007. This tax benefit is granted under an Incentive-granting Report issued by the Northeast Development Authority (SUDENE), after the compliance with all requirements made by this agency; however, the said report does not make any additional requirements whose noncompliance would result in the loss of the tax benefit before December 2013.
- (ii) The main components of permanent deduction (addition) tax effects are: nondeductible fines, sponsorships, nondeductible donations, income from expired dividends, goodwill amortization (per-merger period), reversals of provisions, and investment in FINOR.
- (iii) Refer to adjustments to deferred tax assets because of subsidiaries that do not recognize tax credits on tax loss carryforwards.
- (iv) Refers basically to the recognition of subsidiaries' deferred taxes since the reviewed earnings projections point to the recoverability of the amounts.

The financial statements for the year ended December 31, 2012 have been prepared considering management's best estimates and the criteria set out in the Transitional Tax Regime (RTT).

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Short and long term investments made by the Company and its subsidiaries in the years ended December 31, 2012 and 2011, are classified as held for trading securities and are measured at their fair values.

**(a) Cash and cash equivalents**

|                  | <b>2012</b>      | <b>2011</b>      |
|------------------|------------------|------------------|
| Cash and banks   | 346,874          | 136,132          |
| Cash equivalents | 4,066,168        | 5,868,374        |
| <b>Total</b>     | <b>4,413,042</b> | <b>6,004,506</b> |

|                                     | <b>2012</b>      | <b>2011</b>      |
|-------------------------------------|------------------|------------------|
| Exclusive investment funds          | 3,654,226        | 4,522,452        |
| Bank certificates of deposit (CDBs) | 356,205          | 46,456           |
| Repurchase agreements               | 28,245           |                  |
| <i>Time deposits</i>                | 23,145           | 1,141,331        |
| Exchange coupon note                |                  | 94,096           |
| Other                               | 4,347            | 64,039           |
| <b>Cash equivalents</b>             | <b>4,066,168</b> | <b>5,868,374</b> |

**(b) Short and long term investments**

|  | <b>2012</b>      | <b>2011</b>      |
|--|------------------|------------------|
| Exclusive investment funds             | 2,407,900        | 1,084,027        |
| Private securities                     | 81,699           | 13,327           |
| <b>Short and long term investments</b> | <b>2,489,599</b> | <b>1,097,354</b> |

|             |           |           |
|-------------|-----------|-----------|
| Current     | 2,425,907 | 1,084,027 |
| Non-current | 63,692    | 13,327    |

## (c) Breakdown of the exclusive investment funds portfolios

|   | 2012             | 2011             |
|---|------------------|------------------|
| Repurchase agreements   | 3,104,259        | 2,559,127        |
| Bank certificates of deposit (CDBs)                             | 124,788          | 1,903,062        |
| <i>Time deposits</i>  | 343,279          |                  |
| Government securities   | 49,979           | 59,649           |
| Other   | 31,921           | 614              |
| <b>Securities classified as cash equivalents</b>                | <b>3,654,226</b> | <b>4,522,452</b> |
| Government securities   | 2,394,654        | 1,052,585        |
| Bank certificates of deposit (CDBs)                             |                  | 31,442           |
| Other   | 13,246           |                  |
| <b>Securities classified as short and long term investments</b> | <b>2,407,900</b> | <b>1,084,027</b> |
| <b>Total invested in exclusive funds</b>                        | <b>6,062,126</b> | <b>5,606,479</b> |

The Company and its subsidiaries have short term investments in exclusive investment funds in Brazil and abroad, for the purpose of obtaining a return on its cash, and which are benchmarked against the CDI in Brazil and LIBOR abroad.

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|                                      | <b>2012</b>      | <b>2011</b>      |
|--------------------------------------|------------------|------------------|
| Billed services                      | 5,302,938        | 1,753,230        |
| Unbilled services                    | 1,888,295        | 820,014          |
| Mobile handsets and accessories sold | 578,551          | 21,073           |
| Provision for doubtful accounts      | (751,287)        | (583,830)        |
| <b>Total</b>                         | <b>7,018,497</b> | <b>2,010,487</b> |

The aging list of trade receivables is as follows:

|                                 | <b>2012</b>      | <b>2011</b>      |
|---------------------------------|------------------|------------------|
| Unbilled                        | 1,888,295        | 820,014          |
| Current                         | 3,377,971        | 805,418          |
| Receivables from other carriers | 737,060          | 265,454          |
| Past-due up to 60 days          | 1,162,487        | 409,313          |
| Past-due from 61 to 90 days     | 154,918          | 77,536           |
| Past-due from 91 to 120 days    | 127,301          | 47,928           |
| Past-due from 121 to 150 days   | 100,194          | 34,650           |
| Past-due from 151 to 180 days   | 221,558          | 134,004          |
| <b>Total</b>                    | <b>7,769,784</b> | <b>2,594,317</b> |

The changes in the provision for doubtful accounts were as follows:

|  |                  |
|--|------------------|
| <b>Balance at 2009</b>                         | <b>(567,207)</b> |
| Provision for doubtful accounts                | (351,535)        |
| Trade receivables written off as uncollectible | 352,004          |
| <b>Balance at 2010</b>                         | <b>(566,738)</b> |
| Provision for doubtful accounts                | (332,808)        |

|  |                  |
|--|------------------|
| Trade receivables written off as uncollectible | 315,716          |
| <b>Balance at 2011</b>                         | <b>(583,830)</b> |
| Increase due to corporate reorganization       | (363,253)        |
| Provision for doubtful accounts                | (502,509)        |
| Trade receivables written off as uncollectible | 698,305          |
| <b>Balance at 2012</b>                         | <b>(751,287)</b> |

## 11. DUE FROM RELATED PARTIES

|                                | 2012 | 2011             |
|--------------------------------|------|------------------|
| Private debentures principal   |      | 1,500,000        |
| Interest on private debentures |      | 717,682          |
| <b>Total</b>                   |      | <b>2,217,682</b> |
| Non-current                    |      | 2,217,682        |

### Private debentures issued by TMAR

Due to the corporate reorganization approved on February 27, 2012, the debentures issued by TMAR on February 17, 2009 and March 12, 2011, in the amounts of R\$1,200,000 and R\$300,000, respectively, subscribed by BrT Celular, were merged by Oi. These debentures matured in five years, on December 11, 2013. These debentures yield interest equivalent to the compound DI Rate plus a spread of 4.0% per year, to be paid on the debentures maturity.



|   | <b>2012</b>      | <b>2011</b>      |
|---|------------------|------------------|
| <b>Temporary additions (deductions) by nature:</b>              | <b>5,756,225</b> | <b>3,949,173</b> |
| Provisions  | 1,989,192        | 1,497,289        |
| Provisions for suspended taxes                                  | 167,550          | 136,446          |
| Provisions for pension funds                                    | 198,607          | 212,084          |
| Provision for doubtful accounts                                 | 621,917          | 198,274          |
| Profit sharing  | 137,349          |                  |
| Foreign exchange differences                                    | 278,479          | (110,270)        |
| Merged goodwill (iii)   | 1,980,775        | 2,197,943        |
| Other temporary additions and deductions                        | 124,027          | (194,682)        |
| Subsidies and FISTEL  | 53,845           | 7,153            |
| Provision for asset decommissioning                             | 23,040           | 4,936            |
| Adjustment to fair value of available-for-sale financial assets | 241,826          |                  |
| Revenue recognition   | 14,134           |                  |
| Gain on sale of investments                                     | (12,989)         |                  |
| Deferred RTT amortization                                       | 10,689           |                  |
| Hedge accounting  | (72,216)         |                  |

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- (i) Refer mainly to prepaid income tax and social contribution that will be offset against federal taxes payable in the future.
- (ii) Refer to corporate income tax credits on short and long term investments, intragroup loans, dividends and other that are used as deductions from income tax for the year, and social contribution withheld at source on services provided to government agencies.
- (iii) The Company merged the deferred income tax and social contribution amounts calculated as tax benefit originating from the goodwill paid on acquisition and recognized by the acquirees as a result of the corporate reorganization undertaken in 2009. The tax credits are realized as goodwill based on the STFC license and the appreciation of tangible assets is amortized, and should be utilized in tax offsetting in the years 2012-2034.
- (iv) Deferred income tax and social contribution assets are recognized only to the extent that it is probable that there will be a positive tax base for which temporary differences can be used and tax loss carryforwards can be offset. Deferred income tax and social contribution assets are reviewed at the end of each annual period and are written down as their realization is no longer possible. The Company and its subsidiaries offset their tax loss carryforwards against taxable income up to a limit of 30% per year, pursuant to the prevailing tax law. Additionally, as at December 31, 2012, only part of tax credits on tax loss carryforwards or tax credits on temporary differences has been recognized for direct and indirect subsidiaries that do not have a profitability history and or do not expect to generate sufficient taxable profit. Unrecognized tax credits total R\$154,849 (R\$62,950 in 2011).

The table below shows the expected realization periods of deferred tax assets, net of recognized provision:

|              |                  |
|--------------|------------------|
| 2013         | 893,662          |
| 2014         | 1,182,403        |
| 2015         | 657,599          |
| 2016         | 717,752          |
| 2017         | 549,492          |
| 2018 to 2020 | 1,980,528        |
| <b>Total</b> | <b>5,981,436</b> |



(v) Refer mainly to prior years prepaid income tax and social contribution that will be offset against federal taxes payable.

**Changes in deferred income tax and social contribution**

|  | <b>Balance<br/>at<br/>2011</b> | <b>Increase<br/>due<br/>to<br/>corporate<br/>reorganization</b> | <b>Recognized<br/>in<br/>deferred<br/>tax<br/>income/<br/>expenses</b> | <b>Additions/<br/>(offsets)</b> | <b>Recognized<br/>directly in<br/>equity</b> | <b>Recognized<br/>in financial<br/>income/<br/>(expenses)</b> | <b>Balance<br/>at<br/>2012</b> |
|--|--------------------------------|---|--|---------------------------------|--|---|--------------------------------|
| <b>Deferred tax assets<br/>related to:</b> |                                |   |  |                                 |  |   |                                |
| Provisions                                 | 1,497,289                      | 657,528   | (165,625)  |                                 |  |   | 1,989,192                      |
| Provisions for<br>suspended taxes          | 136,446                        |   | 31,104   |                                 |  |   | 167,550                        |
| Provisions for<br>pension funds            | 212,084                        |   | (13,477)   |                                 |  |   | 198,607                        |
| Provision for<br>doubtful accounts         | 198,274                        | 456,428   | (32,785)   |                                 |  |   | 621,917                        |
| Profit sharing                             |                                | 22,180  | 115,169  |                                 |  |   | 137,349                        |
| Foreign exchange<br>differences            | (110,270)                      | 215,365   | 173,384  |                                 |  |   | 278,479                        |
| Merged goodwill                            | 2,197,943                      |   | (217,168)  |                                 |  |   | 1,980,775                      |

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|   | <b>Balance<br/>at<br/>2011</b> | <b>Increase<br/>due<br/>to<br/>corporate<br/>reorganization</b> | <b>Recognized<br/>in<br/>deferred<br/>tax<br/>income/<br/>expenses</b> | <b>Additions/<br/>(offsets)</b> | <b>Recognized<br/>directly<br/>in<br/>equity</b> | <b>Recognized<br/>in<br/>financial<br/>income/<br/>(expenses)</b> | <b>Balance<br/>at<br/>2012</b> |
|---|--------------------------------|---|--|---------------------------------|--|---|--------------------------------|
| Other temporary additions and deductions                        | (194,682)                      | 346,976   | (30,994)   | 2,727                           |  |   | 124,027                        |
| Subsidies and FISTEL  | 7,153                          | 51,248  | (4,556)  |                                 |  |   | 53,845                         |
| Provision for asset decommissioning                             | 4,936                          | 18,481  | (377)  |                                 |  |   | 23,040                         |
| Adjustment to fair value of available-for-sale financial assets |                                | 244,049   | (2,223)  |                                 |  |   | 241,826                        |
| Revenue recognition   |                                | 46,051  | (31,917)   |                                 |  |   | 14,134                         |
| Provision for impairment losses                                 | (5,281)                        |   | 5,281  |                                 |  |   |                                |
| Hedge accounting  |                                | (40,037)  |  |                                 | (32,179)   |   | (72,216)                       |
| Gain on sale of investments                                     |                                |   | (12,989)   |                                 |  |   | (12,989)                       |
| Deferred RTT amortization                                       |                                |   | 10,689   |                                 |  |   | 10,689                         |
| Income tax loss carryforwards                                   | 704,586                        | 583,224   | 248,566  |                                 |  |   | 1,536,376                      |
| Social contribution carryforwards                               | 246,269                        | 321,770   | 101,571  |                                 |  |   | 669,610                        |
| Other deferred taxes prior years credit balance                 | 87,575                         | 304,055   | (9)  | (216,218)                       |  | 73,292  | 248,695                        |
| Tax effect of corporate reorganization                          |                                | (750)   | 750  |                                 |  |   |                                |
| <b>Total</b>  | <b>4,982,322</b>               | <b>3,226,568</b>  | <b>174,394</b>   | <b>(213,491)</b>                | <b>(32,179)</b>                                  | <b>73,292</b>   | <b>8,210,906</b>               |

**13. OTHER TAXES**

|                                   | <b>Assets</b>    |                |
|-----------------------------------|------------------|----------------|
|                                   | <b>2012</b>      | <b>2011</b>    |
| Recoverable State VAT (ICMS) (i)  | 1,980,203        | 876,172        |
| Taxes on revenue (PIS and COFINS) | 183,765          | 71,600         |
| Other                             | 131,228          | 14,246         |
| <b>Total</b>                      | <b>2,295,196</b> | <b>962,018</b> |
| Current                           | 1,557,177        | 783,382        |
| Non-current                       | 738,019          | 178,636        |

|                                   | <b>LIABILITIES</b> |                  |
|-----------------------------------|--------------------|------------------|
|                                   | <b>2012</b>        | <b>2011</b>      |
| State VAT (ICMS)                  | 1,400,997          | 890,835          |
| ICMS Agreement No. 69/1998        | 444,600            | 43,698           |
| Taxes on revenue (PIS and COFINS) | 1,781,237          | 761,192          |
| FUST/FUNTTEL/broadcasting fees    | 716,088            | 222,600          |
| Other                             | 143,724            | 29,803           |
| <b>Total</b>                      | <b>4,486,646</b>   | <b>1,948,128</b> |
| Current                           | 2,248,075          | 1,445,362        |
| Non-current                       | 2,238,571          | 502,766          |

- (i) Recoverable ICMS arises mostly from prepaid taxes and credits claimed on purchases of property, plant and equipment, which can be offset against ICMS payable within 48 months, pursuant to Supplementary Law 102/2000.

#### 14. JUDICIAL DEPOSITS

In some situations the Company makes, by legal requirement or to provide guarantees, judicial deposits to ensure the continuity of ongoing lawsuits. These judicial deposits can be required for lawsuits with a likelihood of loss, as assessed by the Company based on the opinion of its legal counsel, as probable, possible, or remote.

|       | <b>2012</b> | <b>2011</b> |
|-------|-------------|-------------|
| Civil | 7,979,948   | 5,135,887   |
| Labor | 1,691,957   | 884,607     |

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|              |                   |                  |
|--------------|-------------------|------------------|
| Tax          | 2,119,141         | 585,645          |
| <b>Total</b> | <b>11,791,046</b> | <b>6,606,139</b> |
| Current      | 2,068,315         | 1,651,114        |
| Non-current  | 9,722,731         | 4,955,025        |

As set forth by relevant legislation, judicial deposits are adjusted for inflation.

**15. INVESTMENTS**

|  | 2012          | 2011         |
|--|---------------|--------------|
| Equity interests measured:                   |               |              |
| At acquisition cost (i)                      | 55,141        | 5,338        |
| Tax incentives, net of allowances for losses | 23,861        | 3,057        |
| Other investments                            | 1,710         | 41           |
| <b>Total</b>                                 | <b>80,712</b> | <b>8,436</b> |

- (i) The consolidated balance includes of subsidiary TMAR's investment in Hispamar Satélites S.A. ( Hispamar ), which is mainly engaged in outsourcing manufacturing, launching and operation of satellites, and the use and sale of useful capacity of satellites that occupy orbital, duly licensed positions in different frequency bands, the provision of communication services, especially via satellite, and other services necessary to achieve its corporate purposes. The subsidiary TMAR holds a 19.04% stake in the investee and there is no significant influence in its management.

**Summary of changes in investment balances**

|  |              |
|--|--------------|
| <b>Balance at 01/01/2011</b>                 | <b>5,370</b> |
| Tax incentives, net of allowances for losses | 2,927        |
| Other  | 139          |

|  |               |
|--|---------------|
| <b>Balance in 2011</b>                   | <b>8,436</b>  |
| Increase due to corporate reorganization | 60,307        |
| Other                                    | 11,969        |
| <b>Balance in 2012</b>                   | <b>80,712</b> |

## 16. PROPERTY, PLANT AND EQUIPMENT

|   | Works in<br>progress | Automatic<br>switching<br>equipments | Transmission<br>and other<br>equipments<br>(1) | Infrastructure    | Buildings        | Other<br>assets  | Total             |
|---|----------------------|--------------------------------------|--|-------------------|------------------|------------------|-------------------|
| <b>Cost of PP&amp;E (gross amount)</b>      |                      |                                      |  |                   |                  |                  |                   |
| <b>Balance in 01/01/2011</b>                | <b>738,062</b>       | <b>5,464,567</b>                     | <b>16,213,043</b>                              | <b>4,229,942</b>  | <b>1,077,415</b> | <b>2,034,573</b> | <b>29,757,602</b> |
| Additions                                   | 1,041,093            | 550                                  | 249,149  | 10,179            | 203              | 16,369           | 1,317,543         |
| Write-offs                                  | (8,390)              | (10,794)                             | (49,127)                                       | (13,723)          |                  | (22,083)         | (104,117)         |
| Transfers                                   | (766,163)            | 54,248                               | 494,948  | 121,931           | 1,346            | 40,772           | (52,918)          |
| <b>Balance in 2011</b>                      | <b>1,004,602</b>     | <b>5,508,571</b>                     | <b>16,908,013</b>                              | <b>4,348,329</b>  | <b>1,078,964</b> | <b>2,069,631</b> | <b>30,918,110</b> |
| Increase due to corporate<br>reorganization | 2,474,477            | 11,978,833                           | 18,877,091                                     | 20,750,385        | 2,515,293        | 2,653,779        | 59,249,858        |
| Additions                                   | 2,720,784            | 263,806                              | 1,518,738                                      | 415,437           | 165,586          | 124,823          | 5,209,174         |
| Write-offs                                  | (85,977)             | (664)                                | (78,024)                                       | (320,951)         | (23,365)         | (143,152)        | (652,133)         |
| Transfers                                   | (1,986,763)          | 176,583                              | 1,136,366                                      | 516,468           | 32,397           | 124,949          |                   |
| Transfers held-for-sale assets (i)          |                      |                                      |  | (30,407)          | (320,735)        |                  | (351,142)         |
| <b>Balance in 2012</b>                      | <b>4,127,123</b>     | <b>17,927,129</b>                    | <b>38,362,184</b>                              | <b>25,679,261</b> | <b>3,448,140</b> | <b>4,830,030</b> | <b>94,373,867</b> |

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|  |                  |                     |                     |                     |                    |                    |                     |
|--|------------------|---------------------|---------------------|---------------------|--------------------|--------------------|---------------------|
| <b>Accumulated depreciation</b>          |                  |                     |                     |                     |                    |                    |                     |
| <b>Balance in 01/01/2011</b>             |                  | <b>(5,136,580)</b>  | <b>(13,743,941)</b> | <b>(3,199,969)</b>  | <b>(655,348)</b>   | <b>(1,704,965)</b> | <b>(24,440,803)</b> |
| Depreciation expenses                    |                  | (49,320)            | (453,470)           | (185,216)           | (27,548)           | (59,486)           | (775,040)           |
| Write-offs                               |                  | 10,891              | 44,855              | 14,122              |                    | 21,556             | 91,424              |
| Transfers                                |                  |                     |                     | 23                  |                    | (3)                | 20                  |
| <b>Balance in 2011</b>                   |                  | <b>(5,175,009)</b>  | <b>(14,152,556)</b> | <b>(3,371,040)</b>  | <b>(682,896)</b>   | <b>(1,742,898)</b> | <b>(25,124,399)</b> |
| Increase due to corporate reorganization |                  | (10,435,194)        | (13,378,273)        | (16,804,512)        | (1,740,488)        | (1,879,453)        | (44,237,920)        |
| Depreciation expenses                    |                  | (258,577)           | (1,417,836)         | (555,764)           | (64,206)           | (199,891)          | (2,496,274)         |
| Write-offs                               |                  | 370                 | 57,306              | 181,674             | 14,708             | 105,580            | 359,638             |
| Transfers                                |                  | 1,306               | 2,591               | (4,096)             | 115                | 84                 |                     |
| Transfers held-for-sale assets (i)       |                  |                     |                     | 20,507              | 214,642            |                    | 235,149             |
| <b>Balance in 2012</b>                   |                  | <b>(15,867,104)</b> | <b>(28,888,768)</b> | <b>(20,533,231)</b> | <b>(2,258,125)</b> | <b>(3,716,578)</b> | <b>(71,263,806)</b> |
| Property, plant and equipment, net       |                  |                     |                     |                     |                    |                    |                     |
| Balance in 2011                          | <b>1,004,602</b> | <b>333,562</b>      | <b>2,755,457</b>    | <b>977,289</b>      | <b>396,068</b>     | <b>326,733</b>     | <b>5,793,711</b>    |
| Balance in 2012                          | <b>4,127,123</b> | <b>2,060,025</b>    | <b>9,473,416</b>    | <b>5,146,030</b>    | <b>1,190,015</b>   | <b>1,113,452</b>   | <b>23,110,061</b>   |
| Annual depreciation rate (average)       |                  | 10%                 | 10%                 | 8%                  | 6%                 | 12%                |                     |

(1) Transmission and other equipment includes transmission and data communication equipment.

(i)

At the Board of Directors meeting held on September 26, 2012, the sale of 41 Company and its subsidiaries properties/locations. In accordance with IFRS 5 requirements, these properties were transferred to Held for-sale noncurrent assets and are carried at their carrying amounts since their fair values, less costs to sell, exceed such carrying amounts. Additionally, these properties have administrative characteristics and do not carry cash flows separate from the Company's cash flows and, therefore, we are not presenting discontinued cash flows and operations related to these assets.

**Additional disclosures**

Pursuant to ANATEL's concession agreements, all property, plant and equipment items capitalized by the Company that are indispensable for the provision of the services granted under said agreements are considered returnable assets and are part of the concession's cost. These assets are handed over to ANATEL upon the termination of the concession agreements that are not renewed.

As at December 31, 2012, the residual balance of the Company's returnable assets is R\$6,652,317 (R\$2,720,125 in 2011) and consist of assets and installations in progress, switching and transmission equipment, payphones, outside network equipment, power equipment, and systems and operation support equipment.

In the year ended December 31, 2012, financial charges and transaction costs incurred on as works in progress, amounting to R\$324,135 (R\$69,925 in 2011) were capitalized at the average rate of 10% p.a.

**Table of Contents****17. INTANGIBLE ASSETS**

|   | Goodwill         | Intangible assets in progress | Data processing systems | Regulatory licenses | Other            | Total              |
|---|------------------|-------------------------------|-------------------------|---------------------|------------------|--------------------|
| <b>Cost of intangibles (gross amount)</b> |                  |                               |                         |                     |                  |                    |
| <b>Balance in 01/01/2011</b>              | <b>533,525</b>   | <b>152,123</b>                | <b>2,787,865</b>        | <b>883,851</b>      | <b>18,005</b>    | <b>4,375,369</b>   |
| Additions                                 |                  |                               | 919                     | 1,073               | 261              | 2,253              |
| Transfers                                 |                  | (85,455)                      | 117,706                 |                     | 1,106            | 33,357             |
| <b>Balance in 2011</b>                    | <b>533,525</b>   | <b>66,668</b>                 | <b>2,906,490</b>        | <b>884,924</b>      | <b>19,372</b>    | <b>4,410,979</b>   |
| Increase due to corporate reorganization  | 81,948           | 279,182                       | 2,787,332               | 2,709,050           | 259,945          | 6,117,457          |
| Additions                                 |                  | 242,450                       | 348,048                 | 368,848             | 307,872          | 1,267,218          |
| Write-offs                                |                  | (53,419)                      | (32,499)                |                     | (4,552)          | (90,470)           |
| Transfers                                 |                  | (242,800)                     | 193,746                 |                     | 49,054           |                    |
| <b>Balance in 2012</b>                    | <b>615,473</b>   | <b>292,081</b>                | <b>6,203,117</b>        | <b>3,962,822</b>    | <b>631,691</b>   | <b>11,705,184</b>  |
| <b>Accumulated amortization</b>           |                  |                               |                         |                     |                  |                    |
| <b>Balance in 01/01/2011</b>              | <b>(453,031)</b> |                               | <b>(2,334,729)</b>      | <b>(255,484)</b>    | <b>(13,692)</b>  | <b>(3,056,936)</b> |
| Amortization expenses                     |                  |                               | (206,036)               | (58,904)            | (4,246)          | (269,186)          |
| <b>Balance in 2011</b>                    | <b>(453,031)</b> |                               | <b>(2,540,765)</b>      | <b>(314,388)</b>    | <b>(17,938)</b>  | <b>(3,326,122)</b> |
| Increase due to corporate reorganization  | (8,047)          |                               | (1,948,582)             | (1,318,029)         | (149,502)        | (3,424,160)        |
| Amortization expenses                     |                  |                               | (413,494)               | (196,066)           | (122,266)        | (731,826)          |
| Write-offs                                |                  |                               | 13,995                  |                     | 81               | 14,076             |
| Transfers                                 |                  |                               | (136)                   |                     | 136              |                    |
| <b>Balance in 2012</b>                    | <b>(461,078)</b> |                               | <b>(4,888,982)</b>      | <b>(1,828,483)</b>  | <b>(289,489)</b> | <b>(7,468,032)</b> |
| <b>Intangible assets, net</b>             |                  |                               |                         |                     |                  |                    |
| Balance in 2011                           | <b>80,494</b>    | <b>66,668</b>                 | <b>365,725</b>          | <b>570,536</b>      | <b>1,434</b>     | <b>1,084,857</b>   |
| Balance in 2012                           | <b>154,395</b>   | <b>292,081</b>                | <b>1,314,135</b>        | <b>2,134,339</b>    | <b>342,202</b>   | <b>4,237,152</b>   |
| Annual amortization rate (average)        |                  |                               | 20%                     | 7.5%                | 19.5%            |                    |
| <b>Goodwill</b>                           |                  |                               |                         |                     |                  |                    |

The Company and its subsidiaries also recognize goodwill arising on the acquisition of investments based on expected future earnings.

In December 2012, annual impairment tests were conducted based on ten-year discounted cash flow projections, using perpetuity-based amounts in the last year, which is the period in which the entity expected to recover the investments made when the business was acquired, by applying an average growth rate of 22.5% for Pay TV, 8.5% for Means of Payment, 33.1% for RII Internet provider and 6.5% for RII Multimedia, discount rate of 11.8%, and using perpetuity-based amounts in the last year. The tests did not show any impairment losses, as summarized below:

| Cash-generating unit (CGU) | Asset balance | Goodwill allocated | Recoverable amount | Value in use |
|----------------------------|---------------|--------------------|--------------------|--------------|
|----------------------------|---------------|--------------------|--------------------|--------------|



|                               |                | <b>to the<br/>UGC</b> | <b>valuation<br/>basis</b> |                  |
|-------------------------------|----------------|-----------------------|----------------------------|------------------|
| Pay TV                        | 58,751         | 37,690                | 96,441                     | 4,620,169        |
| Means of payment              | 40,272         | 36,211                | 76,483                     | 101,487          |
| RII Internet service provider | 41,612         | 73,173                | 114,785                    | 2,267,806        |
| RII Multimedia                | 184,852        | 7,321                 | 192,173                    | 212,983          |
| <b>Total</b>                  | <b>325,487</b> | <b>154,395</b>        | <b>479,882</b>             | <b>7,202,445</b> |

### Regulatory licenses

| <b>Concession/license</b>                              | <b>Execution<br/>date</b> | <b>Termination</b> | <b>Acquisition<br/>cost</b> |
|--|---------------------------|--------------------|-----------------------------|
| BrT Celular Region 2 radiofrequencies and SMP (2G)     | 18/12/2002                | 17/12/2017         | 191,502                     |
| BrT Celular Region 2 radiofrequencies and SMP (2G)     | 03/05/2004                | 22/12/2017         | 28,624                      |
| BrT Celular Region 2 radiofrequencies and SMP (3G)     | 29/04/2008                | 30/04/2023         | 488,235                     |
| BrT Celular Region 2 radiofrequencies and SMP (H Band) | 26/05/2011                | 30/04/2023         | 1,073                       |
| TNL PCS s Region 1 radiofrequencies and SMP (2G)       | 13/03/2001                | 13/03/2016         | 1,102,007                   |

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|   |            |            |                  |
|---|------------|------------|------------------|
| TNL PCS s Region 1 radiofrequencies and SMP (2G)  | 11/07/2003 | 13/03/2016 | 66,096           |
| TNL PCS s Region 1 radiofrequencies and SMP (2G)  | 22/01/2004 | 13/03/2016 | 45,218           |
| TNL PCS s Region 3 radiofrequencies and SMP (2G)  | 29/04/2008 | 30/04/2023 | 131,106          |
| TNL PCS s Region 1 and 3 radiofrequencies and SMP (3G)  | 29/04/2008 | 30/04/2023 | 867,018          |
| TNL PCS s Region 3 (inland) radiofrequencies and SMP (2G)   | 08/09/2008 | 07/12/2022 | 126,820          |
| TNL PCS s radiofrequencies and SMP  | 07/12/2007 | 07/12/2022 | 8,868            |
| Way TV cable TV concession (Uberlândia)   | 06/11/1998 | 06/11/2013 | 3,906            |
| Way TV cable TV concession (Belo Horizonte)   | 08/02/1999 | 08/02/2014 | 16,669           |
| Way TV cable TV concession (Barbacena)  | 08/02/1999 | 08/02/2014 | 535              |
| Way TV cable TV concession (Poços de Caldas)  | 08/02/1999 | 08/02/2014 | 1,735            |
| Fair value of Amazônia Celular s SMP licenses Radiofrequencies (sub-bands 2.5 GHz (4G) and 450 MHz) (i) | 03/04/2008 | 13/03/2016 | 230,030          |
| Other licenses  |            |            | 284,532          |
| <b>Total</b>  |            |            | <b>3,962,822</b> |

- (i) Acquisition of radiofrequencies in sub-bands 2.5GHz (4G) and 450 MHz as detailed in Note 21. The acquired lots consist of:
- Sub-band V2, in frequency 2.5 GHz (FDD) with national coverage and 10+10 MHz band;
  - Sub-band P, with lots in regional areas 11, 43, 51, 53, 71, 81, 88, 94, 95 and 96, in 2.5 GHz (FDD) frequency and 10+10 MHz band, and
  - Sub-band 450 MHz for the Mid-west and State of Rio Grande do Sul region, in 7+7 MHz band.

**18. TRADE PAYABLES****2012****2011**

|  |                  |                  |
|--|------------------|------------------|
| Infrastructure and network supplies        | 1,027,030        | 503,735          |
| Rental of polls and rights-of-way          | 900,077          | 481,513          |
| Transfers (interconnection and co-billing) | 783,292          | 306,705          |
| Services                                   | 574,303          | 135,358          |
| Plant maintenance                          | 455,363          | 105,018          |
| Handhelds and SIM cards                    | 295,362          | 66,885           |
| Information technology                     | 242,170          | 53,187           |
| Call center                                | 132,991          | 37,037           |
| Sales commissions                          | 86,456           | 43,976           |
| Rental of physical space and equipment     | 25,609           | 13,783           |
| Other                                      | 136,196          | 93,355           |
| <b>Total</b>                               | <b>4,658,849</b> | <b>1,840,552</b> |

## 19. LOANS AND FINANCING

*(Includes debentures)*

|   | <b>2012</b>       | <b>2011</b>      |
|---|-------------------|------------------|
| Financing                                       | 25,155,935        | 3,883,614        |
| Accrued interest and other charges on financing | 575,529           | 135,216          |
| Debentures                                      | 7,920,740         | 4,070,360        |
| Accrued interest on debentures                  | 300,566           | 60,847           |
| Incurred debt issuance cost                     | (606,681)         | (44,826)         |
| <b>Total</b>                                    | <b>33,346,089</b> | <b>8,105,211</b> |
| Current   | 3,113,621         | 1,143,537        |
| Non-current                                     | 30,232,468        | 6,961,674        |

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|                              | <b>2012</b>       | <b>2011</b>      | <b>Maturity<br/>(principal<br/>and<br/>interest)</b> | <b>TIR %</b> |
|------------------------------|-------------------|------------------|--|--------------|
| <b>BNDES</b>                 | 6,366,740         | 2,229,449        |  |              |
| Local currency               | 6,366,740         | 2,229,449        | Dec 2012 to<br>Dec 2018                              | 8.72         |
| Public debentures            | 8,221,306         | 4,131,207        | Dec 2012 to<br>Jul 2021                              | 9.80         |
| Financial institutions       | 19,364,724        | 1,789,381        |  |              |
| Local currency               | 6,087,859         | 1,788,462        |  |              |
| CCB                          | 3,185,647         |                  | Dec 2012 to<br>Jan 2028                              | 10.81        |
| Senior Notes                 | 1,136,948         | 1,136,316        | Dec 2012 to<br>Sep 2016                              | 10.55        |
| CRI                          | 1,360,766         | 544,646          | Dec 2012 to<br>Aug 2022                              | 10.05        |
| Other                        | 404,498           | 107,500          | Dec 2012 to<br>Dec 2033                              | 6.35         |
| Foreign currency             | 13,276,865        | 919              |  |              |
| ECA credit facilities        | 4,123,977         |                  | Dec 2012 to<br>Aug 2020                              | 6.74         |
| Senior Notes                 | 9,152,540         |                  | Dec 2012 to<br>Oct 2020                              | 8.01         |
| Other                        | 348               | 919              | Dec 2012 to<br>Feb 2014                              |              |
| <b>Subtotal</b>              | <b>33,952,770</b> | <b>8,150,037</b> |  |              |
| Incurring debt issuance cost | (606,681)         | (44,826)         |  |              |
| <b>Total</b>                 | <b>33,346,089</b> | <b>8,105,211</b> |  |              |

## Acronym:

ECA Export Credit Agency

CCB Bank Credit Note

CRI Certificate of Real Estate Receivables

**Debt issuance costs by type**

|                        | <b>2012</b>    | <b>2011</b>   |
|------------------------|----------------|---------------|
| Financial institutions | 555,199        | 20,581        |
| Local currency         | 127,099        | 20,581        |
| Foreign currency       | 428,100        |               |
| BNDES                  | 6,564          | 1,661         |
| Local currency         | 6,564          | 1,661         |
| Public debentures      | 44,918         | 22,584        |
| <b>Total</b>           | <b>606,681</b> | <b>44,826</b> |
| Current                | 96,974         | 7,579         |
| Non-current            | 509,707        | 37,247        |

**Breakdown of the debt by currency**

|                 | <b>2012</b>       | <b>2011</b>      |
|-----------------|-------------------|------------------|
| Brazilian reais | 20,497,326        | 8,104,292        |
| US dollar       | 10,843,700        | 919              |
| Euro            | 2,005,063         |                  |
| <b>Total</b>    | <b>33,346,089</b> | <b>8,105,211</b> |

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|              | <b>2012</b>       | <b>2011</b>      |
|--------------|-------------------|------------------|
| Fixed rate   | 11,431,248        | 1,271,370        |
| CDI          | 9,139,158         | 4,108,624        |
| TJLP         | 5,537,503         | 2,122,561        |
| LIBOR        | 3,794,036         | 572              |
| IPCA         | 3,376,952         | 534,898          |
| INPC         | 67,192            | 67,186           |
| <b>Total</b> | <b>33,346,089</b> | <b>8,105,211</b> |

**Maturities**

The long-term debt matures as follows:

|                          | <b>2012</b>       |
|--------------------------|-------------------|
| 2014                     | 3,791,347         |
| 2015                     | 2,484,782         |
| 2016                     | 4,598,630         |
| 2017                     | 6,359,379         |
| 2018 and following years | 13,508,037        |
| <b>Total</b>             | <b>30,742,175</b> |

**Scheduled allocation of debt issuance cost to the income statement**

Debt issuance costs classified in non-current liabilities will be expensed on subsequent years, as follows:

|      |        |
|------|--------|
| 2014 | 94,487 |
|------|--------|

|                          |                |
|--------------------------|----------------|
| 2015                     | 93,141         |
| 2016                     | 81,642         |
| 2017                     | 70,038         |
| 2018 and following years | 170,399        |
| <b>Total</b>             | <b>509,707</b> |

### **Description of main loans and repayments**

In the year ended December 31, 2012 the Company's debt increased significantly by R\$21,102 million, due to the corporate reorganization of February 27, 2012. The debt originating from the corporate reorganization consist of foreign currency senior notes, private debentures, public debentures, and BNDES facilities subject to TJLP.

### **Local currency-denominated financing**

#### **Development Banks**

The Company and its subsidiary obtained financing facilities with BNDES to fund the expansion and improve the quality of their fixed and mobile nationwide networks and meet their regulatory obligations.

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In December 2012, the Company and its subsidiaries entered into a financing agreement with the BNDES, amounting to R\$5,417 million to fund their investments between 2012 and 2014. Of the total financing facility contracted, by the end of this month R\$2,000 million had been disbursed (of which R\$566 million to Oi, R\$888 million to TMAR, R\$412 million to TNL PCS, and R\$133 million to BrT Celular). The related debt issuance costs, totaling R\$3 million are being amortized through income statement, according to this issuance's contractual terms, using its effective interest rate.

Additionally, the Company and its subsidiaries are parties to current financing agreements with the BNDES and other development banks from the North and Northeast of Brazil, entered into in 2006, 2008, 2009, and 2010 to finance investment projects with the goals referred to above.

During the year ended December 31, 2012, the Company paid installments of principal plus adjusted interest totaling R\$1,857 million.

**Senior Notes and Bank Credit Bill (CCB)**

In 2011, the Company issued senior notes in the international capital market totaling R\$1,100 million. In the same year, its subsidiary TMAR executed the second amendment to the Bank Credit Note (CCB), raised in 2008, amounting to R\$3,071 million that extends its maturity to the end of 2018. These loans have the purpose of reducing debt issuance costs and general corporate purposes.

**CRI - Certificate of Real Estate Receivables**

In August 2010, the Company and its subsidiary TMAR transferred, through capital payments, the ownership of 101 returnable properties to its subsidiary Copart 5 and 162 returnable properties to its subsidiary Copart 4, respectively.

Copart 5 and Copart 4 assigned the receivables generated under the lease agreements to BSCS - Brazilian Securities Companhia de Securitização, which issued Certificates of Real Estate Receivables (CRIs) backed by these receivables.

In the context of the CRI transaction, the Extraordinary Shareholders' Meeting (ESM) held on October 20, 2010, approved the private issuance by the subsidiary TMAR simple nonconvertible debentures, in a single series, with total value of R\$999 million.

Additionally, the Extraordinary Shareholders' Meeting held on November 9, 2010 approved the private issuance by the Company, of simple, nonconvertible debentures, in a single series, with total value of R\$470 million. The proceeds from this issuance were used for corporate purposes of the Company and its subsidiary TMAR.



In June 2012, Copart 5 and Copart 4 redeemed in advance the one of two CRI series in amounting of R\$392.5 million.

Copart 5 assets and liabilities are consolidated in the balances of the financial statements of the Company, as the main risks and rewards incidental to this transaction remain with the parent companies.

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**Foreign currency-denominated financing**

**Senior Notes**

In February 2012, the Company issued senior notes in the amount of US\$1,500 million (R\$2,589 million) to refinance its debt and for general corporate purposes. The final maturity of these notes is February 2022. In July 2012 the Company transferred this issue to its wholly-owned subsidiary Oi Brasil Holdings Cooperatief, through a supplementary indenture, net of debt issuance costs. The related debt issuance costs, totaling R\$12 million (US\$6 million), will be amortized through income statement, according to this issuance's contractual terms, using its effective interest rate.

The Company issued other foreign currency-denominated senior notes in the international capital market in 2009 and 2010, through its subsidiary TMAR. As a result of the corporate reorganization approved on February 27, 2012, these issuances were added to the Company's debt, which replaced TMAR as issuer.

These loans, which total R\$9,152 million in consolidated, have the purpose of extending the debt profile and reducing debt issuance costs and general corporate purposes.

**ECA credit facilities**

TMAR contract financing facilities with export credit agencies to finance part of the investments in equipment and services that incorporate foreign technology.

In 2012, TMAR disbursed US\$394,8 million (R\$784,1 million) related to the agreements with these agencies. This amount comprises the disbursement US\$291.9 million from the Finnish Export Credit, under the agreements entered into 2009 and 2011; US\$14.1 million from SEK – Swedish Export Corporation, under an agreement entered into 2011; and US\$88.8 million from ONDD – Office National Du Dueroire, under an agreement entered into 2010.

TMAR is a party to current agreements with major export credit agencies, including: SEK – Swedish Export Corporation; CDB – China Development Bank; and ONDD – Office National Du Dueroire ; e FEC – Finnish Export Credit.

**Public debentures**

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| <b>Issuer</b>            | <b>Issue</b>                             | <b>Principal</b>  | <b>Maturity</b> | <b>2012</b>      | <b>2011</b>      |
|--------------------------|--|-------------------|-----------------|------------------|------------------|
| Oi (i)                   | 9 <sup>th</sup>                          | R\$ 2,000 million | 2020            | 2,158,069        |                  |
| Oi                       | 8 <sup>th</sup>                          | R\$ 2,350 million | 2018            | 2,351,458        | 2,353,299        |
| Oi                       | 7 <sup>th</sup>                          | R\$ 1,000 million | 2017            | 1,031,926        | 1,049,243        |
| Oi (ii)                  | 5 <sup>th</sup> (1 <sup>st</sup> series) | R\$ 1,754 million | 2013            | 1,783,127        |                  |
| Oi (ii)                  | 5 <sup>th</sup> (2 <sup>nd</sup> series) | R\$ 246 million   | 2013            | 302,288          |                  |
| Oi (iii)                 | 5 <sup>th</sup>                          | R\$ 1,080 million | 2013            |                  | 728,665          |
| Oi (ii)                  | 1 <sup>st</sup> (2 <sup>nd</sup> series) | R\$ 540 million   | 2013            | 552,921          |                  |
| Oi                       | 2 <sup>nd</sup>                          | R\$ 30 million    | 2021            | 41,517           |                  |
| <b>Public debentures</b> |  |                   |                 | <b>8,221,306</b> | <b>4,131,207</b> |

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- (i) The Board of Directors Meeting held on February 6, 2012 approved the ninth public issuance, seventh by the Company, of unsecured, nonconvertible debentures, in the local market, with restricted placement efforts (pursuant to CVM Instruction 400/2003), totaling R\$2 billion. The CVM approved the issue registration on March 14, 2012. The debentures were issued in two series, a first series amounting to R\$400 million and a second series amounting to R\$1.6 billion. Both series were financially settled on March 23, 2012. The debt issuance costs, totaling R\$22,959, are being recognized in income statement according to this issuance's contractual terms.
  
- (ii) As a result of the corporate reorganization approved on February 27, 2012, this issuance was added of the Company's debt, which replaced TMAR as issuer.
  
- (iii) In June 2012, the Company redeemed in advance the entire issuance, at the remaining outstanding balance value. The debentures issued by the Company and its subsidiaries do not contain renegotiation clauses.

**Guarantees**

BNDES financing facilities are collateralized by receivables of the Company and its subsidiaries TMAR, TNL PCS and BrT Celular. The Company provides guarantees to its subsidiaries TMAR, TNL PCS and BrT Celular for such financing facilities, totaling R\$4,164 million.

**Covenants**

The financing agreements of the Company and subsidiaries TMAR, TNL PCS and BrT Celular with BNDES and other financial institutions, and the debentures issued requires compliance with financial ratios (covenants). Financial ratios of the BNDES agreements are calculated semiannually, in June and December. Other financial ratios are calculated on a quarterly basis.

Specifically for the BNDES agreements, the financial ratios are calculated based on the Company's consolidated financial reporting.

As at December 31, 2012 all ratios had been complied with.

**Committed and not used credit facilities**

In December 2012 the Company contracted a revolver credit facility amounting to R\$1,500 million for a three-year period, with a syndicate of global commercial banks, consisting of Banco do Brasil, Bradesco, HSBC, and Santander.

In July 2012 TMAR entered into a financing agreement with the agency Export Development Canada, totaling US\$200 million, which will be used to finance part of the investments to be made in the next two years.

In November 2011 the Company, TMAR, TNL PCS and BrT Celular obtained a revolver credit facility, amounting to US\$1,000 million for a five-year period, from a syndicate consisting of 9 global commercial banks, led by Bank of America N.A. Merrill Lynch, Pierce, Fenner & Smith Incorporated, HSBC Securities (USA) Inc., RBS Securities Inc. and Citibank N.A. The banks Tokyo Mitsubishi UFJ, Barclays PLC, Deutsche Bank AG, Morgan Stanley N.A. and Sumitomo Mitsui are also part of the syndicate, at different levels.

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The revolver credit facility transactions were structured so that the Company and its subsidiaries can use the credit facility at any time, over the contractual periods. These transactions provide a comfortable liquidity cushion, strengthening the Group's capital structure and credit profile, and increase our cash management efficiency.

**20. DERIVATIVE FINANCIAL INSTRUMENTS**

|                                 | <b>2012</b>    | <b>2011</b>   |
|---------------------------------|----------------|---------------|
| <b>Assets</b>                   |                |               |
| Currency swaps                  | 702,986        |               |
| Interest rate swaps             | 208,477        |               |
| Non-deliverable forwards (NDFs) | 77,636         | 7,186         |
| <b>Total</b>                    | <b>989,099</b> | <b>7,186</b>  |
| Current                         | 640,229        | 7,186         |
| Non-current                     | 348,870        |               |
| <b>Liabilities</b>              |                |               |
| Currency swaps                  | 181,392        |               |
| Interest rate swaps             | 145,132        |               |
| Non-deliverable forwards (NDFs) | 187,773        | 25,698        |
| <b>Total</b>                    | <b>514,297</b> | <b>25,698</b> |
| Current                         | 309,555        | 25,698        |
| Non-current                     | 204,742        |               |

**21. LICENSES AND CONCESSIONS PAYABLE**

|         | <b>2012</b> | <b>2011</b> |
|---------|-------------|-------------|
| SMP (i) | 2,020,929   | 676,481     |

|                  |                  |                |
|------------------|------------------|----------------|
| STFC concessions | 137,068          |                |
| <b>Total</b>     | <b>2,157,997</b> | <b>676,481</b> |
| Current          | 1,058,881        | 131,984        |
| Non-current      | 1,099,116        | 544,497        |

Correspond to the amounts payable to ANATEL for the radiofrequency concessions and the licenses to provide the SMP (mobile) services and STFC service concessions, obtained at public auctions.

- (i) At the ANATEL's auction held on June 13 and 14, 2012, Oi acquired licenses for the use of the radiofrequencies in sub-bands 2.5GHz (4G) and 450 MHz. On October 16, 2012, 10% of the offered amount was disbursed on the Authorization Statement execution date. The Company intends to disburse the remaining amount, i.e., 90%, within 12 months, adjusting the amount to be paid according to the IGP-DI fluctuation, from the date the Identification and Tax Clearance Documents and the Qualification documentation are filed to the actual payment date.

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The payment schedule is as follows:

|              |                  |
|--------------|------------------|
| 2013         | 1,058,881        |
| 2014         | 364,370          |
| 2015         | 364,370          |
| 2016         | 364,370          |
| 2017         | 2,002            |
| 2018 to 2019 | 4,004            |
| <b>Total</b> | <b>2,157,997</b> |

**22. TAX REFINANCING PROGRAM**

The outstanding balance of the Tax Debt Refinancing Program is broken down as follows:

|  | 2012             | 2011           |
|--|------------------|----------------|
| Law 11941/09 tax financing program (i) | 1,072,947        | 442,092        |
| REFIS II PAES                          | 12,152           | 4,336          |
| <b>Total</b>                           | <b>1,085,099</b> | <b>446,428</b> |
| Current                                | 99,732           | 39,238         |
| Non-current                            | 985,367          | 407,190        |

The amounts of tax refinancing program created by Law 11941/2009, broken down into principal, fine and interest, are as follows:

|                         | 2012      |        |          | 2011    |
|-------------------------|-----------|--------|----------|---------|
|                         | Principal | Fines  | Interest | Total   |
| Tax on revenue (COFINS) | 264,043   | 46,089 | 305,709  | 615,841 |
|                         |           |        |          | 232,836 |



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|                                    |                |               |                |                  |                |
|------------------------------------|----------------|---------------|----------------|------------------|----------------|
| CPMF (tax on banking transactions) | 17,208         | 1,725         | 14,292         | 33,225           | 515            |
| Income tax                         | 67,079         | 9,657         | 87,701         | 164,437          | 105,497        |
| Social contribution                | 18,472         | 3,047         | 20,275         | 41,794           | 28,118         |
| INSS SAT                           | 7,506          | 4,112         | 34,658         | 46,276           | 28,958         |
| Tax on revenue (PIS)               | 35,630         | 2,528         | 33,930         | 72,088           | 49,948         |
| Other                              | 50,599         | 7,123         | 53,716         | 111,438          | 556            |
| <b>Total</b>                       | <b>460,537</b> | <b>74,281</b> | <b>550,281</b> | <b>1,085,099</b> | <b>446,428</b> |

The payment schedule is as follows:

|              |                  |
|--------------|------------------|
| 2013         | 99,732           |
| 2014         | 91,658           |
| 2015         | 91,658           |
| 2016         | 91,658           |
| 2017         | 91,658           |
| 2018 to 2020 | 274,974          |
| 2021 to 2023 | 274,974          |
| 2024 to 2025 | 68,787           |
| <b>Total</b> | <b>1,085,099</b> |

(i) Tax financing program created by Law 11941/09

The Company and some of its subsidiaries joined the New Federal tax Refinancing Plan, governed by Law 11941/2009, including part of the debt to the National Treasury and the INSS due until November 30, 2008.

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In accordance with the provision of Article 1, V, Par. 9 of Law 11941/09, the companies must timely pay new installments and may be excluded from the program if they keep three installments outstanding, whether consecutive or not, or do not pay one installment, if all the others have been paid.

The agreed term of the refinancing is 180 months. As provided for by the relevant Law and related regulatory administrative rules, the entities are required to pay the minimum monthly installments, as the final amount will only be set after the consolidation of debt by the Federal Revenue Service. The Company and its subsidiaries filed with the Federal Revenue Service and the National Treasury Attorney General's Office, within the deadline set by joint administrative rules issued by these Government bodies, the consolidation of the debt included in the different types of tax refinancing plans provided for by Law 11941/2009. The Company's and its subsidiaries' debt is being consolidated by the Federal Revenue Service. With the enrollment, the judicial deposits related to the lawsuits transferred to the new plan will be converted, pursuant to the applicable law, into Federal Government revenue.

**23. PROVISIONS****Broken down as follows:**

|        | <b>Type</b>                            | <b>2012</b> | <b>2011</b> |
|--------|--|-------------|-------------|
|        | <b>Labor</b>                           |             |             |
| (i)    | Overtime                               | 635,031     | 388,946     |
| (ii)   | Indemnities                            | 214,681     | 134,252     |
| (iii)  | Stability/reintegration                | 180,713     | 130,891     |
| (iv)   | Hazardous work conditions              | 172,877     | 133,637     |
| (v)    | Additional post-retirement benefits    | 98,135      | 26,308      |
| (vi)   | Salary differences and related effects | 83,482      | 77,275      |
| (vii)  | Lawyers/expert fees                    | 42,086      | 48,594      |
| (viii) | Severance pay                          | 39,607      | 23,239      |
| (ix)   | Labor fines                            | 22,500      | 8,609       |
| (x)    | Severance Pay Fund (FGTS)              | 18,421      | 17,497      |
| (xi)   | Employment relationship                | 5,161       | 456         |
| (xii)  | Joint liability                        | 4,352       | 6,988       |
| (xiii) | Other claims                           | 62,164      | 41,028      |

|   |                  |                  |
|---|------------------|------------------|
| <b>Total</b>  | <b>1,579,210</b> | <b>1,037,720</b> |
| <b>Tax</b>  |                  |                  |
| (i) State VAT (ICMS)                                | 448,120          | 279,799          |
| (ii) FUST / FUNTTEL                                 | 142,632          | 4,614            |
| (iii) Tax on services (ISS)                         | 65,711           | 8,283            |
| (iv) Tax on net income (ILL)                        | 19,478           |                  |
| (v) INSS (joint liability, fees, and severance pay) | 11,726           | 890              |
| (vi) Other claims                                   | 77,627           | 6,563            |
| <b>Total</b>  | <b>765,294</b>   | <b>300,149</b>   |

|                          |           |           |
|--------------------------|-----------|-----------|
| <b>Civil</b>             |           |           |
| (i) Corporate law        | 2,333,980 | 2,350,071 |
| (ii) ANATEL estimates    | 551,143   | 177,998   |
| (iii) ANATEL fines       | 436,195   | 100,136   |
| (iv) Small claims courts | 108,479   | 127,878   |

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|                         |                  |                  |
|-------------------------|------------------|------------------|
| (v) Other claims        | 646,328          | 320,939          |
| <b>Total</b>            | <b>4,076,125</b> | <b>3,077,022</b> |
| <b>Total provisions</b> | <b>6,420,629</b> | <b>4,414,891</b> |
| Current                 | 1,569,356        | 1,283,354        |
| Non-current             | 4,851,273        | 3,131,537        |

In compliance with the relevant Law, the provisions are adjusted for inflation on a monthly basis.

**Breakdown by type of contingency and risk (consolidated)**

| <b>Risk</b>            | <b>2012</b>  |            |              | <b>Total</b> |
|------------------------|--------------|------------|--------------|--------------|
|                        | <b>Labor</b> | <b>Tax</b> | <b>Civil</b> |              |
| Provisions             | 1,579,210    | 765,294    | 4,076,125    | 6,420,629    |
| Contingent liabilities | 1,051,868    | 17,260,147 | 991,269      | 19,303,284   |

| <b>Risk</b>            | <b>2011</b>  |            |              | <b>Total</b> |
|------------------------|--------------|------------|--------------|--------------|
|                        | <b>Labor</b> | <b>Tax</b> | <b>Civil</b> |              |
| Provisions             | 1,037,720    | 300,149    | 3,077,022    | 4,414,891    |
| Contingent liabilities | 923,133      | 2,968,856  | 648,496      | 4,540,485    |

**Summary of changes in provision balances**

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|  | <b>Labor</b>     | <b>Tax</b>     | <b>Civil</b>     | <b>Total</b>     |
|--|------------------|----------------|------------------|------------------|
| <b>Balance in 01/01/2010</b>             | <b>793,650</b>   | <b>486,581</b> | <b>3,153,252</b> | <b>4,433,483</b> |
| Inflation adjustment                     | 102,392          | 64,352         | 87,294           | 254,038          |
| Additions/(reversals)                    | 164,332          | (137,535)      | 378,296          | 405,093          |
| Write-offs for payment/terminations      | (123,161)        | (139,516)      | (533,070)        | (795,747)        |
| <b>Balance in 2010</b>                   | <b>937,213</b>   | <b>273,882</b> | <b>3,085,772</b> | <b>4,296,867</b> |
| Inflation adjustment                     | 48,991           | 42,498         | 75,598           | 167,087          |
| Additions/(reversals)                    | 143,046          | 10,626         | 417,000          | 570,672          |
| Write-offs for payment/terminations      | (91,530)         | (26,857)       | (501,348)        | (619,735)        |
| <b>Balance in 2011</b>                   | <b>1,037,720</b> | <b>300,149</b> | <b>3,077,022</b> | <b>4,414,891</b> |
| Increase due to corporate reorganization | 851,793          | 559,745        | 1,110,406        | 2,521,944        |
| Inflation adjustment                     | 144,272          | 41,369         | 47,376           | 233,017          |
| Additions/(reversals)                    | (11,502)         | 19,258         | 392,839          | 400,595          |
| Write-offs for payment/terminations      | (443,073)        | (155,227)      | (551,518)        | (1,149,818)      |
| <b>Balance in 2012</b>                   | <b>1,579,210</b> | <b>765,294</b> | <b>4,076,125</b> | <b>6,420,629</b> |

**Summary of the main matters related to the recognized provisions and contingent liabilities****Provisions****Labor**

- (i) Overtime - refers to the claim for payment of salary and premiums by alleged overtime hours;
- (ii) Indemnities - refers to amounts allegedly due for occupational accidents, leased vehicles, occupational diseases, pain and suffering and tenure;
- (iii) Stability/reintegration - claim due to alleged noncompliance with an employee's special condition which prohibited termination of the employment contract without cause;
- (iv) Sundry premiums - refer to claims of hazardous duty premium, based on Law 7369/85, regulated by Decree 93412/86, due to the alleged risk from employees' contact with the electric power grid, health hazard premium,

pager pay, and transfer premium;

- (v) Supplementary retirement benefits differences allegedly due in the benefit salary referring to payroll amounts;
- (vi) Salary differences and related effects - refer mainly to claims for salary increases due to alleged noncompliance with trade union agreements. As for the effects, these refer to the impact of the salary increase allegedly due on the other amounts calculated based on the employee's salary;
- (vii) Lawyers/expert fees - installments payable to the plaintiffs lawyers and court appointed experts, when expert evidence is necessary during the fact-finding stage;
- (viii) Severance pay - claims of amounts which were allegedly unpaid or underpaid upon severance;

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(ix) Labor fines - amounts arising from delays or nonpayment of certain amounts provided for by the employment contract, within the deadlines set out in prevailing legislation and collective bargaining agreements;

(x) Supplement to FGTS fine - arising from understated inflation, refers to claims to increase the FGTS severance fine as a result of the adjustment of accounts of this fund due to inflation effects.

(xi) BrT filed a lawsuit against Caixa Econômica Federal to assure the reimbursement of all amounts paid for this purpose;

(xii) Employment relationship - Lawsuits filed by former employees of outsourced companies claiming the recognition of an employment relationship with the Company or its subsidiaries alleging an illegal outsourcing and/or the existence of elements that evidence such relationship, such as direct subordination;

(xiii) Joint liability - refers to the claim to assign liability to the Company, filed by outsourced personnel, due to alleged noncompliance with the latter's labor rights by their direct employers;

(xiv) Other claims - refer to different litigation including rehiring, profit sharing, qualification of certain allowances as compensation, etc.

In the first quarter of 2011, the Company completed the standardization process of the calculation methodology of the provisions for labor contingencies, in line with the procedures adopted by TMAR. Under the methodology used previously by the Company, the amounts attributed to the lawsuits were the amounts reported by their outside legal counsel, where the approach currently adopted takes into consideration the average historical amounts paid in lawsuits of the same nature. As a result, the Company recognized in consolidated income statement effects of R\$53,074, accounted for as other operating expenses, in line item Provisions/reversals, and R\$63,566, accounted for as financial expenses, in line item Inflation adjustment of provisions.

**Tax**

(i)

ICMS - Refers to the provision considered sufficient by management to cover the various tax assessments related to: (a) levy of ICMS and not ISS on certain revenue; (b) claim and offset of credits on the purchase of goods and other inputs, including those necessary for network maintenance; and (c) tax assessments related to alleged noncompliance with accessory obligations

- (ii) FUNTTEL - Provision recognized based on the change in the Universal Telecom Service Fund (FUST) fee calculation methodology, under ANATEL Abstract 7 (which no longer allows the deduction of Industrial Exploitation of Dedicated Lines (EILD) and interconnection charges from the calculation basis, not even retrospectively) and the potential impact on the FUNTTEL calculation basis.

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- (iii) ISS – The Company and TMAR have provisions for tax assessments challenged because of the levy of ISS in several services, such as, leased, value added, and technical and administrative equipment.
- (iv) ILL - TMAR offset the ILL paid up to calendar 1992 based on Federal Supreme Court ( STF ) decisions that declare the unconstitutionality of this tax. However, even though there is case law on the matter, a provision is maintained as there is no final decision of the criteria for the adjustments of these credits.
- (v) INSS - Provision related basically to probable losses on lawsuits discussing joint liability and indemnities.
- (vi) Other claims - Refer basically to provisions to cover Real Estate Tax (IPTU) assessments and several tax assessments related to income tax and social contribution collection, amounting to R\$1,336 (R\$1,562 in 2010).

**Civil**

- (i) Corporate Financial Participation Agreements - these agreements were governed by Administrative Rules 415/1972, 1181/1974, 1361/1976, 881/1990, 86/1991, and 1028/1996. Subscribers held a financial interest in the concessionaire after paying in a certain amount, initially recorded as capitalizable funds and subsequently recorded in the concessionaire's equity, after a capital increase was approved by the shareholders' meeting, thus generating the issuance of shares. The lawsuits filed against the former CRT - Companhia Riograndense de Telecomunicações, a company merged by the Company, challenge the way shares were granted to subscribers based on said financial participation agreements.

The Company used to recognize a provision for the risk of unfavorable outcome in these lawsuits based on certain legal doctrine. In the first half of 2009, however, decisions issued by appellate courts led the Company to revisit the amount accrued and the risk classification of the relevant lawsuits. The Company, considering the peculiarities of each decision and based on the assessment made by its legal department and outside legal counsel, changed its estimate on the likelihood of an unfavorable outcome from possible to probable. In 2009, the Company's management, based on the opinions of its legal department and outside legal counsel, revised the measurement criteria of the provision related to the financial interest agreements. Said revision contemplated additional considerations regarding the dates and the arguments of the final and unappealable decisions on ongoing lawsuits, as well as the use of statistical criteria to estimate the amount of the provision for those lawsuits. The Company currently accrues these amounts mainly taking into consideration (i) the criteria above, (ii) the number of ongoing lawsuits by matter discussed, and (iii) the average amount of historical losses, broken down by matter in dispute.

At the end of 2010, the website of the Superior Court of Justice (STJ) disclosed news that this court had set compensation criteria to be adopted by the Company to the benefit of the shareholders of the former CRT for those cases new shares, possibly due, could not be issued because of the sentence issued. According to this court judgment news, which does not correspond to a final decision, the criteria must be based on (i) the definition of the

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number of shares that each claimant would be entitled, measuring the capital invested at the book value of the share reported in the company's monthly trial balance on the date it was paid-in, (ii) after said number of shares is determined, it must be multiplied by its quotation on the stock exchange at the closing of the trading day the final and unappealable decision is issued, when the claimant becomes entitled to sell or disposed of the shares, and (iii) the result obtain must be adjusted for inflation (IPC/INPC) from the trading day of the date of the final and unappealable decision, plus legal interest since notification. In the case of succession, the benchmark amount will be the stock market price of the successor company. Based on current information, management believes that its estimate would not be materially impacted as at December 31, 2012, had these criteria already been adopted. There may be, however, significant changes in the items above, mainly regarding the market price of Company shares.

- (ii) ANATEL estimates - refer basically to alleged noncompliance with General Universal Service Targets Plan ( PGMU ) and General Quality Targets Plan ( PGMQ ) obligations;
- (iii) ANATEL fines - They largely refer to provisions for fines arising from failures to meet quality targets under the terms of the Inspection Procedures of Noncompliance with Obligations ( PADOs ) of the PGMQ and the Quality Indicators Regulation ( RIQ ).
- (iv) Small claims courts - claims filed by customers for which the individual indemnification compensation amounts do not exceed the equivalent of forty minimum wages.
- (v) Other claims - refer to several of ongoing lawsuits discussing contract terminations, certain agencies requesting the reopening of customer service centers, compensation claimed by former suppliers and building contractors, in lawsuits filed by equipment vendors against Company subsidiaries, revision of contractual terms and conditions due to changes introduced by a plan to stabilize the economy, and litigation mainly involving discussions on the breach of contracts, to which management and its legal counsel attribute a probable likelihood of an unfavorable outcome, etc.

**Contingent liabilities**

The Company and its subsidiaries are also parties to several lawsuits in which the likelihood of an unfavorable outcome is classified as possible, in the opinion of their legal counsel, and for which no provision for contingent liabilities has been recognized.

The main contingencies classified with possible likelihood of an unfavorable outcome, according to the Company's management's opinion, based on its legal counsel's assessment, are summarized below:

**Labor**

Refer to several lawsuits claiming, but not limited to, the payment of salary differences, overtime, hazardous duty and health hazard premium, and joint liability, which total approximately R\$1,051,868 (R\$923,133 in 2011).

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In 2011, the Company completed the standardization process of the calculation methodology of the provisions for labor contingencies, in line with the procedures adopted by TMAR. Under the methodology used previously by the Company, the amounts attributed to the lawsuits were the amounts reported by their outside legal counsel, where the approach currently adopted takes into consideration the average historical amounts paid in lawsuits of the same nature.

**Tax**

The main ongoing lawsuits have the following matters:

- (i) ICMS - several ICMS assessment notifications, including two main matters: ICMS levied on certain revenue from services already subject to ISS or which are not part of the ICMS tax base, and utilization of ICMS credits claimed on the purchase of goods and other inputs, amounting approximately to R\$5,755,124 (R\$1,294,767 in 2011);
- (ii) ISS - alleged levy of this tax on subsidiary telecommunications services and discussion regarding the classification of the services taxed by the cities listed in Supplementary Law 116/2003, amounting approximately to R\$1,787,183 (R\$351,593 in 2011);
- (iii) INSS - tax assessments to add amounts to the contribution salary allegedly due by the Company, amounting approximately to R\$956,585 (R\$331,319 in 2011); and
- (iv) Federal taxes - several tax notifications regarding basically the disallowances made on the calculation of taxes, errors in the completion of tax returns, transfer of PIS and COFINS and FUST related to changes in the interpretation of these taxes tax bases by ANATEL. These lawsuits amount approximately to R\$8,761,255 (R\$991,177 in 2011).

IRPJ, CSLL, PIS and COFINS - Goodwill amortization - July 2005 tax assessment - Challenge of R\$2,534,951, substantially related to the corporate transaction undertaken by TNL in 1998 that resulted in the recognition of goodwill arising on the Telebrás System privatization auction. The amortization of goodwill and its deduction for tax purposes are provided for by Law 9532/1997, as Article 7 thereof authorizes the computation of the goodwill amortization charge in the taxable income of an entity resulting from a takeover, spin-off, or merger transaction when one of the combined businesses holds investments in the other business, acquired at goodwill based on the investee's

expected future earnings.

The Company obtained a partially favorable decision in the lower court, which reduced the tax assessment by R\$658,156, and maintained R\$1,876,795 as possible loss. Against this decision the Company filed a Voluntary Appeal fully acknowledged by the Board of Tax Appeals, thus cancelling the tax assessment. A final and unappealable decision was issued on March 19, 2012, favorable to the Company, as successor of TNL as a result of the corporate reorganization approved at the Extraordinary Shareholders Meeting held on February 27, 2012. This amount was derecognized in March 2012 in light of the favorable decision obtained.

### **Civil**

The main ongoing lawsuits do not have any lawsuits for which no court decision has been issued, and are mainly related, but not limited to, challenging of network expansion plans, compensation for pain and suffering and material damages, collection lawsuits, and bidding processes. These lawsuits total approximately R\$991,269 (R\$648,496 in 2011).

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The Company has bank guarantee letters and guarantee insurance granted by several financial institutions and insurers to guarantee commitments arising from lawsuits, contractual obligations, and biddings with ANATEL. The total adjusted amount of contracted guarantees and guarantee insurance, effective at December 31, 2012, corresponds to R\$12,216,671 (R\$2,697,529 in 2011). The commission charges on these contracts are based on market rates.

**Contingent assets**

Below are the tax lawsuits filed by the Company to claim refund of taxes paid.

**PIS/COFINS** - tax lawsuit challenging the enforcement of Law 9718/98, which increased the PIS and COFINS tax base. The Law covered the period from February 1999 to November 2002 for PIS and from February 1999 to January 2004 for COFINS. In November 2005, the Federal Supreme Court (STF) concluded the judgment of certain lawsuits on the same matter and considered the increase in the tax base introduced by said Law unconstitutional. Part of the lawsuits filed by the Company and the STFC concessionaires from Region II of the Concession Plan, merged by the Company in February 2000, became final and unappealable in 2006 as regards the increase in PIS and COFINS tax base. The Company awaits the judgments of the lawsuits filed by the other merged companies, whose likelihood of a favorable outcome in future filing of appeals is regarded as probable. The amount attributed to these lawsuits, representing unrecognized contingent assets was R\$22,000 (R\$21,304 in 2011).

**24. OTHER PAYABLES**

|   | <b>2012</b> | <b>2011</b> |
|---|-------------|-------------|
| Advances from customers                             | 780,264     | 364,622     |
| Unearned revenues                                   | 691,789     | 201         |
| Provision for asset decommissioning                 | 218,516     | 30,577      |
| Redeemable bonus shares                             | 99,967      | 1,501,984   |
| Consignation to third parties                       | 41,441      | 274,281     |
| Payable - reverse stock split                       | 21,845      | 116,603     |
| Payables for surety received from related companies |             | 5,940       |
| Other   | 157,549     | 82,614      |

|              |                  |                  |
|--------------|------------------|------------------|
| <b>Total</b> | <b>2,011,371</b> | <b>2,376,822</b> |
| Current      | 1,439,462        | 2,014,762        |
| Non-current  | 571,909          | 362,060          |

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**Table of Contents****Oi S.A. and Subsidiaries****Notes to the Consolidated Financial Statements****for the Years Ended December 31, 2012 and 2011****(Amounts in thousands of Brazilian reais, unless otherwise stated)****25. EQUITY****(i) Capital**

Subscribed and paid-in capital is R\$7,308,753 (R\$3,731,059 in 2011), represented by the following shares, without par value:

|   | <b>Number of shares (in thousands)</b> |                |
|---|--|----------------|
|   | <b>2012</b>                            | <b>2011</b>    |
| <b>Total capital in shares</b>          |  |                |
| Common shares                           | 599,009                                | 203,423        |
| Preferred shares                        | 1,198,078                              | 399,597        |
| <b>Total</b>                            | <b>1,797,087</b>                       | <b>603,020</b> |
| <b>Treasury shares</b>                  |  |                |
| Common shares                           | 84,251                                 |                |
| Preferred shares                        | 72,808                                 | 13,231         |
| <b>Total</b>                            | <b>157,059</b>                         | <b>13,231</b>  |
| <b>Outstanding shares</b>               |  |                |
| Common shares                           | 514,758                                | 203,423        |
| Preferred shares                        | 1,125,270                              | 386,366        |
| <b>Total outstanding shares</b>         | <b>1,640,028</b>                       | <b>589,789</b> |
| <b>Book value per outstanding share</b> | <b>6.90</b>                            | <b>17.95</b>   |

The preferred and common shares held in treasury are excluded from the determination of the book value.

The Company is authorized to increase its capital, according to a resolution of the Board of Directors, up to the limit of 2.5 billion common or preferred shares, within the legal limit of 2/3 for the issuance of new nonvoting preferred shares.

By resolution of the Shareholders Meeting or Board of Directors Meeting, the Company's capital can be increased through capitalization of retained earnings or reserves previously allocated for this purpose by the Shareholders Meeting. Under these conditions, the capitalization may be performed without changing the amount of shares.

Capital is represented by common and preferred shares, without par value, and the Company is not required to maintain the current proportion of these types of share on capital increases.

By resolution of the Shareholders Meeting or the Board of Directors, the preemptive right on issuance of shares, warrants or convertible debentures can be cancelled in the cases provided for in article 172 of the Brazilian Corporate Law.

As described in Note 1, the Company's subscribed capital was increased by R\$3,085,409 due to the corporate reorganization undertaken in February 2012.

As a result of the bonus shares approved at the Extraordinary Shareholders Meeting held on August 10, 2012, the Company's increase by R\$492,285, to R\$7,308,753.

**(a) Treasury shares**

Treasury shares at December 31, 2012 originate from the corporate events that took place in the in the first half of 2012, described below:

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- (i) on February 27, 2012 the Extraordinary Shareholders Meeting of Oi S.A. approved the Merger Protocol and Justification of Coari with and into the Company and, as a result, the cancelation of the all the treasury shares held by the Company on that date;
- (ii) on February 27, 2012 the Extraordinary Shareholders Meeting of Oi S.A. approved the Merger Protocol and Justification of TNL with and into the Company and the Company's shares then held by TNL, as a result of the merger of Coari with and into the Company, were canceled, except for 24,647,867 common shares that remained in treasury; and
- (iii) starting April 9, 2012 Oi paid the reimbursement of shares to withdrawing shareholders.  
The position of treasury shares is as follows:

|   | Shares<br>Common<br>shares (*) | Amount         | Preferred<br>shares<br>(*) | Amount           |
|---|--------------------------------|----------------|----------------------------|------------------|
| <b>Balance in 2011</b>  |                                |                | <b>13,231</b>              | <b>149,642</b>   |
| Shares canceled due to the corporate reorganization, as described in item (i) above |                                |                | (13,231)                   | (149,642)        |
| Shares registered in the corporate reorganization, as described in item (i) above   | 24,648                         | 93,491         |                            |                  |
| Shares reimbursed to the withdrawing shareholders, as described in item (iii) above | 59,539                         | 786,647        | 72,158                     | 1,221,678        |
| Other   | 64                             | 240            | 650                        | 2,468            |
| <b>Balance in 2012</b>  | <b>84,251</b>                  | <b>880,378</b> | <b>72,808</b>              | <b>1,224,146</b> |

(\*) Number of shares in thousands

| Historical cost in purchase of treasury shares (R\$ per share) | 2012 | 2011 |
|--|------|------|
|--|------|------|

|                  |       |       |
|------------------|-------|-------|
| Weighted average | 13.40 | 11.31 |
| Minimum          | 3.79  | 10.31 |
| Maximum          | 15.25 | 13.80 |

**Fair value of treasury shares**

The fair value of treasury shares at the end of the reporting period was as follows:

|  | 2012             |               | 2011             |               |
|--|------------------|---------------|------------------|---------------|
|  | Preferred shares | Common shares | Preferred shares | Common shares |
| Number of treasury shares (in thousands) | 72,808           | 84,251        | 13,231           |               |
| Quotation per share on BOVESPA (R\$)     | 8.32             | 9.16          | 10.88            |               |
| Market value                             | 605,763          | 771,739       | 143,959          |               |

The table below shows the deduction of the amount of treasury shares from the reserve used in the repurchase:

|  | 2012             | 2011           |
|--|------------------|----------------|
| Carrying amount of capital reserves    | 4,302,535        | 499,042        |
| Treasury shares                        | (2,104,524)      | (149,642)      |
| <b>Balance, net of treasury shares</b> | <b>2,198,011</b> | <b>349,400</b> |

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**(b) Capital reserves**

Capital reserves are recognized pursuant to the following practices:

Share subscription premium reserve: equal to the difference between the amount paid on subscription and the amount allocated to capital.

Goodwill special reserve on merger: represents the net amount of the balancing item to goodwill recorded in assets, as provided for by CVM Instruction 319/1999.

Net assets - special reserve on merger: represents the net assets merged by the Company under the corporate reorganization approved on February 27, 2012.

Investment grant reserve: recognized due to the investment grants received before the beginning of FY 2008 as a balancing item to an asset received by the Company.

Special monetary correction law 8200/91 reserve: recognized due to the special inflation adjustments of fixed assets and the purpose of which was the offset of distortions in inflation adjustment indices prior to 1991.

Stock options reserve: line item recognized due to the stock options granted and recognized according to the share-based payment plans and settled with equity instruments. In the first quarter of 2012 the stock option plan was terminated and the reserve realized.

Interest on construction in progress reserve: formed by the balancing item to interest on works in progress incurred through December 31, 1998.

Other capital reserves: formed by the funds invested in income tax incentives before the beginning of FY 2008.

**(c) Income reserves**

Income reserves are recognized pursuant to the following practices:

Legal reserve: allocation of 5% of profit for the year up to the limit of 20% of capital. This allocation is optional when the legal reserve plus the capital reserves exceeds 30% of capital. This reserve is only used for capital increase or absorption of losses.

Investments reserve: comprises the balances of profit for the year, adjusted pursuant to article 202 of Law 6404/76 and allocated after the payment of dividends. The profits for the year used to recognize this reserve was fully allocated as retained earnings by the related shareholders' meetings in light of the Company's investment budget and pursuant to Article 196 of the Brazilian Corporate Law. By the end of fiscal year 2007, the retention of earnings for investments remained in the retained earnings line item, pursuant to Article 8 of CVM Resolution 59/1986. After the enactment of Law 11638/37, which prescribes that no balances should remain in the retained earnings line item at the end of the reporting period, said retained earnings were transferred to this investment reserve.

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Dividends are calculated pursuant to the Company's bylaws and the Brazilian Corporate Law. Mandatory minimum dividends are calculated in accordance with Article 202 of Law 6404/76, and preferred or priority dividends are calculated pursuant to the Company's Bylaws.

Preferred shares are nonvoting except in the cases specified in paragraphs 1-3 of Article 12 of the Bylaws, but are assured priority in the payment of the noncumulative minimum dividends equivalent to the greater of 6% per year calculated on the amount obtained after dividing the capital by the total number of the Company's shares or 3% per year calculated on the amount obtained after dividing equity by the total number of the Company's shares.

By decision of the Board of Directors, the Company can pay or credit, as dividends, interest on capital pursuant to Article 9, paragraph 7, Law 9249/1995. The interest paid or credited will be offset against the annual mandatory minimum dividend amount, pursuant to Article 43 of the Bylaws.

The Company recorded net income for the year ended December 31, 2012 amounting to R\$1,784,890. Pursuant to the Company's management proposal, subject to the approval of the Shareholders' Meeting, net income for the year, plus retained earnings of R\$104, was allocated as follows: (i) mandatory dividends amounting to R\$446,222; (ii) to the payment of dividends additional to mandatory minimum dividends amounting to R\$391,322; and (iii) the recognition of an investment reserve amounting to R\$947,450. Additionally, Management proposed the distribution of redeemable Company bonus shares amounting to R\$162,456, subject to the approval of the Extraordinary Shareholders' Meeting.

The Annual Shareholders' Meeting held on April 30, 2012 approved the following allocation of net income for 2011, amounting to R\$1,005,731: (i) mandatory minimum dividends amounting to R\$251,433 and (ii) payment of R\$1,748,567 in addition to the mandatory minimum dividends, of which R\$754,298 is based on net income for the year and R\$994,269 is based on the investment reserve.

Mandatory minimum dividends calculated in accordance with Article 202 of Law 6404/1976:

|   | <b>2012</b>      | <b>2011</b>      |
|---|------------------|------------------|
| <b>Net income for the year</b>              | <b>1,784,890</b> | <b>1,005,731</b> |
| Mandatory minimum dividends                 | 446,222          | 251,433          |
| Proposal additional dividends               | 391,322          |                  |
| <b>Total dividends paid to shareholders</b> | <b>837,544</b>   | <b>251,433</b>   |

Statutory minimum dividends of preferred shares for 2012 were calculated as follows:

|   | <b>2012</b> |
|---|-------------|
| <b>I - 6% p.a. on share capital criterion</b> |             |
| Subscribed capital                            | 7,308,753   |

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|   |            |
|---|------------|
| Total outstanding shares (*)                  | 1,640,028  |
| Total outstanding preferred shares (*)        | 1,125,270  |
| Calculation basis                             | 5,014,743  |
| Statutory minimum dividend percentage         | 6%         |
| Statutory minimum dividends                   | 300,885    |
| <b>II - 3% p.a. on share equity criterion</b> |            |
| Equity  | 11,762,776 |
| Total outstanding shares (*)                  | 1,640,028  |
| Total outstanding preferred shares (*)        | 1,125,270  |
| Calculation basis                             | 8,070,776  |
| Statutory minimum dividend percentage         | 3%         |
| Statutory minimum dividends                   | 242,123    |

(\*) in thousands of shares

Statement of dividends and bonus shares for 2012:

|  | 2012           |                  |                  |
|--|----------------|------------------|------------------|
|  | Common shares  | Preferred shares | Total            |
| <b>Dividends</b>                                     |                |                  |                  |
| Extraordinary dividends (on August 10, 2012)         | 159,357        | 348,358          | 507,715          |
| Mandatory minimum dividends (on December 31, 2012)   | 140,056        | 306,166          | 446,222          |
| Proposed additional dividends (on December 31, 2012) | 122,825        | 268,497          | 391,322          |
|  | <b>422,238</b> | <b>923,021</b>   | <b>1,345,259</b> |
| <b>Bonus shares</b>                                  |                |                  |                  |
| Redemption of bonus shares (on August 10, 2012)      | 154,514        | 337,771          | 492,285          |
| Proposed redemption of bonus shares                  | 50,991         | 111,465          | 162,456          |

|              |                |                  |                  |
|--------------|----------------|------------------|------------------|
|              | <b>205,505</b> | <b>449,236</b>   | <b>654,741</b>   |
| <b>Total</b> | <b>627,743</b> | <b>1,372,257</b> | <b>2,000,000</b> |

|  | <b>2012</b>                      |                         |
|--|----------------------------------|-------------------------|
|  | <b>Amount per share/ in real</b> |                         |
|  | <b>Common shares</b>             | <b>Preferred shares</b> |
| <b>Dividends</b>                                     |                                  |                         |
| Extraordinary dividends (on August 10, 2012)         | 0.309577                         | 0.309577                |
| Mandatory minimum dividends (on December 31, 2012)   | 0.272082                         | 0.272082                |
| Proposed additional dividends (on December 31, 2012) | 0.238607                         | 0.238607                |
|  | <b>0.820266</b>                  | <b>0.820266</b>         |
| <b>Bonus shares</b>                                  |                                  |                         |
| Redemption of bonus shares (on August 10, 2012)      | 0.300168                         | 0.300168                |
| Proposed redemption of bonus shares                  | 0.099057                         | 0.099057                |
|  | <b>0.399225</b>                  | <b>0.399225</b>         |
| <b>Total</b>   | <b>1.219491</b>                  | <b>1.219491</b>         |

**Extraordinary distribution of dividends and shareholder compensation**

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The Extraordinary Shareholders Meeting held on August 10, 2012 approved the extraordinary distribution of dividends and the payment of compensation to the Company's shareholders through the redemption of bonus shares, amounting to R\$507,715 and R\$492,285, respectively, in conformity with the item (ii) of the Material Fact Notice published on April 17, 2012, which establishes the Shareholders Compensation Policy for 2012-2015. The dividends were paid based on prior years' income reserves and the redemption of the bonus shares was based on capital reserves. The compensation payment started on August 27, 2012.

**(e) Share issue costs**

We recognized in this line item the share issue costs related to the corporate reorganization of February 27, 2012.

**(f) Other comprehensive income**

The Company recognizes in this line item other comprehensive income that revenue, expenses, reclassification adjustments, and the tax effects related to these components, which are not recognized in the income statements.

In the period ended December 31, 2012, the Company recorded losses of R\$52,634 related to the adoption of hedge accounting (Note 3), net of income tax, of which R\$16,792 refer to the hedge accounting loss incurred by subsidiary TMAR and recorded by the Company.

As a result, the effects discussed in the topic above are presented in aggregate in the relevant existing line items, referred to above, as shown below:

|   | <b>Other<br/>comprehensive<br/>income</b> | <b>Share<br/>issue costs</b> | <b>Change in<br/>equity interest<br/>percentage</b> | <b>Total</b> |
|---|---|------------------------------|---|--------------|
| <b>Balance in 2011</b>                          |   |                              |   |              |
| Share issue costs                               |   | (56,609)                     |   | (56,609)     |
| Increase due to corporate reorganization<br>(*) | 87,550                                    |                              |   | 87,550       |
| Hedge accounting gain                           | 35,842                                    |                              |   | 35,842       |
| Subsidiaries hedge accounting gain              | 16,792                                    |                              |   | 16,792       |

|                                      |                |                 |              |               |
|--------------------------------------|----------------|-----------------|--------------|---------------|
| Change in equity interest percentage |                |                 | 3,916        | 3,916         |
| <b>Balance in 2012</b>               | <b>140,184</b> | <b>(56,609)</b> | <b>3,916</b> | <b>87,491</b> |

(\*) Refers to the hedge accounting transferred to the Company as a result of the merger of Coari, on February 27, 2012, date the corporate reorganization was approved.

**(g) Basic and diluted earnings per share**

The Company's bylaws award different rights to common and preferred shareholders with respect to dividends, voting rights, and in case of liquidation of the Company. Accordingly, basic and diluted earnings per share were calculated based on net income for the year available to common and preferred shareholders.

**Basic**

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Basic earnings per share are calculated by dividing net income attributable to controlling shareholders, available to common and preferred shareholders, by the weighted average number of common and preferred shares outstanding during the year.

**Diluted**

Diluted earnings per share are calculated by adjusting the weighted average number of outstanding common and preferred shares, to estimate the dilutive effect of all convertible securities. Currently we do not have any potentially dilutive shares.

The table below shows the calculations of basic and diluted earnings per share:

|  | <b>2012</b> | <b>2011</b> | <b>2010</b> |
|--|-------------|-------------|-------------|
| Net income attributable to controlling shareholders        | 1,784,890   | 1,005,731   | 1,971,023   |
| Net income allocated to common shares basic and diluted    | 560,225     | 315,669     | 618,647     |
| Net income allocated to preferred shares basic and diluted | 1,224,665   | 690,062     | 1,352,376   |
| Weighted average number of outstanding shares              |             |             |             |
| (in thousands of shares)                                   |             |             |             |
| Common shares basic and diluted                            | 514,758     | 514,759     | 514,759     |
| Preferred shares basic and diluted                         | 1,125,273   | 1,125,277   | 1,125,277   |
| Earnings per share (in reais):                             |             |             |             |
| Common shares basic and diluted                            | 1.09        | 0.61        | 1.20        |
| Preferred shares basic and diluted                         | 1.09        | 0.61        | 1.20        |

**Retrospective adjustment**

As required by IAS 33, we have adjusted retrospectively the calculation of basic and earnings per share taking into consideration a new shareholding structure resulting from the corporate reorganization commented in Note 1.

**26. EMPLOYEE BENEFITS**

**(a) Pension funds**

The Company and its subsidiaries sponsor retirement benefit plans ( pension funds ) for their employees, provided that they elect to be part of such plan, and current beneficiaries. The table below shows the existing pension plans at December 31, 2012.

| <b>Benefit plans</b> | <b>Sponsors</b>                                      | <b>Manager</b> |
|----------------------|--|----------------|
| TCSPREV              | Oi, BrT Celular, BrT Multimídia, BrT CS, iG and BrTI | FATL           |
| BrTPREV              | Oi, BrT Celular, BrT Multimídia, BrT CS, iG and BrTI | FATL           |
| TelemarPrev          | Oi, TMAR, TNL PCS and Oi Internet                    | FATL           |
| PAMEC                | Oi   | Oi             |
| PBS-A                | TMAR and Oi  | SISTEL         |

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|             |   |        |
|-------------|---|--------|
| PBS-Telemar | TMAR                                    | FATL   |
| PBS-TNCP    | TNL PCS                                 | SISTEL |
| CELPREV     | TNL PCS                                 | SISTEL |
| Sistel      | Fundação Sistel de Seguridade Social    |        |
| FATL        | Fundação Atlântico de Seguridade Social |        |

Telemar Participações S.A., the Company's parent, is one of the sponsors of the TelemarPrev benefit plan.

For purposes of the pension plans described in this note, the Company can also be referred to as the Sponsor.

The sponsored plans are valued by independent actuaries at the end of the annual reporting period. For the year ended December 31, 2012, the actuarial valuations were performed by Mercer Human Resource Consulting Ltda. The Bylaws provide for the approval of the supplementary pension plan policy, and the joint liability attributed to the defined benefit plans is ruled by the agreements entered into with the pension fund entities, with the agreement of the National Pension Plan Authority (PREVIC), as regards the specific plans. PREVIC is the official agency that approves and oversees said plans.

The sponsored defined benefit plans are closed to new entrants because they are close-end pension funds. Participants and the sponsor's contributions are defined in the funding plan.

Actuarial liabilities are recognized for the sponsored defined benefit plans that report an actuarial deficit. For the plans that report an actuarial surplus, assets are recorded when there is an express authorization for offsetting them against future employer contributions.

**Provisions for pension funds**

Refer to the recognition of the actuarial deficit of the defined benefit plans, as shown below:

|               | <b>2012</b>    | <b>2011</b>    |
|---------------|----------------|----------------|
| BrTPREV plans | 580,340        | 620,149        |
| PAMEC plan    | 3,797          | 3,554          |
| <b>Total</b>  | <b>584,137</b> | <b>623,703</b> |

|             |         |         |
|-------------|---------|---------|
| Current     | 103,666 | 77,745  |
| Non-current | 480,471 | 545,958 |

**Assets recorded to be offset against future employer contributions**

The Company recognized TCSPREV Plan assets related to: (i) sponsor contributions which participants that left the Plan are not entitled to redeem; and (ii) part of the Plan's surplus attributed to the sponsor.

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The assets recognized are used to offset future employer contributions. These assets are broken down as follows:

|              | <b>2012</b>    | <b>2011</b>    |
|--------------|----------------|----------------|
| TCSPREV Plan | 110,425        | 112,525        |
| PBS-A plan   |                | 80,238         |
| <b>Total</b> | <b>110,425</b> | <b>192,763</b> |
| Current      | 9,311          | 50,149         |
| Non-current  | 101,114        | 142,614        |

**Features of the sponsored supplementary pension plans****1) FATL**

FATL, closed, multiple sponsor, multiple plan pension fund, is a nonprofit, private pension-related entity, with financial and administrative independence, headquartered in Rio de Janeiro, State of Rio de Janeiro, engaged in the management and administration of pension benefit plans for the employees of its sponsors.

**Plans****(i) BrTPREV**

Variable contribution pension Benefit Plan, enrolled with the CNPB (National Registry of Close-end Pension Benefit Plans) under No. 2002.0017-74.

On July 31, 2012 the Fundador/Alternativo Benefit Plan, enrolled with the CNPB under No. 1991,0015-92, was effectively merged with and into the BrTPREV Benefit Plan, approved by PREVIC Administrative Rule 378, of July 11, 2012.

Upon the effective merger (on July 31, 2012), the Participants and Beneficiaries of the Fundador/Alternativo Benefit Plan automatically become Participants and Beneficiaries of BrTPREV, maintaining the same categories they had on the day immediately before that date.

The monthly, mandatory Basic Contribution of the BrTPREV group Participants corresponds to the product obtained, in whole numbers, by applying a percentage to the Contribution Salary (SP), according to the Participant's age and option, as follows: (i) Age up to 25 years old - Basic Contribution cohort of 3 and 8 percent of the SP; (ii) Age 26 to 30 years old - Basic Contribution cohort of 4 to 8 percent of the SP; (iii) Age 31 to 35 years old - Basic Contribution cohort of 5 to 8 percent of the SP; (iv) Age 36 to 40 years old - Basic Contribution cohort of 6 to 8% of the SP; (v) Age 41 to 45 years old - Basic Contribution cohort of 7 to 8 percent of the SP; and (vi) Age 46 years old or more - Basic Contribution cohort of 8 percent of the SP.

The monthly Contribution of the Fundador/Alternativo group (merged) Participants corresponds to the sum of: (i) 3 percent charged on the Contribution Salary; (ii) 2 percent charged on the Contribution Salary that exceeds half of the highest Official Pension Scheme Contribution Salary, and (iii) 6.3 percent charged on the Contribution Salary that exceeds the highest Official Pension Scheme Contribution Salary.

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A BrTPREV group Participant's Voluntary Contribution corresponds to the product obtained, in whole numbers, by applying a percentage of up to 22 percent, elected by the Participant, to the Participation Salary. The Sporadic Contribution of a BrTPREV group Participant is optional and both its amount and frequency are freely chosen by the Participant, provided it is not lower than one (1) UPBrT (BrT's pension unit). The Sponsor does not make any counterpart contribution to the Participant's Voluntary or Sporadic Contribution.

The Plan's Charter provides for contribution parity by the Participants and the Sponsors. The plan is funded under the capitalization approach.

**(ii) PBS-Telemar**

Defined contribution pension Benefit Plan, enrolled with the CNPB under No. 2000.0015-56.

The contributions from Active Participants of the PBS-Telemar Benefit Plan correspond to the sum of: (i) 0.5 to 1.5 percent of the Contribution Salary (according to the participant's age on enrollment date); (ii) 1% of Contribution Salary that exceeds half of one Standard Unit; and (iii) 11% of the Contribution Salary that exceeds one Standard Unit. The Sponsors' contributions are equivalent to 9.5% of the payroll of active participants of the plan, of which 8% are allocated to the PBS-Telemar Benefit Plan and 1.5% to PAMA (Retirees' Healthcare Plan). The plan is funded under the capitalization approach.

**(iii) TelemarPrev**

Variable contribution pension Benefit Plan, enrolled with the CNPB under No. 2000.0065-74.

A participant's regular contribution is comprised of two portions: (i) Basic - equivalent to 2% of the Contribution Salary; and (ii) Standard - equivalent to 3% of the positive difference between the total Contribution Salary and the Social Security Contribution. The additional extraordinary contributions from participants are optional and can be made in multiples of 0.5% of the Contribution Salary, for a period of not less than six (6) months. Nonrecurring extraordinary contributions from a participant are also optional and cannot be lower than 5% of the Contribution Salary ceiling.

The Plan's Charter requires the parity between participants' and sponsors' contributions, up to the limit of 8% of the Contribution Salary, even though a sponsor is not required to match Extraordinary Contributions made by participants. The plan is funded under the capitalization approach.

**(iv) TCSPREV**

Variable contribution pension Benefit Plan, enrolled with the CNPB under No. 2000.0028-38.

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The monthly, mandatory Basic Contribution of the TCSPREV group Participants corresponds to the product obtained, in whole numbers, by applying a percentage, chosen by the Participant, to the Contribution Salary (SP) as follows: (i) Age up to 25 years old - basic contribution cohort of 3 and 8 percent of the SP; (ii) Age 26 to 30 years old - basic contribution cohort of 4 to 8 percent of the SP; (iii) Age 31 to 35 years old - basic contribution cohort of 5 to 8 percent of the SP; (iv) Age 36 to 40 years old - basic contribution cohort of 6 to 8% of the SP; (v) Age 41 to 45 years old - basic contribution cohort of 7 to 8 percent of the SP; and (vi) Age 46 years old or more - basic contribution cohort of 8 percent of the SP.

A TCSPREV group Participant's Voluntary Contribution corresponds to the product obtained, in whole numbers, by applying a percentage of up to 22 percent, elected by the Participant, to the Participation Salary. The Sporadic Contribution of a Participant is optional and both its amount and frequency are freely chosen by the Participant, provided it is not lower than one (1) UPTCS (TCSPREV's pension unit). The Sponsor does not make any counterpart contribution to the Participant's Voluntary or Sporadic contribution.

The Plan's Charter provides for contribution parity by the Participants and the Sponsors. The plan is funded under the capitalization approach.

**2) SISTEL**

Sistel is a nonprofit, private welfare and pension entity, established in November 1977, which is engaged in creating private plans to grant benefits in the form of lump sums or annuities, supplementary or similar to the government retirement pensions, to the employees and their families who are linked to the sponsors of SISTEL.

**Plans**

**(ii) PBS-A**

Defined benefit plan jointly sponsored with other sponsors associated to the provision of telecommunications services and offered to participants who held the status of beneficiaries on January 31, 2000.

Contributions to the PBS-A are contingent on the determination of an accumulated deficit. As at December 31, 2012, date of the last actuarial valuation, the plan presented a surplus.

**(iii) PBS-TNCP**

Defined benefit plan, which, in addition to the official pension supplementation benefit, grants medical care (PAMA) to retirees and their dependents, on shared-cost basis. Contributions to the PBS-TNCP and PAMA plans are set based on actuarial studies prepared by independent actuaries according to the regulations in force in Brazil. Funding is determined using the capitalization system and the contribution due by the sponsor is 5.39% of the payroll of its employees participating in the plan, of which 6.39% are used to fund the PBS-TNCP plan.

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The pension benefit is defined as the difference between 90% of average salary of the previous 36 months, adjusted for inflation up to the retirement date, and the retirement benefit paid by the INSS.

PBS-TNCP has been closed to new participants since April 2004.

**(iv) CELPREV**

In 2004, Amazônia (merged with and into TNL PCS) obtained from PREVIC the approval to create a new Pension Plan. The variable contribution plan, called CelPrev Amazônia ( CELPREV ), was offered to the employees who did not participate of the PBS-TNCP plan, and to new employees hired by its subsidiary. The participants of the PBS-TNCP plan were offered the possibility and encouraged to migrate to the CELPREV plan.

The sponsor can make four types of contributions: (i) basic regular contribution: percentage ranging from 0 to 2 percent of his/her contribution salary; (ii) additional regular contribution: percentage from 0 to 6 percent of the share of his/her contribution salary that exceeds one Standard Reference Unit of the Plan; and (iii) voluntary contribution: percentage of the contribution salary freely chosen by the participant.

The sponsor can make four types of contributions: (i) basic regular contribution: contribution equal to the participant's basic regular contribution, less the contributions made to fund sick pay and administrative expenses; (ii) additional regular contribution: equal to the participant's additional regular contribution, less administrative expense; (iii) nonrecurring contribution: made voluntarily and with the frequency set by the sponsor; and (iv) special contribution: contribution intended exclusively for the sponsor's employees who are not part of the PBS and who have joined the plan within 90 days from the effective date of CELPREV.

**3) PAMEC-BrT - Assistance plan managed by the Company**

Defined benefit plan intended to provide medical care to the retirees and survivor pensioners linked to the TCSPREV pension plan managed by FATL.

The contributions for PAMEC-BrT were fully paid in July 1998, through a bullet payment. However, as this plan is now administrated by the Company, after the transfer of management by Fundação 14 in November 2007, there are no assets recognized to cover current expenses, and the actuarial obligation is fully recognized in the Company's liabilities.

**Status of the sponsored plans, revalued at the end of the reporting period (FATL)**

The table below shows the data of the sponsored defined benefit pension plans:

|   | <b>2012</b>        |                    |                    |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | <b>BrTPREV</b>     | <b>TCSPREV</b>     | <b>PBS-Telemar</b> | <b>TelemarPrev</b> |
| <b>RECONCILIATION OF ASSETS AND LIABILITIES</b> |                    |                    |                    |                    |
| Actuarial obligations on vested benefits        | 2,222,876          | 476,262            | 265,881            | 2,641,209          |
| Actuarial obligations on unvested benefits      | 39,648             | 95,523             | 11,516             | 625,647            |
| <b>(=) Total present value of actuarial</b>     | <b>2,262,524</b>   | <b>571,785</b>     | <b>277,397</b>     | <b>3,266,856</b>   |
| <b>Fair value of plan assets</b>                | <b>(1,396,614)</b> | <b>(1,543,104)</b> | <b>(323,480)</b>   | <b>(3,526,899)</b> |

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|  |                |                  |                 |                  |
|--|----------------|------------------|-----------------|------------------|
| <b>(=) Net actuarial liability/(asset)</b>                           | <b>865,910</b> | <b>(971,319)</b> | <b>(46,083)</b> | <b>(260,043)</b> |
| Unrecognized actuarial gains (losses)                                | (285,570)      | (27,406)         |                 |                  |
| Effect of paragraph 58(b), IAS 19 ceiling                            |                | 888,300          | 46,083          | 260,043          |
| <b>(=) Net actuarial liability/(asset) recognized <sup>(1)</sup></b> | <b>580,340</b> | <b>(110,425)</b> |                 |                  |

|  | <b>2011</b>        |                    |
|--|--------------------|--------------------|
|  | <b>BrTPREV</b>     | <b>TCSPREV</b>     |
| <b>RECONCILIATION OF ASSETS AND LIABILITIES</b>                      |                    |                    |
| Actuarial obligations on vested benefits                             | 1,849,787          | 388,728            |
| Actuarial obligations on unvested benefits                           | 55,220             | 83,085             |
| <b>(=) Total present value of actuarial</b>                          | <b>1,905,007</b>   | <b>471,813</b>     |
| <b>Fair value of plan assets</b>                                     | <b>(1,213,900)</b> | <b>(1,376,344)</b> |
| <b>(=) Net actuarial liability/(asset)</b>                           | <b>691,107</b>     | <b>(904,531)</b>   |
| Unrecognized actuarial gains (losses)                                | (70,958)           | 12,057             |
| Effect of paragraph 58(b), IAS 19 ceiling                            |                    | 779,949            |
| <b>(=) Net actuarial liability/(asset) recognized <sup>(1)</sup></b> | <b>620,149</b>     | <b>(112,525)</b>   |

- <sup>(1)</sup> The Company determines the amount available to deduct from future contributions according to the applicable legal provisions and the benefit plan charter. The amount of the asset linked to the TCSPREV plan recognized in the Company's financial statements, totaling R\$110,425 (R\$112,525 in 2011), does not exceed the present value of future contributions.

|   | <b>2012</b>      |                |                    |                    |
|---|------------------|----------------|--------------------|--------------------|
|   | <b>BrTPREV</b>   | <b>TCSPREV</b> | <b>PBS-Telemar</b> | <b>TelemarPrev</b> |
| <b>CHANGES IN NET ACTUARIAL LIABILITIES/(ASSETS)</b>              |                  |                |                    |                    |
| <b>Present value of actuarial obligation at beginning of year</b> | <b>1,905,007</b> | <b>471,813</b> | <b>230,190</b>     | <b>2,621,700</b>   |
| Interest on actuarial obligations                                 | 189,272          | 47,390         | 22,951             | 262,941            |
| Cost of current service   | 2,422            | 1,751          | 182                | 11,060             |
| Participant contributions made in the year                        |                  |                | 50                 |                    |
| Benefits paid, net  | (153,389)        | (31,767)       | (16,225)           | (234,503)          |
| Actuarial (gain) or loss on actuarial obligation                  | 319,212          | 82,598         | 40,249             | 605,658            |

|   |                  |                  |                 |                  |
|---|------------------|------------------|-----------------|------------------|
| <b>Present value of actuarial obligation at yearend</b> | <b>2,262,524</b> | <b>571,785</b>   | <b>277,397</b>  | <b>3,266,856</b> |
| <b>Fair value of assets at beginning of year</b>        | <b>1,213,900</b> | <b>1,376,344</b> | <b>296,076</b>  | <b>3,205,748</b> |
| Return of plan assets                                   | 136,664          | 156,476          | 33,085          | 359,265          |
| Actuarial gain/(loss) on plan assets                    | 104,604          | 42,051           | 10,401          | 196,389          |
| Regular contributions received by plan Sponsor          |                  |                  | 143             | 93               |
| Participants  |                  |                  | 50              |                  |
| Amortizing contributions received from sponsor          | 94,835           |                  |                 |                  |
| Payment of benefits                                     | (153,389)        | (31,767)         | (16,225)        | (234,503)        |
| <b>Fair value of plan assets at yearend</b>             | <b>1,396,614</b> | <b>1,543,104</b> | <b>323,480</b>  | <b>3,526,899</b> |
| <b>(=) Net actuarial liability/(asset)</b>              | <b>865,910</b>   | <b>(971,319)</b> | <b>(46,083)</b> | <b>(260,043)</b> |
| Unrecognized actuarial gains (losses)                   | (285,570)        | (27,406)         |                 |                  |
| Effect of paragraph 58(b), IAS 19 ceiling               |                  | 888,300          | 46,083          | 260,043          |
| <b>(=) Net actuarial liability/(asset) recognized</b>   | <b>580,340</b>   | <b>(110,425)</b> |                 |                  |

|   | 2011             |                  |
|---|------------------|------------------|
|   | BrTPREV          | TCSPREV          |
| <b>CHANGES IN NET ACTUARIAL LIABILITIES/(ASSETS)</b>              |                  |                  |
| <b>Present value of actuarial obligation at beginning of year</b> | <b>1,744,324</b> | <b>420,683</b>   |
| Interest on actuarial obligations                                 | 180,365          | 43,844           |
| Cost of current service   | 1,807            | 1,161            |
| Benefits paid, net  | (155,039)        | (29,035)         |
| Actuarial (gain) or loss on actuarial obligation                  | 133,550          | 35,160           |
| <b>Present value of actuarial obligation at yearend</b>           | <b>1,905,007</b> | <b>471,813</b>   |
| <b>Fair value of assets at beginning of year</b>                  | <b>1,104,844</b> | <b>1,242,078</b> |
| Return of plan assets   | 119,414          | 134,393          |
| Actuarial gain/(loss) on plan assets                              | 53,989           | 28,908           |
| Regular contributions received by plan                            | 53               |                  |

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|   |                  |                  |
|---|------------------|------------------|
| Sponsor   |                  |                  |
| Participants  | 53               |                  |
| Amortizing contributions received from sponsor        | 90,692           |                  |
| Payment of benefits                                   | (155,092)        | (29,035)         |
| <b>Fair value of plan assets at yearend</b>           | <b>1,213,900</b> | <b>1,376,344</b> |
| <b>(=) Net actuarial liability/(asset)</b>            | <b>691,107</b>   | <b>(904,531)</b> |
| Unrecognized actuarial gains (losses)                 | (70,958)         | 12,057           |
| Effect of paragraph 58(b), IAS 19 ceiling             |                  | 779,949          |
| <b>(=) Net actuarial liability/(asset) recognized</b> | <b>620,149</b>   | <b>(112,525)</b> |

|  | <b>2012</b>    |                |                    |                    |
|--|----------------|----------------|--------------------|--------------------|
|  | <b>BrTPREV</b> | <b>TCSPREV</b> | <b>PBS-Telemar</b> | <b>TelemarPrev</b> |
| <b>EXPENSE RECOGNIZED IN INCOME STATEMENT</b>                  |                |                |                    |                    |
| Cost of current service  | 2,422          | 1,751          | 182                | 11,060             |
| Interest on actuarial obligations                              | 189,272        | 47,390         | 22,951             | 262,941            |
| Return of plan assets  | (136,664)      | (156,476)      | (33,085)           | (359,265)          |
| Amortization of actuarial (gains) losses, net                  | (3)            | 1,084          | 29,848             | 409,268            |
| Effect of paragraph 58(b), IAS 19 ceiling                      |                | 117,686        | (19,802)           | (324,004)          |
| <b>Total expense (income) recognized before the adjustment</b> | <b>55,027</b>  | <b>11,435</b>  | <b>94</b>          |                    |
| <b>Adjustments to reconcile with local accounting entries</b>  |                | <b>(9,335)</b> |                    |                    |
| <b>Total expense (income) recognized after the adjustment</b>  |                | <b>2,100</b>   |                    |                    |

|   | <b>2011</b>    |                 |
|---|----------------|-----------------|
|   | <b>BrTPREV</b> | <b>TCSPREV</b>  |
| <b>EXPENSE RECOGNIZED IN INCOME STATEMENT</b> |                |                 |
| Cost of current service                       | 1,807          | 1,161           |
| Interest on actuarial obligations             | 180,365        | 43,844          |
| Return of plan assets                         | (119,414)      | (134,393)       |
| Amortization of actuarial (gains) losses, net | (2,222)        | 6,947           |
| Effect of paragraph 58(b), IAS 19 ceiling     |                | 62,535          |
| <b>Total recognized expense (income)</b>      | <b>60,536</b>  | <b>(19,906)</b> |

The sponsor's contributions to the pension plans estimated for 2013 amount R\$103,625.

The main actuarial assumptions used in the calculations of the TelemarPREV, PBS-Telemar, BrTPREV, and TCSPREV plans were as follows:

|   | <b>2012</b>            |                        |                        |                        |
|---|------------------------|------------------------|------------------------|------------------------|
|   | <b>BrTPREV</b>         | <b>TCSPREV</b>         | <b>PBS-Telemar</b>     | <b>TelemarPrev</b>     |
| <b>MAIN ACTUARIAL ASSUMPTIONS USED</b>        |                        |                        |                        |                        |
| Nominal discount rate of actuarial obligation | 8.89%                  | 8.89%                  | 8.89%                  | 8.89%                  |
| Estimated inflation rate                      | 4.50%                  | 4.50%                  | 4.50%                  | 4.50%                  |
| Estimated nominal salary increase index       | 8.68%                  | 8.68%                  | 8.68%                  | 4.5% to 14.95%         |
| Estimated nominal benefit increase index      | 4.50%                  | 4.50%                  | 4.50%                  | 4.50%                  |
| Total expected rate of return on plan assets  | 9.52%                  | 9.52%                  | 9.52%                  | 9.52%                  |
| General mortality biometric table             | AT2000                 | AT2000                 | AT2000                 | AT2000                 |
| Biometric disability table                    | Zimmermann<br>Nichzugs | Zimmermann<br>Nichzugs | Zimmermann<br>Nichzugs | Zimmermann<br>Nichzugs |
| Biometric disabled mortality table            | Winklevoss             | Winklevoss             | Winklevoss             | Winklevoss             |
| Turnover rate                                 | 6%                     | 6%                     | Nil                    | 1.21% to 11.69%        |

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|   | <b>2011</b>  |                        |
|---|--|------------------------|
|   | <b>BrTPREV,<br/>Alternativo<br/>and<br/>Fundador</b> | <b>TCSPREV</b>         |
| <b>MAIN ACTUARIAL ASSUMPTIONS USED</b>        |  |                        |
| Nominal discount rate of actuarial obligation | 10.35%   | 10.35%                 |
| Estimated inflation rate                      | 4.50%  | 4.50%                  |
| Estimated nominal salary increase index       | 9.31%  | 9.31%                  |
| Estimated nominal benefit increase index      | 4.50%  | 4.50%                  |
| Total expected rate of return on plan assets  | 11.50%   | 11.50%                 |
| General mortality biometric table             | AT2000   | AT2000                 |
| Biometric disability table                    | Zimmermann<br>Nichzugs                               | Zimmermann<br>Nichzugs |
| Biometric disabled mortality table            | Winklevoss   | Winklevoss             |
| Turnover rate                                 | 5.5% p.a.  | 5.5% p.a.              |

**ADDITIONALDISCLOSURES 2012**

a) Plans assets and liabilities correspond to amounts as at December 31, 2012. b) Master file data used for the plans managed by FATL are as at August 31, 2012, projected for December 31, 2012.

**Status of the sponsored plans, revalued at the end of the annual reporting period (SISTEL and PAMEC)**

|   | <b>2012</b>      |              |                 |                |
|---|------------------|--------------|-----------------|----------------|
|   | <b>PBS-A</b>     | <b>PAMEC</b> | <b>PBS-TNCP</b> | <b>CELPREV</b> |
| <b>RECONCILIATION OF ASSETS AND LIABILITIES</b> |                  |              |                 |                |
| Actuarial obligations on vested benefits        | 4,269,767        | 4,877        | 26,158          |                |
| Actuarial obligations on unvested benefits      |                  |              | 2,412           | 128            |
| <b>(=) Total present value of actuarial</b>     | <b>4,269,767</b> |              | <b>28,570</b>   | <b>128</b>     |

|   |                    |              |                 |                |
|---|--------------------|--------------|-----------------|----------------|
| <b>Fair value of plan assets</b>                      | <b>6,717,801</b>   |              | <b>(53,299)</b> | <b>(1,933)</b> |
| <b>(=) Net actuarial liability/(asset)</b>            | <b>(2,448,033)</b> | <b>4,877</b> | <b>(24,729)</b> | <b>(1,805)</b> |
| Unrecognized actuarial gains/losses                   | 2,123              | (1,080)      |                 |                |
| Effect of paragraph 58(b), IAS 19 ceiling             | 2,064,029          |              | 24,729          | 1,805          |
| <b>(=) Net actuarial liability/(asset)</b>            | <b>(381,881)</b>   | <b>3,797</b> |                 |                |
| Allowance for impaired assets                         | 381,881            |              |                 |                |
| <b>(=) Net actuarial liability/(asset) recognized</b> |                    | <b>3,797</b> |                 |                |

|   | 2011               |              |
|---|--------------------|--------------|
|   | PBS-A              | PAMEC        |
| <b>RECONCILIATION OF ASSETS AND LIABILITIES</b>       |                    |              |
| Actuarial obligations on vested benefits              | 767,124            | 3,720        |
| <b>(=) Total present value of actuarial</b>           | <b>767,124</b>     | <b>3,720</b> |
| <b>Fair value of plan assets</b>                      | <b>(1,198,834)</b> |              |
| <b>(=) Net actuarial liability/(asset)</b>            | <b>(431,710)</b>   | <b>3,720</b> |
| Unrecognized actuarial gains/losses                   |                    | (166)        |
| Effect of paragraph 58(b), IAS 19 ceiling             | 351,472            |              |
| <b>(=) Net actuarial liability/(asset) recognized</b> | <b>(80,238)</b>    | <b>3,554</b> |

|   | 2012             |              |               |            |
|---|------------------|--------------|---------------|------------|
|   | PBS-A            | PAMEC        | PBS-TNCP      | CELPREV    |
| <b>CHANGES IN NET ACTUARIAL LIABILITIES/(ASSETS)</b>              |                  |              |               |            |
| <b>Present value of actuarial obligation at beginning of year</b> | <b>3,650,439</b> | <b>3,720</b> | <b>23,020</b> | <b>157</b> |
| Interest on actuarial obligations                                 | 363,013          | 378          | 2,301         | 16         |
| Cost of current service   |                  |              | 44            | 7          |
| Benefits paid, net  | (321,254)        | (135)        | (1,610)       |            |

**Table of Contents****Oi S.A. and Subsidiaries****Notes to the Consolidated Financial Statements****for the Years Ended December 31, 2012 and 2011****(Amounts in thousands of Brazilian reais, unless otherwise stated)**

|   |                    |              |                 |                |
|---|--------------------|--------------|-----------------|----------------|
| Participant contributions made in the year                  |                    |              | 37              | 4              |
| Actuarial (gain) or loss on actuarial obligation            | 567,834            | 914          | 4,778           | (56)           |
| Transfer inflow/(outflow), net                              | 9,735              |              |                 |                |
| <b>Present value of actuarial obligation at end of year</b> | <b>4,269,767</b>   | <b>4,877</b> | <b>28,570</b>   | <b>128</b>     |
| <b>Fair value of assets at beginning of year</b>            | <b>5,694,180</b>   |              | <b>40,069</b>   | <b>1,657</b>   |
| Expected return for the year                                | 718,490            |              | 4,955           | 213            |
| Actuarial gain/(loss) on plan assets                        | 611,294            |              | 9,826           | 54             |
| Regular contributions received by plan                      |                    | 135          | 59              | 9              |
| Sponsor   |                    | 135          | 22              | 5              |
| Participants  |                    |              | 37              | 4              |
| Payment of benefits   | (321,254)          | (135)        | (1,610)         |                |
| Impact of acquisitions/disposals                            | 15,091             |              |                 |                |
| <b>Fair value of plan assets at yearend</b>                 | <b>6,717,801</b>   |              | <b>53,299</b>   | <b>1,933</b>   |
| <b>(=) Net actuarial liability/(asset)</b>                  | <b>(2,448,032)</b> | <b>4,877</b> | <b>(24,729)</b> | <b>(1,805)</b> |
| Unrecognized actuarial gains/losses                         | 2,123              | (1,080)      |                 |                |
| Effect of paragraph 58(b), IAS 19 ceiling                   | 2,064,029          |              | 24,729          | 1,805          |
| <b>(=) Net actuarial liability/(asset)</b>                  | <b>(381,881)</b>   | <b>3,797</b> |                 |                |
| Allowance for impaired assets                               | 381,881            |              |                 |                |
| <b>(=) Net actuarial liability/(asset) recognized</b>       |                    | <b>3,797</b> |                 |                |

|   | 2011             |              |
|---|------------------|--------------|
|   | PBS-A            | PAMEC        |
| <b>CHANGES IN NET ACTUARIAL LIABILITIES/(ASSETS)</b>              |                  |              |
| <b>Present value of actuarial obligation at beginning of year</b> | <b>714,094</b>   | <b>3,569</b> |
| Interest on actuarial obligations                                 | 73,681           | 382          |
| Benefits paid, net  | (65,757)         | (40)         |
| Actuarial (gain) or loss on actuarial obligation                  | 45,106           | (191)        |
| <b>Present value of actuarial obligation at end of year</b>       | <b>767,124</b>   | <b>3,720</b> |
| <b>Fair value of assets at beginning of year</b>                  | <b>1,192,596</b> |              |
| Expected return for the year                                      | 134,982          |              |
| Actuarial gain/(loss) on plan assets                              | (62,987)         |              |
| Regular contributions received by plan                            |                  | 40           |
| Sponsor   |                  | 40           |
| Payment of benefits   | (65,757)         | (40)         |
| <b>Fair value of plan assets at yearend</b>                       | <b>1,198,834</b> |              |

|  |           |       |
|--|-----------|-------|
| (=) Net actuarial liability/(asset)            | (431,710) | 3,720 |
| Unrecognized actuarial gains/losses            |           | (166) |
| Effect of paragraph 58(b), IAS 19 ceiling      | 351,472   |       |
| (=) Net actuarial liability/(asset) recognized | (80,238)  | 3,554 |

|   | 2012         |            |           |          |
|---|--------------|------------|-----------|----------|
|   | PBS-A        | PAMEC      | PBS-TNCP  | CELPREV  |
| <b>EXPENSE RECOGNIZED IN INCOME STATEMENT</b> |              |            |           |          |
| Cost of current service                       |              |            | 44        | 7        |
| Interest on actuarial obligations             | 363,013      | 378        | 2,301     | 16       |
| Return (loss) on plan assets                  | (718,490)    |            | (4,955)   | (213)    |
| Amortization of actuarial (gains) losses, net | (41,335)     |            | (5,048)   | (110)    |
| Effect of paragraph 58(b), IAS 19 ceiling     | 400,045      |            | 7,680     | 305      |
| <b>Total recognized expense (income)</b>      | <b>3,233</b> | <b>378</b> | <b>22</b> | <b>5</b> |

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(Amounts in thousands of Brazilian reais, unless otherwise stated)

|  | 2011            |            |
|--|-----------------|------------|
|  | PBS-A           | PAMEC      |
| <b>EXPENSE (INCOME) RECOGNIZED IN INCOME STATEMENT</b> |                 |            |
| Interest on actuarial obligations                      | 73,681          | 382        |
| Return (loss) on plan assets                           | (134,982)       |            |
| Amortization of actuarial (gains) losses, net          | 108,092         | 211        |
| Effect of paragraph 58(b), IAS 19 ceiling              | (127,029)       |            |
| <b>Total recognized expense (income)</b>               | <b>(80,238)</b> | <b>593</b> |

The sponsor's contributions to the pension plans estimated managed by Sistel for 2013 amount R\$3.

The main actuarial assumptions used in the calculations of the PBS-A, PAMEC, PBS-TNCP and CELPREV plans were as follows:

|   | 2012                                 |                                      |                                      |                                      |
|---|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
|   | PBS-A                                | PAMEC                                | PBS-TNCP                             | CELPREV                              |
| <b>MAIN ACTUARIAL ASSUMPTIONS USED</b>        |                                      |                                      |                                      |                                      |
| Nominal discount rate of actuarial obligation | 8.89%                                | 8.89%                                | 8.89%                                | 8.89%                                |
| Estimated inflation rate                      | 4.50%                                | 4.50%                                | 4.50%                                | 4.50%                                |
| Estimated nominal salary increase index       | N.A.                                 | N.A.                                 | 8.64%                                | 6.59%                                |
| Estimated nominal benefit increase index      | 4.50%                                | N.A.                                 | 4.50%                                | 4.50%                                |
| Nominal medical costs growth rate             | N.A.                                 | 7.64%                                | N.A.                                 | N.A.                                 |
| Total expected rate of return on plan assets  | 11.00%                               | N.A.                                 | 10.87%                               | 11.00%                               |
| General mortality biometric table             | AT2000                               | AT2000                               | AT2000                               | AT2000                               |
| Biometric disability table                    | Zimmermann<br>Nichzugs<br>Winklevoss | Zimmermann<br>Nichzugs<br>Winklevoss | Zimmermann<br>Nichzugs<br>Winklevoss | Zimmermann<br>Nichzugs<br>Winklevoss |

## Biometric disabled mortality table

|                         |      |      |      |          |
|-------------------------|------|------|------|----------|
| Starting age of benefit | N.A. | N.A. | N.A. | 55 years |
| Turnover rate           | N.A. | Nil  | Nil  | Nil      |

|  | 2011                   |            |
|--|------------------------|------------|
|  | PBS-A                  | PAMEC      |
| <b>MAIN ACTUARIAL ASSUMPTIONS USED</b>                         |                        |            |
| Nominal discount rate of actuarial obligation (6% + inflation) | 10.35%                 | 10.35%     |
| Estimated inflation rate                                       | 4.50%                  | 4.50%      |
| Estimated nominal salary increase index                        | N.A.                   | N.A.       |
| Estimated nominal benefit increase index                       | 4.50%                  | N.A.       |
| Nominal medical costs growth rate                              | N.A.                   | 7.64%      |
| Total expected rate of return on plan assets                   | 11.61%                 | N.A.       |
| General mortality biometric table                              | AT2000                 | AT2000     |
| Biometric disability table                                     | Zimmermann<br>Nichzugs | N.A.       |
| Biometric disabled mortality table                             | Winklevoss             | Winklevoss |
| Turnover rate  | Nil                    | Nil        |

N.A. = Not applicable.

**ADDITIONAL DISCLOSURES 2012**

- a) Plans assets and liabilities correspond to amounts as at December 31, 2010.  
b) Master file data used for the SISTEL plans are as at July 31, 2012 and for PAMEC are as at October 31, 2011, projected for December 31, 2012.

The amounts above do not consider the assets and liabilities of the PAMA plan because it is multi-sponsored and similar to defined contribution plans (benefits paid are limited to the amount of the contributions received by the plan), and there are no other obligations in addition to the existing balances.

**Table of Contents****Oi S.A. and Subsidiaries****Notes to the Consolidated Financial Statements****for the Years Ended December 31, 2012 and 2011****(Amounts in thousands of Brazilian reais, unless otherwise stated)****Investment policy of the plans**

The investment strategy of the benefit plans is described in their investment policy, which is annually approved by the governing board of the sponsored funds. This policy establishes that investment decision-making must take into consideration: (i) the preservation of capital; (ii) the diversification of investments; (iii) the risk appetite according to conservative assumptions; (iv) the expected return rate based on actuarial requirements; (v) the compatibility of investment liquidity with the plans' cash flows, and (vi) reasonable management costs. The policy also defines the volume interval for different types of investment allowed for the pension funds, as follows: local fixed income, local variable income, loans to participants, and real estate investments. The fixed income portfolio can only include low credit risk securities. Derivatives are only allowed for hedging purposes. Loans are restricted to certain credit limits. Tactical allocation is decided by the investment committee consisting of the benefit plans' executives. Execution is undertaken by the finance department.

The average ceilings set for the different types of investment permitted for pension funds are as follows:

| <b>ASSET SEGMENT</b>   | <b>PBS-<br/>Telemar</b> | <b>Telemar<br/>Prev</b> | <b>CEL<br/>PREV</b> | <b>PBS-<br/>TNCP</b> | <b>BrTPREV</b> | <b>TCS<br/>PREV</b> | <b>PBS-A</b> |
|------------------------|-------------------------|-------------------------|---------------------|----------------------|----------------|---------------------|--------------|
| Fixed income           | 100.00%                 | 100.00%                 | 100.00%             | 100.00%              | 100.00%        | 100.00%             | 100.00%      |
| Variable income        | 70.00%                  | 70.00%                  | 70.00%              | 70.00%               | 70.00%         | 70.00%              | 70.00%       |
| Structured investments | 20.00%                  | 20.00%                  | 20.00%              | 20.00%               | 20.00%         | 20.00%              | 20.00%       |
| Investments abroad     | 10.00%                  | 10.00%                  | 10.00%              | 10.00%               | 10.00%         | 10.00%              | 10.00%       |
| Real estate            | 8.00%                   | 8.00%                   | 8.00%               | 8.00%                | 8.00%          | 8.00%               | 8.00%        |
| Loans to participants  | 15.00%                  | 15.00%                  | 15.00%              | 15.00%               | 15.00%         | 15.00%              | 15.00%       |

The allocation of plan assets as at December 31, 2012 is as follows:

| <b>ASSET SEGMENT</b>   | <b>PBS-<br/>Telemar</b> | <b>Telemar<br/>Prev</b> | <b>CEL<br/>PREV</b> | <b>PBS-<br/>TNCP</b> | <b>BrTPREV</b> | <b>TCS<br/>PREV</b> | <b>PBS-A</b> |
|------------------------|-------------------------|-------------------------|---------------------|----------------------|----------------|---------------------|--------------|
| Fixed income           | 81.00%                  | 81.00%                  | 81.79%              | 87.72%               | 81.00%         | 81.00%              | 73.83%       |
| Variable income        | 11.00%                  | 11.00%                  | 14.98%              | 11.17%               | 11.00%         | 11.00%              | 17.80%       |
| Structured investments | 6.00%                   | 6.00%                   |                     |                      | 6.00%          | 6.00%               | 0.05%        |
| Investments abroad     |                         |                         |                     |                      |                |                     |              |
| Real estate            | 1.00%                   | 1.00%                   |                     |                      | 1.00%          | 1.00%               | 7.34%        |

|                       |                |                |                |                |                |                |                |
|-----------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Loans to participants | 1.00%          | 1.00%          | 3.23%          | 1.11%          | 1.00%          | 1.00%          | 0.98%          |
| <b>Total</b>          | <b>100.00%</b> | <b>100.00%</b> | <b>100.00%</b> | <b>100.00%</b> | <b>100.00%</b> | <b>100.00%</b> | <b>100.00%</b> |

**(b) Employee profit sharing**

In the period ended December 31, 2012, the Company and its subsidiaries recognized provisions based on individual and corporate goal attainment estimates totaling R\$423,055 (R\$20,734 in 2011).

The differences between the accrued amounts and the amounts stated in the income statements refer to increases in prior years' estimates, when the benefit is effectively paid.

**(c) Share-based payment plans**

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**Oi S.A. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**for the Years Ended December 31, 2012 and 2011**

**(Amounts in thousands of Brazilian reais, unless otherwise stated)**

We had a share-based payment plan with a vesting period ending on December 31, 2011 and the related stock options were fully vested on this date.

TNL, merged by us as a result of the corporate reorganization approved on February 27, 2012, and subsidiaries TMAR and TNL PCS had a stock option program, effective in the last fiscal year, which involved TNL stock and that was terminated as prescribed by Paragraph 11.2 of the Stock Option Program Charter. Accordingly, all the stock options granted that remained unvested were canceled.

**27. SEGMENT INFORMATION**

The Company's management uses operating segment information for decision-making. The operating segments are identified according to the nature of the services and the technology used to provide the telecommunications services.

Fixed-line telephony/data: basically offers local and long distance voice transmission and data communication services;

Mobile telephony: offers primarily mobile voice, 3G data communication, and additional services, which include messaging services and interactivity; and

Other: includes the segment (i) internet service provider, whose revenue is mainly derived from Internet access services and on-line advertising, (ii) call center, whose revenue is mainly derived from third-party telemarketing services and customer service, (iii) TV, whose revenue is derived from pay TV services using both cable and DTH (Direct to home) technology, and (iv) means of payment, whose revenue is derived from accreditation and payment administration services using credit systems.

The performance of each segment is obtained in the Company's accounting records and is segregated as follows:

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|  | Mobile telephony |                  |                | All other segments (i) |                |                | Eliminations   |                  |                  |               |
|--|------------------|------------------|----------------|------------------------|----------------|----------------|----------------|------------------|------------------|---------------|
|  | 2010             | 2012             | 2011           | 2010                   | 2012           | 2011           | 2010           | 2012             | 2011             | 2010          |
|  | 8,892,546        | 10,983,334       | 2,006,083      | 1,937,384              | 1,066,416      | 606,955        | 629,096        | (4,998,004)      | (1,415,341)      | (1,195,7      |
|  | (4,014,929)      | (5,628,479)      | (1,309,000)    | (1,379,072)            | (469,312)      | (351,188)      | (323,272)      | 4,719,026        | 1,161,100        | 985,1         |
|  | (1,993,150)      | (2,243,941)      | (525,698)      | (575,441)              | (7,133)        |                |                | 3,911,423        | 648,231          | 586,6         |
|  | (582,962)        | (1,178,788)      | (232,004)      | (222,654)              | (13,582)       | (2,052)        | (1,334)        |                  |                  |               |
|  | (561,727)        | (325,580)        | (59,114)       | (54,514)               | (3,321)        | (277)          | (170)          | 126,984          |                  |               |
|  | (514,208)        | (617,804)        | (334,300)      | (327,395)              | (38,955)       | (21,968)       | (28,349)       | 678,046          | 505,803          | 398,5         |
|  |                  | (507,465)        | (23,850)       | (47,778)               |                |                |                |                  | 19               |               |
|  | (362,882)        | (754,901)        | (134,034)      | (151,290)              | (406,321)      | (326,891)      | (293,419)      | 2,573            | 7,047            |               |
|  | <b>4,877,617</b> | <b>5,354,855</b> | <b>697,083</b> | <b>558,312</b>         | <b>597,104</b> | <b>255,767</b> | <b>305,824</b> | <b>(278,978)</b> | <b>(254,241)</b> | <b>(210,5</b> |
|  | (2,396,928)      | (2,851,826)      | (648,714)      | (591,899)              | (480,719)      | (255,689)      | (297,484)      | 549,375          | 254,345          | 214,6         |
|  | (858,912)        | (2,077,912)      | (435,669)      | (402,523)              | (449,751)      | (134,719)      | (124,787)      | 628,509          | 401,826          | 361,2         |
|  | (271,062)        | (265,562)        | (64,653)       | (62,783)               | (15,520)       | (8,430)        | (17,456)       | 111              | (6)              | (2            |
|  | (716)            | (918,165)        | (11,415)       | (12,149)               | (83,741)       |                |                | 122,041          |                  |               |
|  | (290,045)        | (259,864)        | (26,506)       | (61,349)               | (58,458)       | (17,626)       | (17,112)       | 401,435          | 358,875          | 323,4         |
|  | (82,344)         | (328,271)        | (59,716)       | (43,649)               | (24,401)       | (12,359)       | (25,208)       | 59,371           | 1,304            |               |

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|                    |                  |                  |                  |                  |                  |                  |                  |                  |               |
|--------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|---------------|
| (124,562)          | (155,390)        | (234,901)        | (146,645)        | (22,126)         | (15,382)         | (13,372)         | 19,480           | 21,215           | 16,9          |
| (90,183)           | (150,660)        | (38,478)         | (75,948)         | (245,505)        | (80,922)         | (51,639)         | 26,071           | 20,438           | 21,1          |
| <b>(1,269,931)</b> | <b>(665,760)</b> | <b>(168,645)</b> | <b>(172,633)</b> | <b>(165,557)</b> | <b>(101,352)</b> | <b>(162,623)</b> | <b>8,814</b>     | <b>18,517</b>    | <b>66,2</b>   |
| <b>(268,085)</b>   | <b>(108,154)</b> | <b>(44,400)</b>  | <b>(16,743)</b>  | <b>134,589</b>   | <b>(19,618)</b>  | <b>(10,074)</b>  | <b>(87,948)</b>  | <b>(165,998)</b> | <b>(212,8</b> |
| 515,878            | 316,848          | 45,915           | 89,402           | 215,401          | 13,149           | 43,631           | (140,531)        | (99,091)         | (124,9        |
| (783,963)          | (425,002)        | (90,315)         | (106,145)        | (80,812)         | (32,767)         | (53,705)         | 52,583           | (66,907)         | (87,8         |
| <b>2,480,689</b>   | <b>2,503,029</b> | <b>48,369</b>    | <b>(33,587)</b>  | <b>116,385</b>   | <b>78</b>        | <b>8,340</b>     | <b>270,397</b>   | <b>104</b>       | <b>4,0</b>    |
| <b>(108,946)</b>   | <b>686,718</b>   | <b>466,594</b>   | <b>17,360</b>    | <b>(393)</b>     | <b>16,114</b>    | <b>15,419</b>    | <b>(270,397)</b> | <b>(104)</b>     | <b>(4,0</b>   |
| 843,669            | 841,838          | 665,847          | 180,495          | 55,651           | 20,559           | 20,055           | (750,362)        | (208,513)        | (64,7         |
| (952,615)          | (155,120)        | (199,253)        | (163,135)        | (56,044)         | (4,445)          | (4,636)          | 479,965          | 208,409          | 60,6          |
| <b>2,371,743</b>   | <b>3,189,747</b> | <b>514,963</b>   | <b>(16,227)</b>  | <b>115,992</b>   | <b>16,192</b>    | <b>23,759</b>    |                  |                  |               |
| (418,691)          | (942,457)        | (108,097)        | 18,637           | (67,012)         | (16,385)         | (8,361)          |                  |                  |               |
| <b>1,953,052</b>   | <b>2,247,290</b> | <b>406,866</b>   | <b>2,410</b>     | <b>48,980</b>    | <b>(193)</b>     | <b>15398</b>     |                  |                  |               |

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|           |           |           |           |         |         |         |
|-----------|-----------|-----------|-----------|---------|---------|---------|
| 8,469,721 | 7,126,238 | 1,469,069 | 1,437,478 | 679,894 | 263,259 | 310,238 |
|           | 579,421   | 10,719    | 45,855    |         |         |         |

|                  |                  |                  |                  |                |                |                |
|------------------|------------------|------------------|------------------|----------------|----------------|----------------|
| <b>8,469,721</b> | <b>7,705,659</b> | <b>1,479,788</b> | <b>1,483,333</b> | <b>679,894</b> | <b>263,259</b> | <b>310,238</b> |
|------------------|------------------|------------------|------------------|----------------|----------------|----------------|

|                  |                   |                  |                  |                  |                |                |
|------------------|-------------------|------------------|------------------|------------------|----------------|----------------|
| 422,825          | 3,277,675         | 526,295          | 454,051          | 386,522          | 343,696        | 318,858        |
| <b>8,892,546</b> | <b>10,983,334</b> | <b>2,006,083</b> | <b>1,937,384</b> | <b>1,066,416</b> | <b>606,955</b> | <b>629,096</b> |

|         |           |         |         |        |        |        |
|---------|-----------|---------|---------|--------|--------|--------|
| 775,545 | 1,271,530 | 257,697 | 264,219 | 57,210 | 18,513 | 16,976 |
|---------|-----------|---------|---------|--------|--------|--------|

|         |           |         |         |         |        |        |
|---------|-----------|---------|---------|---------|--------|--------|
| 751,566 | 2,593,483 | 166,678 | 150,607 | 113,807 | 12,371 | 85,486 |
|---------|-----------|---------|---------|---------|--------|--------|

| <b>2010</b> | <b>2012</b> | <b>2011</b> | <b>2010</b> | <b>2012</b> | <b>2011</b> | <b>2010</b> | <b>2012</b>  | <b>2011</b> | <b>2010</b> |
|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|
| 22,329,731  | 23,571,370  | 8,925,657   | 4,988,303   | 2,765,578   | 637,754     | 633,486     | (50,913,884) | (2,651,097) | (1,065,4    |

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- (i) Even though the Company's executive committee does not assess the internet, TV, and means of payment segments separately, the table below shows, the main data on these segments:

|                                 | <b>Internet</b> |             | <b>Pay TV</b> |             | <b>Means of payment</b> |             |
|---------------------------------|-----------------|-------------|---------------|-------------|-------------------------|-------------|
|                                 | <b>2012</b>     | <b>2011</b> | <b>2012</b>   | <b>2011</b> | <b>2012</b>             | <b>2011</b> |
| Revenue from external customers | 359,628         | 252,250     | 323,074       |             | 3,552                   |             |
| Interest income                 | 25,514          | 13,153      | 1,120         |             | 17,059                  |             |
| Interest expenses               | (7,374)         | (4,165)     | (990)         |             | (10,801)                |             |
| Depreciation and amortization   | (21,100)        | (18,513)    | (20,054)      |             | (16,055)                |             |
| Net income (loss) for the year  | 80,597          | 1,887       | (111,327)     |             | (83,061)                |             |
|                                 | <b>2012</b>     | <b>2011</b> | <b>2012</b>   | <b>2011</b> | <b>2012</b>             | <b>2011</b> |
| Assets                          | 965,070         | 487,329     | 853,202       |             | 77,820                  |             |

The table below shows the revenue components by product line.

|                    | <b>2012</b>       | <b>2011</b>      |
|--------------------|-------------------|------------------|
| Residential        | 8,940,830         | 3,763,824        |
| Personal mobility  | 8,016,200         | 1,615,418        |
| Business/Corporate | 7,695,184         | 3,369,954        |
| Other services     | 517,016           | 496,059          |
| <b>Total</b>       | <b>25,169,230</b> | <b>9,245,255</b> |

In reporting based on geographic segments, the segment's revenue is based on the locations of the country where the services are provided. The segment's non-current assets are based on the location of the assets.

In view of their immateriality, revenue and non-current assets of operations in foreign countries are being jointly disclosed.

| <b>Geographical information</b> | <b>Revenue from external customers</b> |             | <b>Non-current assets (*)</b> |             |
|---------------------------------|--|-------------|-------------------------------|-------------|
|                                 | <b>2012</b>                            | <b>2011</b> | <b>2012</b>                   | <b>2011</b> |

|                      |                   |                  |                   |                   |
|----------------------|-------------------|------------------|-------------------|-------------------|
| In the host country  | 25,090,945        | 9,181,673        | 34,850,577        | 11,914,048        |
| In foreign countries | 78,285            | 63,582           | 3,451,120         | 148,465           |
| <b>Total</b>         | <b>25,169,230</b> | <b>9,245,255</b> | <b>38,301,697</b> | <b>12,062,513</b> |

(\*)Except for financial instruments, assets related to pension funds and deferred taxes, as required by Operating Segments.

## **28. RELATED-PARTY TRANSACTIONS**

### **Consolidated related-party transactions**

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|                                       | 2012          | 2011             |                |
|---------------------------------------|---------------|------------------|----------------|
| <b>Assets</b>                         |               |                  |                |
| <b>Trade receivables</b>              |               | <b>51,617</b>    |                |
| TMAR                                  |               | 25,722           |                |
| Oi Internet                           |               | 17,207           |                |
| TNL PCS                               |               | 8,688            |                |
| <b>Debentures</b>                     |               | <b>2,217,682</b> |                |
| TMAR                                  |               | 2,217,682        |                |
|                                       | 2012          | 2011             |                |
| <b>Liabilities</b>                    |               |                  |                |
| <b>Trade payables</b>                 |               | <b>51,785</b>    |                |
| TMAR                                  |               | 24,123           |                |
| TNL PCS                               |               | 14,919           |                |
| Oi Internet                           |               | 7,383            |                |
| Pointer Networks                      |               | 5,360            |                |
| <b>Dividends payable</b>              |               | <b>123,913</b>   |                |
| Coari                                 |               | 123,913          |                |
| <b>Other payables</b>                 |               | <b>747,171</b>   |                |
| Coari                                 |               | 740,221          |                |
| TMAR                                  |               | 1,010            |                |
| TNL                                   |               | 5,940            |                |
|                                       | 2012          | 2011             | 2010           |
| <b>Revenue</b>                        |               |                  |                |
| <b>Revenue from services provided</b> | <b>52,671</b> | <b>335,933</b>   | <b>449,069</b> |
| TMAR                                  | 47,333        | 273,858          | 350,376        |
| Oi Internet                           | 1,620         | 21,437           |                |
| TNL PCS                               | 3,718         | 40,638           | 98,693         |
| <b>Financial income</b>               | <b>48,233</b> | <b>306,548</b>   | <b>236,385</b> |
| TMAR                                  | 48,233        | 306,548          | 236,385        |
|                                       | 2012          | 2011             | 2010           |

|                                     |                 |                  |                  |
|-------------------------------------|-----------------|------------------|------------------|
| <b>Operating costs and expenses</b> | <b>(58,163)</b> | <b>(301,903)</b> | <b>(164,041)</b> |
| TMAR                                | (15,018)        | (92,773)         | (31,384)         |
| TNL PCS                             | (37,090)        | (201,101)        | (132,857)        |
| Pointer Networks                    | (808)           | (251)            |                  |
| Paggo Administradora                | (623)           |                  |                  |
| Oi Internet                         | (4,624)         | (7,778)          |                  |
| <b>Financial expenses</b>           |                 | <b>(43,819)</b>  | <b>(3)</b>       |
| TNL                                 |                 | (40,930)         |                  |
| TMAR                                |                 | (2,889)          | (3)              |

**Private debentures payable**

Due to the corporate reorganization approved at the Extraordinary Shareholders Meeting held on February 27, 2012, the debentures issued by TMAR on December 9, 2008 and March 15, 2011, in the amounts of R\$1,500,000 and R\$2,500,000, respectively, subscribed by TNL PCS, were merged by the Company. The final maturities of the debentures were December 11, 2013 and March 15, 2016, without interim amortizations, and pay interest equivalent to the CDI + 4.0% per year and 115% of CDI, respectively.

The Company also merged the debenture issued by TMAR, on November 10, 2010, subscribed by Copart 4, amounting to R\$999,295, with final maturity on June 10, 2022. Interest will be paid payable semiannually on May 10 and November 10 of each year, starting May 10, 2011 until May 10, 2022, with final payment on this issuance's maturity date, June 10, 2022. In June 2012 the Company amortized in advance R\$128,386.

**Table of Contents****Oi S.A. and Subsidiaries****Notes to the Consolidated Financial Statements****for the Years Ended December 31, 2012 and 2011****(Amounts in thousands of Brazilian reais, unless otherwise stated)****Lease of transmission infrastructure**

The transactions conducted with TMAR, TNL PCS and BrT Celular refer to the provision of services and the assignment of means involving mainly interconnection and Industrial Exploration of Dedicated Line (EILD).

The transactions conducted with Oi Internet, subsidiary of TMAR, refer to the provision of dial port rental services.

**Guarantees**

As a result of the corporate reorganization, the financing facilities extended by BNDES, the public debentures and the other loans started to be guaranteed by Oi. The Company recorded for the year ended December 31, 2012, as commission on TNL's guarantees, expenses amounting to R\$43,172 (R\$37,744 in 2011). Additionally, TMAR provided guarantees on the CRI transaction at the cost of 0.5% of the outstanding balance per year. Related expenses for the year ended December 31, 2012 totaled R\$492 (R\$550 in 2011).

**Unconsolidated related-party transactions**

|                          | <b>2012</b>   | <b>2011</b>  |
|--------------------------|---------------|--------------|
| <b>Assets</b>            |               |              |
| <b>Trade receivables</b> | <b>11,526</b> | <b>2,126</b> |
| Portugal Telecom         | 4,248         | 2,126        |
| Unitel                   | 2,278         |              |
| Contax                   | 4,930         |              |
| PT Inovação              | 70            |              |
|                          | <b>2012</b>   | <b>2011</b>  |
| <b>Liabilities</b>       |               |              |
| <b>Trade payables</b>    | <b>48,214</b> | <b>5,867</b> |
| Portugal Telecom         | 1,084         | 126          |
| Contax                   | 25,179        | 5,741        |
| <b>TUDO</b>              | <b>16,957</b> |              |
| Ability                  | 400           |              |
| PT Inovação              | 4,523         |              |

|  |                |
|--|----------------|
| Veotex   | 71             |
| <b>Dividends payable</b>                                 | <b>203,298</b> |
| Telemar Participações S.A.                               | 67,948         |
| Bratel Brasil S.A.                                       | 69,391         |
| AG Telecom Participações S.A.                            | 20,274         |
| LF Tel. S.A.   | 20,276         |
| Caixa de Previdência dos Funcionários do Banco do Brasil | 16,038         |
| BNDES Participações S.A. BNDESPAR                        | 7,120          |
| Fundação dos Economiários Federais FUNCEF                | 1,870          |
| Fundação Petrobras de Seguridade Social PETROS           | 381            |

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|                                       | <b>2012</b>   | <b>2011</b>  | <b>2010</b> |
|---------------------------------------|---------------|--------------|-------------|
| <b>Revenue</b>                        |               |              |             |
| <b>Revenue from services provided</b> | <b>48,475</b> | <b>1,400</b> |             |
| Portugal Telecom                      | 9,705         | 1,400        |             |
| Unitel                                | 1,085         |              |             |
| Contax                                | 34,296        |              |             |
| TODO                                  | 1,319         |              |             |
| Ability                               | 2,070         |              |             |

|                                     | <b>2012</b>      | <b>2011</b>  | <b>2010</b> |
|-------------------------------------|------------------|--------------|-------------|
| <b>Costs/expenses</b>               |                  |              |             |
| <b>Operating costs and expenses</b> | <b>(119,960)</b> | <b>(140)</b> |             |
| Portugal Telecom                    | (2,949)          | (140)        |             |
| PT Inovação                         | (4,758)          |              |             |
| PT Sistemas de Informação           | (513)            |              |             |
| Veotex                              | (7,110)          |              |             |
| TODO                                | (59,140)         |              |             |
| Ability                             | (45,490)         |              |             |

**Services provided by Contax**

The Company and subsidiaries TMAR, BrT Celular and TNL PCS engaged *call center* and collection services from Contax, which is controlled by the controlling shareholders of TmarPart. Contax provides customer services to fixed-line telephony customers, outbound telemarketing services to capture new mobile telephony customers, support to prepaid and subscription mobile telephony customers, technical support to Velox subscribers (ADSL), and collection services. Total costs of services provided by Contax for the year ended December 31, 2012 were R\$1,279,551 (R\$103,095 in 2011).

**Financing agreements with the BNDES**

The Company entered into financing agreements with BNDES, controlling shareholder of BNDESPAR, which holds 13.05% (13.05% in 2011) of the voting capital of TmarPart, holding company of the Group and, therefore, a Company related party.

The balance due related to BNDES financing, at December 31, 2012, was R\$6,367 million (R\$2,229 million in 2011) and related financial expenses totaling R\$451 million (R\$154 million in 2011), were recognized.

**Compensation of key management personnel**

The compensation of the officers responsible for planning, managing and controlling the Company's activities, including the compensation of the directors and executive officers, is as follows:

|  | <b>2012</b>   | <b>2011</b>  | <b>2010</b>  |
|--|---------------|--------------|--------------|
| Salaries and other short-term benefits | 17,205        | 3,510        | 2,589        |
| Share-based compensation               |               | 1,411        | 1,978        |
| <b>Total</b>                           | <b>17,205</b> | <b>4,921</b> | <b>4,567</b> |

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During the concession period, the concessionary has the obligation of maintaining the following insurance coverage, over the prescribed terms: all risks policy that covers property damages to all insurable assets belonging to the concession, insurance against economic losses to insure the continuity of services, and insurance guaranteeing payment of obligations related to the quality and universal services, as provided for by the Concession Agreements. All material and/or high-risk assets and liabilities in are insured. The Company and its subsidiaries maintain insurance coverage against property damages, loss of revenue arising from such damages (loss of profits), etc. Management understands that the amount insured is sufficient to assure the integrity of assets and the continuity of operations, and the compliance with the rules set out in the Concession Agreements.

The insurance policies provide the following coverage, per risk and type of asset:

|                                       | <b>2012</b> | <b>2011</b> |
|---------------------------------------|-------------|-------------|
| <b>Insurance line</b>                 |             |             |
| Operational risks and loss of profits | 500,000     | 800,000     |
| Civil liability - third parties (*)   | 163,480     | 150,064     |
| Fire inventories                      | 100,000     | 100,000     |
| Concession warranty - TMAR            | 75,227      |             |
| Concession warranty - Oi              | 28,616      | 40,443      |
| Theft - inventories                   | 20,000      | 20,000      |
| Civil liability - general             | 20,000      | 15,000      |
| Civil liability - vehicles            | 3,000       | 3,000       |

(\*) Based on the foreign exchange rate prevailing at December 31, 2012 (ptax): US\$1.00=R\$2.0435

**30. OTHER INFORMATION****(a) Shareholder compensation policy**

On April 16, 2012, the Company's Board of Directors approved a Shareholder Compensation Policy for the period 2012-2015 (concerning fiscal years 2011-2014).

The approved Compensation Policy consists of the payment of a total of R\$8,000,000,000.00, according to the following calendar: (i) R\$2,000,000,000.00 to be declared at the Annual Shareholders Meeting that reviews the financial statements for the year ended December 31, 2011, (ii) R\$1,000,000,000.00 in August 2012, R\$1,000,000,000.00 in August 2013 and R\$1,000,000,000.00 in August 2014; and (iii) R\$1,000,000,000.00 at the Annual Shareholders Meeting that reviews the financial statements for the years ended December 31, 2012, 2013 and 2014, in addition to the dividends paid in August of each year as described in topic (ii).

The Compensation Policy will be subject to the market conditions, the financial stability of the Company and the relevant legal/regulatory environment. The Policy can be implemented through the distribution of dividends, the payment of interest on capital, capital bonuses, redemptions, reduction or any other forms that permit the distribution of funds to shareholders, within, in each year, a maximum leverage corresponding to 3.0 x ratio net debt (including dividends payable in the year)-to-EBITDA (for the year prior to the payment of compensation).

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**(b) Revision of the STFC Concession Agreements**

On June 30, 2011, the Company with ANATEL and the Ministry of Communications entered into revisions of the STFC concession agreements and the Commitment Term Sheet to ensure the attainment of the objectives set out in Decree 7175/2010 (National Broadband Plan (PNBL)).

One of the main changes introduced by the revisions of STFC concession agreements is the end of the restriction that prevented associates of telecommunications service concessionaries to provide pay TV services.

The revision also complies with the new version of the General Universal Service Targets Plan (PGMU III), which is one of the appendices to said concession agreements. Under this new version, the Company agrees to install payphones (TUPs) in rural areas (schools, health clinics, and other locations), offering individual access to rural populations, and special individual class access (AICE) to lower-income subscribers enrolled on the Single Register for Federal Government Social Programs.

The Presidential Decree that enacts the new PGMU III establishes that the technical feasibility of the prescribed obligations must be ensured and limits the installation of TUPs in rural areas to the balance resulting from the waiver of installing urban TUPs, in line with the provision of the General Telecommunications Law and the concession agreements in effect.

The TUP density target in urban areas was reduced from six to four for every 1,000 inhabitants and is immediately effective. Rural area TUP and rural individual access targets are all on demand and will only start to be met after a network coverage using a radio communication system operating in 451 MHz to 458 MHz and 461 MHz to 468 MHz radiofrequency sub-bands is in place, to be built by the winner of the bidding process that will be held on a date not yet set.

Concurrently with the execution of the amendment to the concession agreements and the enactment of the new PGMU, the Company voluntarily entered into a Commitment Term Sheet with the Ministry of Communications and ANATEL, joining the PNBL. Under this Commitment Term Sheet, the Oi Group companies agree to offer low-cost broadband services ( Retail Offering ) and a Wholesale Offering , both aimed at meeting the Federal Government's objectives of expanding and disseminating broadband use in Brazil.

**(c) Increase of Switched Fixed-line Telephone Services Tariff**

On December 21, 2011, ANATEL approved the increase of STFC tariffs. These increases, effective beginning December 24, 2011, are 1.97% for local (subscription and traffic) and TU-RL interconnection services, and 1.63% for

the payphone rate.

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**31. SUBSEQUENT EVENTS**

**Change of CEO**

On January 22, 2013, the Company's Board of Directors approved the appointment of Mr. José Mauro Mettrau Carneiro da Cunha as CEO of the Company and its subsidiaries, replacing Mr. Francisco Tosta Valim Filho. Mr. José Mauro Mettrau Carneiro da Cunha resigned as Chairman of the Company's Board and his alternate, Mr. José Augusto da Gama Figueira, was appointed as Chairman.

**Corporate Reorganization**

On January 31, 2013, as a sequence to the Corporate Reorganization, the Board of Directors authorized the Company to increase the capital of its wholly-owned subsidiary TMAR by R\$30,324, through the transfer of investments, other assets, intercompany debentures.

The purposes of this reorganization are to streamline the corporate structure, reduce intragroup debt, and obtain operating synergy gains.

**Increase of Switched Fixed-line Telephone Services Tariff**

The STFC tariff adjustment authorized by the ANATEL for Company and its subsidiary TMAR is effective beginning February 8, 2013. A 0.55% adjustment to the local and domestic long-distance service tariffs was authorized and the local interconnection (TU-RL) tariffs will be adjusted by 10.4% beginning February 7, 2013.

**Non-convertible debentures**

In March 2013, the Company issued non-convertible debentures in the aggregate principal amount of R\$1,500 million. These debentures bear interest at the CDI rate plus 0.75% per annum, which will be payable annually through maturity in March 2019. The principal amount of these debentures will be payable at maturity.

**Credit facilities**

In February 2013, Export Development Canada disbursed US\$90 million under an export credit facility entered into with Telemar under which Export Development Canada agreed to disburse loans in the aggregate principal amount of up to US\$200 million. Loans under this facility will bear interest at the rate of 2.25%, payable semi-annually in arrears through maturity. The principal amount of these loans will be payable in semi-annual installments commencing in May 2014.

In March 2013, the Company entered into an export credit facility agreement with the Office National Du Ducroire/Nationale Delcrederedienst, or ONDD, the Belgium national export credit agency, under which ONDD agreed to disburse loans in two tranches in the aggregate principal amount of US\$257 million. Loans under this export credit facility will bear interest at a rate of six-month LIBOR plus 1.50% per annum. As of the date of this annual report, no disbursements have been made under this export credit facility.

#### **Assigning of the right of commercial operation of towers**

On April 11 and 19, 2013, the company and its subsidiary TMAR entered into agreements to assign the right to use some towers of our infrastructure for commercial operations by companies whose core operations consist of providing transmission tower and radiofrequency management and maintenance services, for the aggregate amount of approximately R\$1.09 billion. The completion of this transaction is subject to fulfillment of certain conditions precedent.

#### **Dividends receivable**

On April 19, 2013, the Portugal Telecom's Annual Shareholders Meeting approved the distribution of profits for the year equivalent to 0.325 per share, to be paid to shareholders on May 17, 2013. TMAR, as holder of PT shares, will receive dividends amounting to 29,137, which on the date of the disclosure made by PT, correspond to R\$76,478.