OI S.A.
Form 20-F/A
November 29, 2013
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As filed with the Securities and Exchange Commission on November 29, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F/A

(Amendment No. 1)

¨ **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**

Commission file number: 001-15256

OI S.A.

(Exact Name of Registrant as Specified in Its Charter)

N/A	**The Federative Republic of Brazil**
(Translation of Registrant s Name into English)	**(Jurisdiction of Incorporation or Organization)**

Rua do Lavradio, No. 71, 2nd floor Centro

20230-070 Rio de Janeiro, RJ, Brazil

(Address of Principal Executive Offices)

Bayard De Paoli Gontijo

Investor Relations Officer

Rua Humberto de Campos, 425

8º andar

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

Tel: +55 21 3131-2918

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:

Title of Each Class	**Name of Each Exchange on which Registered**
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 x 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 x

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 x 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 x	Accelerated filer ¨	Non-acceleratedfiler ¨

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 x

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 x 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 x

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EXPLANATORY NOTE

This Amendment No. 1 to our annual report on Form 20-F for the fiscal year ended December 31, 2012, which was originally filed with the U.S. Securities and Exchange Commission on April 30, 2013 (our Original 2012 20-F), is being filed solely for the purpose of amending our Original 2012 20-F to reflect the re-characterization of our previously filed financial statements as having been prepared in accordance with accounting practices adopted in Brazil, or Brazilian GAAP, and to include as additional note disclosure in these financial statements a reconciliation of these financial statements to U.S. GAAP in compliance with Item 18 of Form 20-F.

This Amendment No. 1 has not been updated except as required to reflect the revisions stated above. This Amendment No. 1 only amends and restates the Items described below as required to reflect the revisions described above and does not reflect events that have occurred after the April 30, 2013 filing date of our Original Form 20-F (other than the inclusion of subsequent events in note 31 to the financial statements included in Part III), or modify or update other disclosures presented therein.

This Amendment No. 1 amends and restates the following Items:

- Presentation of Financial and Other Information Financial Statements
- Presentation of Financial and Other Information Corporate Reorganization
- Part I Item 3. Key Information Selected Financial Information
- Part I Item 4. Information on the Company Our History and Development Corporate Reorganization of TNL, Telemar and Our Company
- Part I Item 5. Operating and Financial Review and Prospects Corporate Reorganization
- Part I Item 5. Operating and Financial Review and Prospects Financial Presentation and Accounting Policies
- Part I Item 5. Operating and Financial Review and Prospects Results of Operations (first two paragraphs)
- Part I Item 5. Operating and Financial Review and Prospects U.S. GAAP Reconciliation
- Part III Item 19(b). List of Exhibits

Part III Financial Statements and Reports thereon

While the above Items have been reproduced in full as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, no changes have been made to such Items, except to reflect the corrections stated above, or to any other Items.

In addition, this Amendment No. 1 includes currently dated certifications by the Chief Executive Officer and the Chief Financial Officer pursuant to 17 CFR 240. 15D-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, that are attached to this Amendment No. 1 as Exhibits 12.01 and 12.02 and 13.01.

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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*. Our consolidated financial statements as of December 31, 2012 and 2011 and for the three years ended December 31, 2012 are included in this annual report.

We prepare our consolidated financial statements in accordance with accounting practices adopted in Brazil, or Brazilian GAAP, which are 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, and the Brazilian Federal Accounting Council (*Conselho Federal de Contabilidade*); and

- the accounting standards issued by the Brazilian Accounting Pronouncements Committee (*Comitê de Pronunciamentos Contábeis*), or the CPC.

Brazilian GAAP differs in certain important respects from accounting principles generally accepted in the United States, or U.S. GAAP. For a discussion of certain differences relating to our financial statements, see note 32 to our audited consolidated financial statements included in this annual report.

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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. 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 consolidat 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.

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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 following selected financial data have been derived from our consolidated financial statements. The selected financial data as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010 have been derived from our audited consolidated financial statements included in this annual report. The selected financial data as of December 31, 2010, 2009 and 2008 and for the years ended December 31, 2009 and 2008 have been derived from our consolidated financial statements that are not included in this annual report. We have not restated our financial statements as of and for the year ended December 31, 2008 to conform to the changes in accounting policy required by the CPC, because we cannot provide this information without unreasonable effort and expense and, therefore, we have not included the selected financial data in Brazilian GAAP as of and for the year ended December 31, 2008.

Our consolidated financial statements are prepared in accordance with Brazilian GAAP, which differs in certain important respects from U.S. GAAP. For a discussion of certain differences relating to our financial statements, see note 32 to our audited consolidated financial statements included in this annual report. Under U.S. GAAP, our financial information has been retrospectively adjusted to reflect the effect of the Corporate Reorganization for all periods during which we, TNL, Telemar and Coari were under common control, which for these purposes was January 1, 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.

	At and For the Year Ended December 31,				
	2012(1)	2012	2011	2010	2009

	(in millions of US$, except per share amounts)	(in millions of *reais*, except per share amounts and as otherwise indicated)			
Brazilian GAAP:					
Income Statement Data:					
Net operating revenue	US$ 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)
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 US$, except per share amounts)	(in millions of *reais*, except per share amounts and as otherwise indicated)			
Net income (loss) attributable to non-controlling shareholders					2
Net income (loss) applicable to each class of shares:					
Common shares	274	560	316	619	(1,021)
Preferred shares	599	1,225	690	1,352	
Net income (loss) per 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 basic	0.53	1.09	0.61	1.20	
Preferred shares and ADSs diluted	0.53	1.09	0.61	1.20	
Weighted average shares 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

(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 CPC 41, 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.

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	At and For the Year Ended December 31,					
	2012(1)	2012	2011	2010	2009(4)	2008
	(in millions of US$, except per share amounts)	(in millions of *reais*, except per share amounts and as otherwise indicated)				
Income Statement Data:						
***U.S. GAAP*:**						
Net operating revenue	US$ 13,768	R$ 28,141	R$ 27,907	R$ 29,479	R$ 29,861	R$ 11,582
Cost of goods sold and services rendered	(7,742)	(15,825)	(16,180)	(16,576)	(18,371)	(6,169)
Gross profit	6,025	12,316	11,727	12,903	11,490	5,413
Operating expenses	(4,197)	8,579	9,016	8,611	3,691	(3,371)
Operating income before interest expense, net	1,828	3,737	2,712	4,292	7,799	2,042
Interest expense, net	(1,280)	(2,617)	(3,471)	(2,440)	(2,385)	(333)
Income (loss) from continuing operations before tax	548	1,120	(759)	1,852	5,414	1,709
Income tax and social contribution tax expense	(124)	(254)	202	20	(548)	(621)
Net income (loss)	424	866	(557)	1,872	4,866	1,088
Net income (loss) attributable to controlling shareholders (2)	420	859	(296)	1,492	3,933	(43)
Net income (loss) attributable to non-controlling shareholders (2)	3	7	(261)	381	933	1,132
Other comprehensive income (loss)	(156)	(319)	(133)	(62)	252	(29)
Comprehensive income (loss)	268	547	(690)	1,810	5,118	1,059
Net income (loss) applicable to each class of shares (3):						
Common shares basic	142	289	(296)	613	1,617	R$ (43)
Common shares diluted	142	289	(296)	620	1,637	(43)
Preferred shares and ADSs basic	279	570		878	2,316	

Preferred shares and ADSs diluted	279	570		872	2,296	
Net income (loss) per share:						
Common shares basic	0.28	0.57	(0.65)	1.79	4.72	(0.21)
Common shares diluted	0.28	0.57	(0.65)	1.76	4.63	(0.21)
Preferred shares and ADSs basic	0.28	0.57		1.79	4.72	
Preferred shares and ADSs diluted	0.28	0.57		1.76	4.63	
Weighted average shares outstanding (in thousands):						
Common shares basic	504,990	504,990	456,149	342,917	342,837	203,423
Common shares diluted	504,990	504,990	465,598	352,283	353,341	203,423
Preferred shares and ADSs basic	994,880	994,880	536,927	491,199	490,860	386,051
Preferred shares and ADSs diluted	994,880	994,880	540,924	495,194	495,601	386,053

(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) We adopted the provisions of FASB ASC 810-10-65-1, related to non-controlling interest, as of January 1, 2009 and retrospectively adjusted the presentation for the year ended December 31, 2008.

(3) In accordance with ASC 260, basic and diluted earnings per share have been calculated, for U.S. GAAP purposes, using the two class method. See note 32 to our audited consolidated financial statements which are included in this annual report.

(4) As mentioned above, the financial information under U.S. GAAP for 2009 has been restated to reflect the retrospective treatment of the Corporate Reorganization, which consisted of combining our financial statements with those of TNL, TMAR, and Coari.

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	At and For the Year Ended December 31,				
	2012(1)	**2012**	**2011**	**2010**	**2009**
	(in millions of US$, except per share amounts)	**(in millions of *reais*, except per share amounts and as otherwise indicated)**			
Balance Sheet Data:					
Brazilian GAAP:					
Cash and cash equivalents	US$ 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, 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 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 financing (including current portion of 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 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.

	At and For the Year Ended December 31,					
	2012(1)	**2012**	**2011**	**2010**	**2009(3)**	**2008**
	(in millions of US$, except per share amounts)	**(in millions of *reais*, except per share amounts and as otherwise indicated)**			**(Restated)**	
Balance Sheet Data:						
U.S. GAAP:						
Cash and cash equivalents	US$ 2,160	R$ 4,413	R$ 11,025	R$ 9,052	R$ 6,206	R$ 2,761
Short-term investments	1,187	2,426	2,299	2,148	1,819	776
Property, plant and equipment, net	12,055	24,640	23,165	23,257	25,282	6,026
Intangible assets	7,763	15,869	16,329	17,197	18,431	3,855
Total assets	38,477	78,647	81,382	76,365	71,270	21,860
Short-term loans, financing and debentures (including	1,523	3,114	4,600	7,144	8,552	1,627

current portion of long-term debt)						
Long-term loans, financing and debentures	14,791	30,232	25,169	21,991	21,366	3,993
Total Liabilities	28,482	58,218	56,162	55,387	50,215	12,437
Shareholders equity	9,994	20,428	25,219	20,978	21,054	9,422
Shareholders equity attributable to controlling shareholders (2)	9,994	20,428	13,826	11,793	11,886	1,264
Shareholders equity attributable to non-controlling shareholders (2)			11,393	9,185	9,168	8,158

(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) We adopted the provisions of FASB ASC 810-10-65-1, related to non-controlling interest, as of January 1, 2009 and retrospectively adjusted the presentation for the year ended December 31, 2008.

(3) As mentioned above, the financial information under U.S. GAAP for 2009 has been restated to reflect the retrospective treatment of the Corporate Reorganization, which consisted of combining our financial statements with those of TNL, TMAR and Coari. In addition, subsequent to the issuance of the financial statements of TNL for the year ended December 31, 2009, our management identified an error in the calculation of deferred taxes and allocation of non-controlling interests under U.S. GAAP on the purchase accounting adjustments relating to the acquisition of Brasil Telecom S.A., as described in Note 32.7 to our audited consolidated financial statements included elsewhere in this annual report. The impacts of this error are a decrease of total equity by R$913 million with a corresponding increase in deferred tax liabilities at December 31, 2009, and a decrease in shareholders equity attributable to non-controlling interests of R$1,149 million and an increase in shareholders equity attributable to controlling shareholders of R$236 million at December 31, 2009. This error had no impact on the our results of operations for the year ended December 31, 2009.

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.

	***Reais* per U.S. Dollar**			
Year	**High**	**Low**	**Average**	**Period 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

	***Reais* per U.S. Dollar**	
Month	**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

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 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. 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.

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 Telefónica, 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.

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.

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.

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 *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 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.

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.

In the circumstances in which holders of our ADSs have voting rights, they may not receive the voting materials in time to instruct the depositary to vote our common shares or preferred shares underlying their ADSs. In addition, the depositary 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 depositary 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 depositary, 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.

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, 2nd 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 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.

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;

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. 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 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 Service Areas

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.

State	Population (in millions)	Population per Square	% of GDP (2010)	GDP per Capita

	(2010)	Kilometer (2010)		(in reais) (2010)
Region I:				
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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State	Population (in millions) (2010)	Population per Square Kilometer (2010)	% of GDP (2010)	GDP per Capita (in *reais*) (2010)
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	
Region II:				
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	
Region III (State of São Paulo)	41.3	166.2	33.1	30,236
Total	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, 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.

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, an 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 serves. 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.

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Oi S.A. and Subsidiaries

Monthly subscription rates for Basic Plan per Minute (1)	Year Ended December 31, 2012	2011	2010
		(in *reais*)	
Oi:			
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
Telemar:			
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.

	Year Ended December 31,		
Domestic long-distance rates per minute (1)	**2012**	**2011**	**2010**
		(in *reais*)	
Oi:			
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
Telemar:			
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*)	
Oi:			
VC-2	1.12	1.12	1.12
VC-3	1.28	1.28	1.28
Telemar:			
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*)	
Oi:			
TU-RL	0.032	0.032	0.031
TU-RIU	0.095		